ADELFIA LLC
CERTIFIED PUBLIC ACCOUNTANTS

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

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

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

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Other Report Issued Under a Separate Cover

The Department of Corrections' Compliance Examination for the two years ended June 30, 2020, will be issued under a separate cover.

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

AGENCY OFFICIALS

Director (Acting) (07/01/19 – Present)	Mr. Rob Jeffreys
Assistant Director (07/01/19 – Present)	Vacant
Chief of Staff (12/01/19 – Present)	Ms. Camile Lindsay
Chief of Staff (08/17/19 – 11/30/19)	Vacant
Chief of Staff (07/01/19 – 08/16/19)	Mr. Edwin Bowen
Chief Legal Counsel (02/01/20 – Present)	Mr. Robert Fanning
Chief Legal Counsel (12/01/19 – 01/31/20)	Vacant
Chief Legal Counsel (07/01/19 – 11/30/19)	Ms. Camile Lindsay
Chief Administrative Officer (03/01/20 – Present)*	Mr. Jared Brunk
Chief Fiscal Officer (06/16/20 – Present)	Mr. James Deen
Chief Fiscal Officer (07/01/19 – 06/15/20)	Mr. Jared Brunk
Chief Internal Auditor (07/16/20 – Present)	Ms. Amy Jenkins
Chief Internal Auditor (07/01/19 – 07/15/20)	Vacant
Chief Information Officer (03/01/21 – Present)	Mr. Kelton Ingram
Chief Information Officer (01/01/21 – 02/28/21)	Vacant
Chief Information Officer (09/01/19 – 12/31/20)	Mr. Krishna Brahmamdam
Chief Information Officer (07/01/19 – 08/31/19)	Vacant

DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES

Chief Executive Officer (04/23/21 – Present)	Vacant
Chief Executive Officer (07/01/20 – 04/22/21)	Mr. Marvin Tucker
Chief Executive Officer (07/01/19 – 06/30/20)	Vacant
Assistant Chief Executive Officer (12/01/19 – Present)	Vacant
Assistant Chief Executive Officer (07/01/19 – 11/30/19)	Mr. Rich Mautino
Chief Financial Manager (02/16/20 – Present)	Vacant
Chief Financial Manager (07/01/19 – 02/15/20)	Mr. Sitha Hun

*New position effective March 1, 2020.

AGENCY OFFICE

The Department of Correction's primary administrative office is located at:

1301 Concordia Court
Springfield, Illinois 62794

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

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 a qualified opinion on the Department's basic financial statements.

SUMMARY OF FINDINGS

The auditors identified eight matters involving the Department's internal control over financial reporting that they considered to be material weaknesses and significant deficiencies.

Item No.	Page	Last/First Report	Description	Finding Type
			CURRENT FINDINGS	
2020-001	61	2018/2008	Weaknesses in preparation of GAAP reporting forms submitted to the Office of Comptroller and preparation of year-end Department financial statements and schedules	Material Weakness
2020-002	64	2018/2008	Weaknesses in the financial accounting for, and inaccurate and inadequate recordkeeping of capital assets	Material Weakness
2020-003	68	2018/2012	Lack of controls over computer systems	Material Weakness
2020-004	70	New	Lack of fiscal controls and proper financial reporting over Offender 360 project	Material Weakness
2020-005	74	New	Inadequate Internal Controls over Census Data	Material Weakness
2020-006	77	2018/2008	Inadequate administration of and controls over locally held funds	Significant Deficiency
2020-007	87	2018/2018	Lack of adequate controls over the review of internal control over service providers	Significant Deficiency
2020-008	89	2018/2008	Inadequate controls over commodity and commissary inventory	Significant Deficiency

Item No.	Page	Last/First Report	Description
			PRIOR FINDING NOT REPEATED
A	93	2018/1994	Adult transition centers financial transactions not properly recorded and administered

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on May 21, 2021.

Attending were:

DEPARTMENT OF CORRECTIONS

Rob Jeffreys, Acting Director
Jared Brunk, Chief Administrative Officer
James Deen, Chief Fiscal Officer
Amy Jenkins, Chief Internal Auditor
Kelton Ingram, Chief Information Officer
Molly Wilcockson, Internal Audit

OFFICE OF THE AUDITOR GENERAL

Lisa Warden, Senior Audit Manager
Kathy Lovejoy, Principal of IS Audits
Miranda Karger, Information Systems Audit Manager

ADELFIA LLC

Stella Santos, Managing Partner
Jennifer Roan, Partner
Maria Divina Valera, Partner
Annabelle Abueg, Principal
Andrew Guerrero, Supervisor

The responses to the recommendations were provided by Amy Jenkins, Chief Internal Auditor, in a correspondence dated June 1, 2021.

ADELFIA LLC
CERTIFIED PUBLIC ACCOUNTANTS

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 (Department), as of and for the year ended June 30, 2020, 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

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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.

Basis for Qualified Opinion on the Governmental Activities

The Department did not maintain adequate records and was unable to determine capitalizable costs related to software application development with total cumulative project costs of $103,775,797 through June 30, 2020. Because of the inadequacy of accounting records related to this project, we were unable to obtain sufficient appropriate audit evidence about the capitalizable amounts using other auditing procedures. The determination of capitalizable amounts affect the capital assets, expenses, and net position of the governmental activities. The amounts by which capital assets, expenses, and net position would be affected have not been determined. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinions on the Governmental Activities paragraph, 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, 2020, and the respective changes in financial position and, where applicable, its 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 to the financial statements, the financial statements of the Department are intended to present the financial position, 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 of Illinois that is attributable to the transactions of the Department. These financial statements do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2020, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are 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 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 (accompanying supplementary information) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying 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 accompanying supplementary information is 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 June 1, 2021 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 the Department's 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
June 1, 2021

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS
STATEMENT OF NET POSITION
JUNE 30, 2020
(Expressed in Thousands)

		Governmental Activities
ASSETS		
Unexpended appropriations	$	77,680
Cash equity with State Treasurer		905
Cash and cash equivalents		28,988
Other receivables, net of $0 allowance		158
Due from other State funds		239,852
Due from Local government		2
Due from State of Illinois component units		2
Inventories		19,252
Prepaid expenses		7,380
Capital assets not being depreciated		90,522
Capital assets being depreciated, net		589,319
Total assets		1,054,060
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources - State Employees' Retirement System		1,165,963
Deferred outflows of resources - Other Post Employment Benefits		2,339,171
Deferred outflows of resources - Teachers' Retirement System		13
Total deferred outflows of resources		3,505,147
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		4,559,207
LIABILITIES		
Accounts payable and accrued liabilities		191,863
Intergovernmental payables		10,148
Due to other State funds		36,904
Due to Department fiduciary funds		3,634
Due to other State fiduciary funds		324
Due to State of Illinois component units		236
Unearned revenue		36
Long term obligations:		
Due within one year		201,965
Due subsequent to one year		14,631,977
Total liabilities		15,077,087
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources - State Employees' Retirement System		212,602
Deferred inflows of resources - Other Post Employment Benefits		570,422
Deferred inflows of resources - Teachers' Retirement System		18
Total deferred inflows of resources		783,042
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		15,860,129
NET POSITION		
Net investment in capital assets		676,077
Restricted		2
Unrestricted		(11,977,001)
Total net position	$	(11,300,922)

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, 2020
(Expressed in Thousands)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Net (Expense) Revenue**
Governmental activities				
Public protection and justice	$ 3,341,897	$ 93,316	$ 246,293	$ (3,002,288)
Interest	254	152	-	(102)
Total governmental activities	3,342,151	93,468	246,293	(3,002,390)
General revenues and transfers				
Appropriations from State resources				2,323,111
Lapsed appropriations				(240,336)
Receipts collected and transmitted to State Treasury				(20,796)
Interest and investment income				666
Loss on disposition of assets				(1,216)
Other revenues				4,830
Other expenses				(725)
Capital transfers from other State agencies				8,328
Total general revenues and transfers				2,073,862
Change in net position				(928,528)
Net position, July 1, 2019				(10,372,394)
Net position, June 30, 2020				$ (11,300,922)

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, 2020
(Expressed in Thousands)

	General Fund	Nonmajor funds	Total Governmental Funds
ASSETS			
Unexpended appropriations	$ 73,613	$ 4,067	$ 77,680
Cash and cash equivalents	254	28,734	28,988
Other receivables, net of $0 allowance	-	95	95
Due from other Department funds	171	11,794	11,965
Due from other State funds	238,008	635	238,643
Inventories	11,058	2,742	13,800
Total assets	$ 323,104	$ 48,067	$ 371,171
LIABILITIES			
Accounts payable and accrued liabilities	$ 172,351	$ 6,125	$ 178,476
Due to other Department funds	34,821	11,652	46,473
Due to other State funds	35,724	86	35,810
Due to Department fiduciary funds	2,405	21	2,426
Due to other State fiduciary funds	36	20	56
Due to Local government	5,509	1	5,510
Due to Federal government	4,610	1	4,611
Due to State of Illinois component units	34	198	232
Unearned revenue	-	36	36
Total liabilities	255,490	18,140	273,630
FUND BALANCES			
Nonspendable for inventories	11,058	2,742	13,800
Restricted	-	2	2
Committed	-	29,925	29,925
Unassigned	56,556	(2,742)	53,814
Total fund balances	67,614	29,927	97,541
Total liabilities and fund balances	$ 323,104	$ 48,067	$ 371,171

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, 2020
(Expressed in Thousands)

Total fund balances-governmental funds		$ 97,541
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.		676,805
Prepaid expenses for governmental activities are current uses of financial resources for funds.		7,380
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	1,165,963	
Deferred outflows of resources - Other Post Employment Benefits	2,339,171	
Deferred outflows of resources - Teachers' Retirement System	13	
		3,505,147
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.		28,288
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	(212,602)	
Deferred inflows of resources - Other Post Employment Benefits	(570,422)	
Deferred inflows of resources - Teachers' Retirement System	(18)	
		(783,042)
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	(712)	
Compensated absences	(77,461)	
Net Pension Liability - State Employees' Retirement System	(7,357,263)	
Liability for Other Post Employment Benefits	(7,397,594)	
Net Pension Liability - Teachers' Retirement System	(11)	
		(14,833,041)
Net position of governmental activities		$ (11,300,922)

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, 2020
(Expressed in Thousands)

	General Fund	Nonmajor funds	Total Governmental Funds
REVENUES			
Federal government	$ 238,123	$ 8,170	$ 246,293
Interest and other investment income	-	175	175
Other	59	4,771	4,830
Other charges for services	62	60,390	60,452
Total revenues	238,244	73,506	311,750
EXPENDITURES			
Public protection and justice	2,159,678	70,224	2,229,902
Debt service - principal	477	11	488
Debt service - interest	251	3	254
Capital outlays	2,584	2,388	4,972
Total expenditures	2,162,990	72,626	2,235,616
Excess (deficiency) of revenues over (under) expenditures	(1,924,746)	880	(1,923,866)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES			
Appropriations from State resources	2,277,426	45,685	2,323,111
Lapsed appropriations	(205,562)	(34,774)	(240,336)
Receipts collected and transmitted to State Treasury	(238)	(20,558)	(20,796)
Transfers-in	-	10,806	10,806
Transfers-out	(1)	(10,805)	(10,806)
Proceeds from capital lease financing	910	-	910
Net other sources (uses) of financial resources	2,072,535	(9,646)	2,062,889
Net change in fund balances	147,789	(8,766)	139,023
Fund balances (deficits), July 1, 2019	(82,521)	38,743	(43,778)
Increase (decrease) for changes in inventories	2,346	(50)	2,296
FUND BALANCES, JUNE 30, 2020	$ 67,614	$ 29,927	$ 97,541

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, 2020
(Expressed in Thousands)

Net change in fund balances	$ 139,023
Change in inventories	2,296
	141,319
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 depreciation exceeds capital outlays for the current period.	(26,677)
Some capital assets were transferred in from other State agencies and, therefore, were received at no cost and not recorded in governmental funds.	8,328
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.	409
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.	(910)
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.	(2,656)
Prepaid expenses in the Statement of Activities are not reported as expenses in governmental funds.	7,375
Loss on disposal of assets	(1,224)
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	306,036
Change in deferred outflows	(110,590)
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.	
Increase in State Employees' Retirement System pension liability	(346,032)
Increase in Other Post Employment Benefit liability	(904,233)
Decrease in Teachers' Retirement System pension liability	5
Decrease in compensated absences obligation	322
Change in net position of governmental activities	$ (928,528)

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, 2020
(Expressed in Thousands)

	Governmental Activities - Internal Service Fund
	Working Capital Revolving Fund
ASSETS	
Cash equity with State Treasurer	$ 905
Other receivables, net of $0 allowance	63
Due from other Department funds	34,510
Due from other State funds	1,209
Due from Local government	2
Due from State of Illinois component units	2
Inventories	5,452
Total current assets	42,143
Capital assets not being depreciated	339
Capital assets being depreciated, net	2,697
Total assets	45,179
LIABILITIES	
Accounts payable and accrued liabilities	13,387
Due to other Department funds	2
Due to other State funds	1,094
Due to other State fiduciary funds	268
Due to Department fiduciary funds	1,208
Due to Federal government	27
Due to State of Illinois component units	4
Current portion of long-term obligations	150
Total current liabilities	16,140
Noncurrent portion of long-term obligations	751
Total liabilities	16,891
NET POSITION	
Net investment in capital assets	3,036
Unrestricted	25,252
Total net position	$ 28,288

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 NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2020
(Expressed in Thousands)

	Governmental Activities - Internal Service Fund
	Working Capital Revolving Fund
OPERATING REVENUES	
Charges for sales and services	$ 32,864
Total operating revenues	32,864
OPERATING EXPENSES	
Cost of sales and services	28,496
General and administrative	6,432
Depreciation	518
Total operating expenses	35,446
Operating loss	(2,582)
NONOPERATING REVENUES (EXPENSES)	
Interest income	643
Interest expense	(725)
Proceeds from sale of capital assets	8
Net loss	(2,656)
NET POSITION, JULY 1, 2019	30,944
NET POSITION, JUNE 30, 2020	$ 28,288

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, 2020
(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	$ 1,247
Cash received from sales and services to other State funds	31,513
Cash payments to suppliers for goods and services	(24,135)
Cash payments to internal service funds	(910)
Cash payments to employees for services	(7,985)
Cash receipts from other operating activities	637
Net cash provided by operating activities	367
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITY	
Interest paid on revenue bonds and other borrowings	(688)
Net cash used by noncapital financing activity	(688)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(823)
Proceeds from the sale of capital assets	8
Net cash used by capital and related financing activities	(815)
Net decrease in cash equity with State Treasurer	(1,136)
CASH EQUITY WITH STATE TREASURER, JULY 1, 2019	2,041
CASH EQUITY WITH STATE TREASURER, JUNE 30, 2020	$ 905

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, 2020
(Expressed in Thousands)

	Governmental Activities - Internal Service Fund
	Working Capital Revolving Fund
Reconciliation of operating loss to net cash provided by operating activities:	
OPERATING LOSS	$ (2,582)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	518
Cash receipts from other nonoperating income	637
Changes in assets and liabilities:	
Decrease in other receivables	50
Decrease in intergovernmental receivables	4
Decrease in due from other funds	(215)
Increase in due from State of Illinois component units	21
Decrease in inventories	156
Decrease in accounts payable and accrued liabilities	2,000
Decrease in due to other funds	(173)
Increase in due to State of Illinois component units	(1)
Increase in other liabilities	(48)
Total adjustments	2,949
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 367

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, 2020
(Expressed in Thousands)

	Agency Fund
	DOC Resident's Trust
ASSETS	
Cash and cash equivalents	$ 11,620
Other receivables	1
Due from other Department funds	2,894
Due from other State funds	740
Total assets	$ 15,255
LIABILITIES	
Other liabilities	$ 15,255
Total liabilities	$ 15,255

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 Office of Comptroller) 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 may be obtained by accessing the Office of Comptroller's website.

(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 of Illinois 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, 2020, 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 two secondary sub-accounts (CMS vs AFSCME Wages Trust 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, and the Department of Corrections Reimbursement 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 Comprehensive Annual Financial Report.

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 Office of Comptroller 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 Office of Comptroller at June 30, 2020.

<u>Appropriations from State Resources</u>
This "other financing source" account represents the final legally adopted appropriation according to SAMS records.

<u>Lapsed Appropriations</u>
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 2020, the lapse period was extended through September.

<u>Receipts Collected and Transmitted to State Treasury</u>
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 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 position 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 position 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 (see Note 7).

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, 2020: 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 $2 thousand as of June 30, 2020.

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, 2020: 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, 2020.

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, 2020: 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 of resources, 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 ending June 30, 2020, the Department adopted 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. The implementation of this statement had no financial impact on the Department's net position or results of operations.

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 included when disclosing information related to debt. The implementation of this statement had no financial impact on the Department's net position or results of operations.

Statement No. 92, *Omnibus 2020*, which is intended to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit OPEB plan, the applicability of Statement No. 73 and Statement No. 74 to reporting assets accumulated for postemployment benefits, the applicability of Statement No. 84 to postemployment benefit arrangements, measurement of liabilities and assets related to asset retirement obligations in a government acquisition, and reference to nonrecurring fair value measurements of assets and liabilities in authoritative literature. The topics within this Statement that were not effective for the Department's fiscal year ended June 30, 2020 were, upon the Department's adoption of GASB Statement No. 95, delayed for the Department until the fiscal year ending June 30, 2022.

Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*, which is intended to (1) increase consistency and comparability related to the reporting of fiduciary component units when a potential component unit does not have a governing board and the primary government performs those duties; (2) mitigate costs associated with reporting; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans. The topics within this Statement that were not effective for the Department's fiscal year ended June 30, 2020 are effective for the Department's fiscal year ending June 30, 2022.

(r) Future Adoption of GASB Statements

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

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 postemployment 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.

Statement No. 93, *Replacement of Interbank Offered Rates*, the primary provision of which is intended to address accounting and financial reporting implications that result from the replacement of an interbank offered rate as an appropriate benchmark interest rate.

Effective for the year ending June 30, 2022, 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.

Effective for the year ending June 30, 2023, the Department will adopt the following GASB statements:

Statement No. 91, *Conduit Debt Obligations*, which is intended to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

Statement No. 94, *Public-Private and Public-Public Partnerships and Available Payment Arrangements*, which is intended to improve financial reporting by addressing issues related to public-private and public-public partnerships (PPPs). This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs).

Statement No. 96, *Subscription-Based Information Technology Arrangements*, which is intended to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments).

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 Comprehensive Annual Financial Report.

Cash on deposit for locally held funds had a carrying amount of $39.998 million and bank balance of $42.111 million at June 30, 2020. Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Department has deposits at the end of the year that are exposed to custodial credit risk in the amount of $484 thousand.

(4) Interfund Balances and Activity

(a) Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) at June 30, 2020 represent amounts due from other Department and State funds.

	Due from	
Fund Type	**Other Department Funds**	**Other State Funds**
General (a)	$ 171	$ 238,008
Nonmajor governmental (b)	11,794	635
Internal service (c)	34,510	1,209
Fiduciary (d)	2,894	740
Totals	$ 49,369	$ 240,592

Description/Purpose

(a) Due from other Department funds for inmate payments. Due from other State funds for CARES Act Reimbursement of COVID 19 expenditures.
(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, 2020 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)	$ 34,821	$ 35,724	$ 2,405	$ 36
Nonmajor governmental (b)	11,652	86	21	20
Internal service (c)	2	1,094	1,208	268
Totals	$ 46,475	$ 36,904	$ 3,634	$ 324

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. Due to other State fiduciary funds for retirement.
(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 other 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. Due to other State fiduciary funds for retirement

(b) Transfers to/from Other Funds

Interfund transfers in (amounts expressed in thousands) for the year ended June 30, 2020, were as follows:

	Transfers in from
Fund Type	Other Department Funds
Nonmajor governmental (a)	$ 10,806
Totals	$ 10,806

Description/Purpose

(a) Transfers from other Department nonmajor governmental funds for commissary profits and salaries and travel reimbursements.

Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2020, were as follows:

Fund Type	Transfers out to Other Department Funds
General Fund	$ 1
Nonmajor governmental (a)	10,805
Totals	$ 10,806

Description/Purpose

(a) Transfers to other Department nonmajor governmental funds for commissary profits and salaries and travel reimbursements.

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

The following balances (amounts expressed in thousands) at June 30, 2020 represent amounts due from State of Illinois Component Units for reimbursements for expenses incurred.

Fund Type	Due from Component Units Illinois Toll Highway Authority
Internal service	$ 2
	$ 2

The following balances (amounts expressed in thousands) at June 30, 2020 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**	**Southern Illinois University**	**Total**
General	$ -	$ 3	$ 31	$ 34
Nonmajor	-	198	-	198
Internal service	4	-	-	4
Totals	$ 4	$ 201	$ 31	$ 236

(5) Capital Assets

(a) Changes in Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2020 was as follows:

	Balance July 1, 2019	Additions	Deletions	Net Transfers	Balance June 30, 2020
Capital assets not being depreciated/amortized:					
Land and land improvements	$ 59,131	$ -	$ -	$ (3,601)	$ 55,530
Construction in Progress	14,884	339	-	19,769	34,992
Total capital assets not being depreciated/amortized	74,015	339	-	16,168	90,522
Capital assets being depreciated/amortized:					
Site improvements	91,063	-	-	(3,957)	87,106
Buildings and building improvements	1,589,831	633	1,275	(42,270)	1,546,919
Equipment	73,361	4,242	1,603	220	76,220
Capital leases - equipment	705	910	322	-	1,293
Non-internally generated software	161	-	-	-	161
Total capital assets being depreciated/amortized	1,755,121	5,785	3,200	(46,007)	1,711,699
Less accumulated depreciation/amortization:					
Site improvements	85,107	1,918	-	(3,563)	83,462
Buildings and building improvements	979,398	28,009	79	(34,779)	972,549
Equipment	65,258	1,645	1,562	158	65,499
Capital leases - equipment	437	594	322	-	709
Non-internally generated software	161	-	-	-	161
Total accumulated depreciation/amortization	1,130,361	32,166	1,963	(38,184)	1,122,380
Total capital assets being depreciated/amortized, net	624,760	(26,381)	1,237	(7,823)	589,319
Total capital assets, net	$ 698,775	$ (26,042)	$ 1,237	$ 8,345	$ 679,841

Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2020 was charged as follows:

Public protection and justice	$ 32,166

(b) Impairment of Capital Assets

The Department has a closed, idle facility with carrying values of $40.84 million. The Department continues to carry the closed facility at its 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, 2020 were as follows:

	Balance July 1, 2019	Additions	Deletions / Adjustments	Balance June 30, 2020	Amounts Due Within One Year
Other long-term obligations:					
Compensated absences	$ 77,783	$ 79,282	$ 78,703	$ 78,362	$ 7,587
Capital lease obligations	211	910	409	712	423
Net pension liability – State Employees' Retirement System	7,011,231	346,032	-	7,357,263	-
Other Post-Employment Benefits Liability	6,493,361	904,233	-	7,397,594	193,955
Net pension liability – Teachers' Retirement System	16	-	5	11	-
Totals	$ 13,582,602	$ 1,330,457	$ 79,117	$ 14,833,942	$ 201,965

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 $1,293 thousand and $709 thousand, 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
2021	$ 423	$ 162	$ 585
2022	239	43	282
2023	50	3	53
	$ 712	$ 208	$ 920

(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 851 local school districts, 127 special districts, and 12 other State agencies that contribute to the TRS plan as of the measurement date June 30, 2018. 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 Employees' 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 2019 rate is $114,952.

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, or age 55 with 20 years of credited 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 2020, this amount was $115,929.

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 2020, 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 2020, the employer contribution rate was 52.150%. The Department's contribution amount for Fiscal Year 2020 was $502.127 million. In addition, the Department recorded $497.467 million of revenue and expenditures in the General Revenue account of the General Fund to account for payments to SERS for Department employees that were paid from statewide General Revenue Fund appropriations.

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, 2019 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 2020, this amount was $115,929. The Department's contribution amount for Fiscal Year 2020 was $1 thousand. In addition, the

Department recorded $46 thousand of revenue and expenditures in the General Revenue account of the General Fund to account for payments to TRS for Department employees that were paid from statewide General Revenue Fund appropriations.

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

State Employees' Retirement System

At June 30, 2020, the Department reported a liability of $7.357 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, 2019 (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, 2019. As of the current year measurement date of June 30, 2019, the Department's proportion was 22.03%, which was an increase of 1.81% from its proportion measured as of the prior year measurement date of June 30, 2018.

For the year ended June 30, 2020, the Department recognized pension expense of $828.787 million. At June 30, 2020, 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, 2019, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ -	$ 91,996
Changes of assumptions	205,066	106,208
Net difference between projected and actual investment earnings on pension plan investments	-	10,739
Changes in proportion	458,770	3,659
Department contributions subsequent to the measurement date	502,127	-
Total	**$ 1,165,963**	**$ 212,602**

$502.127 million 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, 2021. 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
2021	$ 243,913
2022	63,383
2023	91,462
2024	52,475
Total	**$ 451,233**

Teachers' Retirement System

At June 30, 2020, the Department reported a liability of $11 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 $816 thousand. The total net pension liability for the Department's employees participating in TRS was $827 thousand as of the measurement date. The net pension liability was measured as of June 30, 2019 (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, 2018, and rolled forward to June 30, 2019. 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, 2019. At June 30, 2019, the measurement date, the Department's proportionate share was 0.000014133% for the TRS plan, which was an 0.000027622% decrease from its proportion measured at the prior year measurement date of June 30, 2018.

For the year ended June 30, 2020, the Department recognized pension expense of ($20) thousand. At June 30, 2020, the Department reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2019, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Changes of assumptions	-	-
Net difference between projected and actual investment earnings on pension plan investments	-	-
Changes in proportion	12	18
Department contributions subsequent to the measurement date	1	-
Total	**$ 13**	**$ 18**

$1 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, 2021. 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**
2021	$ 5
2022	(3)
2023	(4)
2024	(2)
2025	(2)
Total	**$ (6)**

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	06/30/19	06/30/18*
Measurement date	06/30/19	06/30/19
Actuarial cost method	Entry Age	Entry Age
Actuarial assumptions:		
Investment rate of return	6.75%	7.00%
Projected salary increases**	2.75% - 7.17%	4.00% - 9.50%
Inflation rate	2.25%	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 2015 - June 2018	July 2014 - June 2017

Mortality^^^	
SERS	Pub-2010 General and Public Safety Healthy Retiree mortality tables, sex distinct, with rates projected to 2018 generational mortality improvement factors were updated to projection scale MP-2018
TRS	RP - 2014 with future mortality improvements on a fully generational basis using projection table MP-2014

Note: the above actuarial assumptions were used to calculate the total pension liability as of the current year measurement date and are consistent with actuarial assumptions used to calculate the total pension liability as of the prior year measurement date except for the following:

	SERS
Investment rate of return	7.00%
Projected salary increases**	3.00% - 7.42%
Inflation rate	2.50%
Retirement age experience study^^	July 2012 – 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

* The total pension liability is based on an actuarial valuation date of June 30,2018, 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.

^^^ 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, 2019, 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%	4.80%
Developed Foreign Equity	13.0%	4.60%
Emerging Market Equity	8.0%	6.90%
Private Equity	7.0%	6.80%
Intermediate Investment Grade Bonds	14.0%	0.70%
Long-term Government Bonds	4.0%	1.00%
TIPS	4.0%	0.80%
High Yield and Bank Loans	5.0%	2.70%
Opportunistic Debt	8.0%	4.20%
Emerging Market Debt	2.0%	2.70%
Real Estate	10.0%	4.40%
Infrastructure	2.0%	4.10%
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, 2019, 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	15.0%	6.30%
U.S. Equities Small/Mid Cap	2.0%	7.70%
International Equities Developed	13.6%	7.00%
Emerging Market Equities	3.4%	9.50%
U.S. Bonds Core	8.0%	2.20%
U.S. Bonds High Yield	4.2%	4.00%
International Debt Developed	2.2%	1.10%
Emerging International Debt	2.6%	4.40%
Real Estate	16.0%	5.20%
Commodities (Real Return)	4.0%	1.80%
Hedge Funds (Absolute Return)	14.0%	4.10%
Private Equity	15.0%	9.70%
Total	100.0%	

Discount Rate.

State Employees' Retirement System
A discount rate of 6.47% 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 6.75% and a municipal bond rate of 3.13%, 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 3.13%, 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 2121. As a result, the long-term expected rate of return on pension plan investments has been applied to projected benefit payments through the year 2121, 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 5.47%	Discount Rate 6.47%	1% Increase 7.47%
Department's Proportionate Share of the SERS Net Pension Liability	$ 8,897,731	$ 7,357,263	$ 6,090,717

	1% Decrease 6.00%	Discount Rate 7.00%	1% Increase 8.00%
Department's Proportionate Share of the TRS Net Pension Liability	$ 14	$ 11	$ 9

Payables to the pension plan. At June 30, 2020 the Department reported a payable of $247 thousand to SERS, for the outstanding amount of contributions to the pension plans required for the year ended June 30, 2020.

(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 2020, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $11,681.04 ($6,703.92 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and $14,959.44 ($5,592.24 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, 2020, was measured as of June 30, 2019, with an actuarial valuation as of June 30, 2018. At June 30, 2020, the Department recorded a liability of $7.398 billion 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, 2019. As of the current year measurement date of June 30, 2019, the Department's proportion was 16.8552%, which was an increase of 0.6596% from its proportion measured as of the prior year measurement date of June 30, 2018.

The Department recognized OPEB expense for the year ended June 30, 2020, of $958.871 million. At June 30, 2020, the Department reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2019, from the following sources (amounts expressed in thousands):

Deferred outflows of resources	
Differences between expected and actual experience	$ 10,619
Changes of Assumptions	257,189
Changes in proportion and differences between Employer contributions and proportionate share of contributions	1,877,408
Department contributions subsequent to the measurement date	193,955
Total deferred outflows of resources	**$ 2,339,171**
Deferred inflows of resources	
Differences between expected and actual experience	$ 112,850
Changes of assumptions	456,491
Changes in proportion and differences between Employer contributions and proportionate share of contributions	1,081
Total deferred inflows of resources	**$ 570,422**

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, 2021. 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
2021	$ 457,600
2022	457,600
2023	470,451
2024	171,458
2025	17,685
Total	**$ 1,574,794**

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, 2018, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2018.

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal
Inflation Rate	2.50%
Projected Salary Increases*	2.75% - 12.25%
Discount Rate	3.13%
Healthcare Cost Trend Rate:	
Medical (Pre-Medicare)	8.0% grading down 0.5% in the first year to 7.5%, then grading down 0.11% in the second year to 7.39%, followed by grading down of 0.5% per year over 5 years to 4.89% in year 7
Medical (Post-Medicare)	9.0% grading down 0.5% per year over 9 years to 4.5%
Dental and Vision	6.0% grading down 0.5% per year over 3 years to 4.5%

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 2019 and 2020 were projected based on actual premiums. Premiums after 2020 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.

Since the last measurement date on June 30, 2019, the State has not made any significant changes to the benefit terms affecting the measurement of the collective total OPEB liability. On December 20, 2019, the *Further Consolidated Appropriations Act, 2020* (Public Law 116-94) was signed into law repealing the federal excise taxes of 40% on total employer premium spending in excess of specified dollar amounts, also known as the "Cadillac Tax." The impact of this repealment to the Department's financial statements, which could be significant, is not known at this time.

Additionally, the demographic assumptions used in the OPEB valuation are identical to those used in the June 30, 2018 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

	Retirement age experience study^	Mortality^^
SERS	July 2012 – 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 2014 – June 2017	RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2014
SURS	July 2014 – June 2017	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 3.62% at June 30, 2018, and 3.13% at June 30, 2019, 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 3.13%, 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 (4.13%) or lower (2.13%) than the current rate (amounts expressed in thousands):

	1% Decrease 2.13%	**Current Single Discount Rate Assumption 3.13%**	**1% Increase 4.13%**
Department's Proportionate Share of the Total OPEB Liability	$ 8,712,613	$ 7,397,594	$ 6,345,707

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 rates (amounts in table expressed in thousands). The key trend rates are 8.00% in 2020 decreasing to an ultimate trend rate of 4.89% in 2027, for non-Medicare coverage, and 9.00% decreasing to an ultimate trend rate of 4.50% in 2029 for Medicare coverage.

	1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
Department's Proportionate Share of the Total OPEB Liability	$ 6,202,911	$ 7,397,594	$ 8,944,897

(9) Fund Balances

At June 30, 2020, the Department's fund balances were classified as follows (amounts expressed in thousands):

	General Fund	Nonmajor Governmental Funds	Total
Nonspendable			
Inventory	$ 11,058	$ 2,742	$ 13,800
Restricted Purposes			
Public Protection and Justice	-	2	2
Committed Purposes			
Public Protection and Justice	-	29,925	29,925
Unassigned	56,556	(2,742)	53,814
Total fund balances/ net position	$ 67,614	$ 29,927	$ 97,541

(10) 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, 2020.

(11) 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 $8.130 million for the year ended June 30, 2020.

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

Year Ending June 30,	Amount
2021	$ 12
2022	12
2023	12
2024	3
Total	$ 39

(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, 2020 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.

(12) Coronavirus Pandemic Implications

In December 2019, a novel strain of coronavirus surfaced and spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The United States and the State of Illinois declared a state of emergency in March 2020 due to the COVID-19 global pandemic. The June 30, 2020 financial statements reflect a financial impact resulting from the effects of the COVID-19 outbreak and related stay at home orders. The Department anticipates continued impact to financial position in the future and continues to monitor and evaluate the situation. The extent to which the coronavirus may impact financial activity will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS
COMBINING SCHEDULE OF ACCOUNTS
GENERAL FUND
JUNE 30, 2020
(Expressed in Thousands)

	Sub-Accounts			
	General Revenue	CMS VS AFSCME Wages Trust	Travel and Allowance Revolving	Total
ASSETS				
Unexpended appropriations	$ 73,613	$ -	$ -	$ 73,613
Cash and cash equivalents	10	-	244	254
Due from other Department funds	98	-	73	171
Due from other State funds	238,008	-	-	238,008
Inventories	11,058	-	-	11,058
Total assets	$ 322,787	$ -	$ 317	$ 323,104
LIABILITIES				
Accounts payable and accrued liabilities	$ 172,348	$ -	$ 3	$ 172,351
Due to other Department funds	34,399	328	94	34,821
Due to other State funds	35,724	-	-	35,724
Due to Department fiduciary funds	2,405	-	-	2,405
Due to other State fiduciary funds	36	-	-	36
Due to Local government	5,509	-	-	5,509
Due to Federal government	4,610	-	-	4,610
Due to State of Illinois component units	34	-	-	34
Total liabilities	255,065	328	97	255,490
FUND BALANCES (DEFICITS)				
Nonspendable for inventories	11,058	-	-	11,058
Unassigned	56,664	(328)	220	56,556
Total fund balances (deficits)	67,722	(328)	220	67,614
Total liabilities and fund balances	$ 322,787	$ -	$ 317	$ 323,104

STATE OF ILLLINOIS
DEPARTMENT OF CORRECTIONS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020
(Expressed in Thousands)

	Sub-Accounts			
	General Revenue	CMS VS AFSCME Wages Trust	Travel and Allowance Revolving	Total
REVENUES				
Federal government	$ 238,123	$ -	$ -	$ 238,123
Other	60	-	(1)	59
Other charges for services	62	-	-	62
Total revenues	238,245	-	(1)	238,244
EXPENDITURES				
Public protection and justice	2,159,680	-	(2)	2,159,678
Debt service - principal	477	-	-	477
Debt service - interest	251	-	-	251
Capital outlays	2,584	-	-	2,584
Total expenditures	2,162,992	-	(2)	2,162,990
Excess (deficiency) of revenues over (under) expenditures	(1,924,747)	-	1	(1,924,746)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Appropriations from State resources	2,277,426	-	-	2,277,426
Lapsed appropriations	(205,562)	-	-	(205,562)
Receipts collected and transmitted to State Treasury	(238)	-	-	(238)
Transfers-out	-	-	(1)	(1)
Proceeds from capital lease financing	910	-	-	910
Net other sources (uses) of financial resources	2,072,536	-	(1)	2,072,535
Net change in fund balances	147,789	-	-	147,789
Fund balances (deficits), July 1, 2019	(82,413)	(328)	220	(82,521)
Increase for changes in inventories	2,346	-	-	2,346
FUND BALANCES (DEFICITS), JUNE 30, 2020	$ 67,722	$ (328)	$ 220	$ 67,614

STATE OF ILLLINOIS
DEPARTMENT OF CORRECTIONS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2020
(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	$ 4,067	$ -	$ -	$ -	$ 4,067
Cash and cash equivalents	600	10,945	17,187	2	28,734
Other receivables, net of $0 allowance	-	95	-	-	95
Due from other Department funds	5,746	92	5,956	-	11,794
Due from other State funds	635	-	-	-	635
Inventories	-	2,742	-	-	2,742
Total assets	$ 11,048	$ 13,874	$ 23,143	$ 2	$ 48,067
LIABILITIES					
Accounts payable and accrued liabilities	$ 3,929	$ 2,190	$ 6	$ -	$ 6,125
Due to other Department funds	4	11,648	-	-	11,652
Due to other State funds	86	-	-	-	86
Due to Department fiduciary funds	-	-	21	-	21
Due to other State fiduciary funds	20	-	-	-	20
Due to Local government	1	-	-	-	1
Due to Federal government	1	-	-	-	1
Due to State component units	198	-	-	-	198
Unearned revenue	-	36	-	-	36
Total liabilities	4,239	13,874	27	-	18,140
FUND BALANCES					
Nonspendable for inventories	-	2,742	-	-	2,742
Restricted	-	-	-	2	2
Committed	6,809	-	23,116	-	29,925
Unassigned	-	(2,742)	-	-	(2,742)
Total fund balances	6,809	-	23,116	2	29,927
Total liabilities and fund balances	$ 11,048	$ 13,874	$ 23,143	$ 2	$ 48,067

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, 2020
(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	$ 8,170	$ -	$ -	$ -	$ 8,170
Interest and other investment income	-	14	161	-	175
Other	4,026	-	743	2	4,771
Other charges for services	-	60,390	-	-	60,390
Total revenues	12,196	60,404	904	2	73,506
EXPENDITURES					
Public protection and justice	17,270	49,549	3,403	2	70,224
Debt service - principal	11	-	-	-	11
Debt service - interest	3	-	-	-	3
Capital outlays	2,388	-	-	-	2,388
Total expenditures	19,672	49,549	3,403	2	72,626
Excess (deficiency) of revenues over (under) expenditures	(7,476)	10,855	(2,499)	-	880
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Appropriations from State resources	45,685	-	-	-	45,685
Lapsed appropriations	(34,774)	-	-	-	(34,774)
Receipts collected and transmitted to State Treasury	(20,558)	-	-	-	(20,558)
Transfers-in	6,466	-	4,340	-	10,806
Transfers-out	-	(10,805)	-	-	(10,805)
Net other sources (uses) of financial resources	(3,181)	(10,805)	4,340	-	(9,646)
Net change in fund balances	(10,657)	50	1,841	-	(8,766)
Fund balances, July 1, 2019	17,466	-	21,275	2	38,743
Decrease for changes in inventories	-	(50)	-	-	(50)
FUND BALANCES, JUNE 30, 2020	$ 6,809	$ -	$ 23,116	$ 2	$ 29,927

STATE OF ILLLINOIS
DEPARTMENT OF CORRECTIONS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED JUNE 30, 2020
(Expressed in Thousands)

	Balance at July 1, 2019	Additions	Deletions	Balance at June 30, 2020
DOC Resident's Trust				
ASSETS				
Cash and cash equivalents	$ 9,911	$ 24,744	$ 23,035	$ 11,620
Other receivables	1	-	-	1
Due from other Department funds	2,864	7,213	7,183	2,894
Due from other State funds	-	740	-	740
Total assets	$ 12,776	$ 32,697	$ 30,218	$ 15,255
LIABILITIES				
Other liabilities	$ 12,776	$ 25,514	$ 23,035	$ 15,255
Total liabilities	$ 12,776	$ 25,514	$ 23,035	$ 15,255

ADELFIA LLC
CERTIFIED PUBLIC ACCOUNTANTS

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

Report on the Financial Statements

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 (Department), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and have issued our report thereon dated June 1, 2021. We expressed a qualified opinion on the Department's financial statements of the governmental activities because we were unable to obtain sufficient appropriate audit evidence about the capitalizable amounts related to software application development costs.

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 financial statements. 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 no matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the Department is responsible for establishing and maintaining effective internal control over financial reporting (internal control).

In planning and performing our audit of the financial statements, we considered the Department's 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 did identify 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 2020-001 through 2020-005 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 2020-006 through 2020-008 to be significant deficiencies.

Department's Responses to the 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
June 1, 2021

2020-001 **FINDING** (Weaknesses in preparation of GAAP reporting forms submitted to the Office of Comptroller and preparation of year-end Department financial statements and schedules)

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

The following were noted during our audit of the Department's June 30, 2020 financial statements:

- In our review of beginning balances, we identified three errors in recording backpay liabilities and accounts payable as of June 30, 2019.

  The Department erroneously reversed a backpay liability accrual of $79.1 million when these liabilities were still unpaid as of June 30, 2019.

  Additional backpay liabilities of $11.3 million and accounts payable of $2.8 million were not accrued as of June 30, 2019.

  These errors resulted in a $93.2 million overstatement of the Fiscal Year 2020 beginning fund balance for governmental funds and beginning net position for governmental activities.

- During the current examination, we continued to identify weaknesses regarding the Department's process for year-end accruals and noted management did not take all reasonable steps to implement appropriate and reasonable corrective action to address delays in receipt and processing of vendor invoices and ensure all payables are reasonably estimated and accrued. Similar issues have been reported since 2008.

- The Department did not have adequate accounting and review procedures to ensure all liabilities at June 30, 2020 were recorded promptly and accurately. We noted the following in our review of Department liabilities:

  - The Department did not accrue liabilities totaling $36 million in the originally submitted GAAP Package to the Comptroller. These additional liabilities were identified as part of the review process by the Comptroller.

  - Our search for unrecorded liabilities identified accounts payable totaling $5.6 million that were not included in accounts payable accruals as of June 30, 2020.

- Weaknesses in the financial accounting for, and inaccurate and inadequate recordkeeping of, capital assets as discussed in Finding 2020-002 and lack of fiscal controls over Offender 360 project as discussed in Finding 2020-004 resulted in financial audit adjustments and additional disclosures in the notes to the financial statements.

- The Department's financial reporting of federal funds expenditures in the GAAP forms submitted to the Office of Comptroller did not agree with the Schedule of Expenditures of Federal Awards (SEFA) submitted to the auditors for the years ended June 30, 2019 and 2020. We noted expenditures for the Catalog of Federal Domestic Assistance (CFDA) No. 16.606 – State Criminal Alien Assistance Program amounting to $6.201 million and $7.566 million in Fiscal Years 2019 and 2020, respectively were not accurately reported in the originally submitted SEFA.

The Department subsequently adjusted the financial statements to correct these errors, included the required disclosures in the notes to financial statements, and revised the SEFA.

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 expenditures, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports. 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 Office of Comptroller Statewide Accounting Management System (SAMS) Manual Chapter 27 describes requirements for year-end GAAP reporting to the Comptroller and preparation of GAAP basis financial statements.

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 Manual (Procedure 27.20.49) provides instructions on preparing the GAAP form Summary of Liabilities and states 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.

Governmental Accounting Standards Board (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* requires government-wide financial statements to be prepared using the economic resources measurement focus and the accrual basis of accounting. The accrual basis of accounting requires the recognition of expenses, assets, and liabilities in the accounting period they are incurred.

According to the Code of Federal Regulations (CFR), (2 CFR § 200.510(b)), a recipient of federal awards is required to prepare a SEFA for the period covered by the entity's financial statements which must include the total Federal awards expended as determined in accordance with 2 CFR 200.502. Additionally, 2 CFR § 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure federal expenditures are accurately reported on the SEFA.

Department management stated the errors in the prior year liabilities and SEFA were due to oversight and lack of a review process due to staff turnover. Management stated the additional liabilities in the current fiscal year were not identified due to delays in receipt and processing of vendor invoices and an error in generating the reports from the new Enterprise Resource Planning (ERP) system as the basis of the accrual estimates.

This material weakness in the Department's internal control over financial and fiscal operations poses a reasonable possibility that a material misstatement of the Department's financial statements or material noncompliance will occur and not be prevented or detected and corrected on a timely basis. 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. 2020-001, 2018-001, 2016-001, 2014-001, 12-01, 10-01, 08-01)

RECOMMENDATION

We recommend the Department outline, document, and implement procedures to ensure GAAP Reporting Packages and financial statements and schedules are prepared accurately. We also recommend the Department maintain documentation of the calculation and basis of liability estimates. In addition, we recommend the Department identify the appropriate reports from the ERP systems and determine the proper timing of generating reports for complete and accurate recording of payables. Lastly, we recommend proper yearend cut-off procedures and internal reviews be included in those procedures as a method to identify and correct errors prior to the submission of financial information to the Office of 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 during Fiscal Year 2018 lapse period it was determined that the State owed certain bargaining unit employees for step increases that had not been awarded since July 1, 2015. This resulted in the Department being given the daunting task of estimating a total dollar impact for associated personnel moves of over 7,000 employees.

2020-002 **FINDING** (Weaknesses in the financial accounting for, and inaccurate and inadequate recordkeeping of capital assets)

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.

During the current examination, we continued to identify weaknesses regarding the Department's process for accounting for and reporting capital asses and noted management did not take all reasonable steps to implement appropriate and reasonable corrective action to provide sufficient resources, prevent errors and oversight and ensure capital asset information was properly and accurately recorded and maintained. Similar issues have been reported since 2008.

The Enterprise Resource Planning (ERP) asset module used for property records was not updated timely and accurately for several assets capitalized by the Department. Therefore, the Department used manually compiled capital asset summaries and depreciation calculations to prepare financial reporting forms related to capital assets for submission to the Office of Comptroller and in determining the amounts reported in the financial statements. The auditors identified the following errors and inadequacies in the Department's property recordkeeping process and financial reporting:

- The Department did not update its property records accurately and timely. We noted additions totaling $1,339,194 and Capital Development Board (CDB) capitalized transfers totaling $13,164,675 dating back to Fiscal Year 2013 were reflected in the capital asset amounts in the financial statements but not entered in the ERP records. We also noted duplicate entries in the ERP system amounting to $58,252.

  The Illinois Administrative Code (44 Ill. Admin. Code 5010.400) required agencies to adjust property records within 30 days of acquisition, change, or deletion of equipment items through May 2019. Effective May 2019, the requirement changed to allow 90 days to adjust property records.

- The Department did not record in the ERP system capital assets transferred in Fiscal Year 2018, totaling $47,010,985, and related accumulated depreciation, totaling $21,773,805, for the Joliet Treatment Center transferred from the Department of Juvenile Justice. These capital assets were included in the manual capital asset schedule for capital assets reporting, but the Department did not manually calculate annual depreciation of $953,658 for these assets in Fiscal Year 2019 and Fiscal Year 2020. Accordingly, depreciation expense totaling $1,907,316 related to these unrecorded capital transfers was not reported in the financial statements.

  The Statewide Accounting Management System (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.

- The Department did not consistently apply its capitalization policy and did not accurately maintain its manual capital asset schedules supporting the financial statements. We noted the following errors:

    - The Department incorrectly calculated depreciation on capitalized CDB projects based on each quarterly transfer date and amounts instead of the project completion date for the total cumulative completed project costs as required.
    - CDB projects not yet completed with cumulative costs totaling $4,686,289 were inaccurately reported as Capital Assets – Building Improvements instead of Construction in Progress.
    - Depreciation totaling $463,503 was prematurely calculated for construction projects which were still in progress.
    - Depreciation of $15,132 was improperly calculated on CDB projects for demolition and repair which were not subject to capitalization and depreciation.
    - Depreciation totaling $273,875 was still manually calculated and reported for items already entered in the ERP system causing duplicate depreciation amounts.
    - Property disposals below the capitalization threshold totaling $799,635 that were not included in beginning capital asset balances were erroneously deducted in the manual capital asset schedules, thereby understating the ending capital asset balances.

    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 (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 Manual (Procedure 03.30.10).

- The Department assessed a closed facility (Tamms) as temporarily impaired, subject to continued assessment in future reporting periods. However, the Department did not disclose the carrying values of the assets located in this idle facility totaling $40,840,843 as required.

    GASB Statement No. 42 – *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* paragraph 20 requires the carrying amount of impaired capital assets that are idle at year-end be disclosed, regardless of whether the impairment is considered permanent or temporary.

The Department subsequently adjusted the financial statements to correct these errors and included the required disclosures in the notes to the financial statements.

Governmental Accounting Standards Board (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* requires capital assets to be reported in government-wide financial statements, depreciation expenses in the statement of activities and separate net assets category - invested in capital assets.

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 605/4) 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 SAMS Manual (Procedures 03.30.30 and 27.20.38) outlines the reporting process for capital assets, which is necessary for the Office of Comptroller to complete the Statewide financial statements in accordance with generally accepted accounting principles.

Department management attributed the exceptions relating to capital assets and financial reporting classification errors to staff turnover, staff limitations, competing priorities, human error, and employee oversight. Department management stated staff interpreted amounts listed as non-Construction-in-Progress on reports received from CDB as completed projects. In addition, management indicated staff time was also spent on the transition to the ERP system and staff was still navigating the new system for property updates and reporting.

The exceptions noted represent a material weakness in the Department's internal control over financial and fiscal operations which poses 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 capitalized property and equipment throughout the State totaling approximately $1.8 billion as of June 30, 2020. Failure to maintain complete and accurate property records and inaccurate reporting of capital assets increases the risk of equipment theft or loss occurring without detection and resulted in financial misstatements. (Finding Code No. 2020-002, 2018-002, 2016-002, 2014-002, 12-02, 10-04, 08-07)

RECOMMENDATION

We recommend the Department:

- Identify and assign sufficient resources to perform the required tasks related to property record keeping and capital assets reporting.

- Strengthen its procedures over property and equipment to ensure accurate and timely recording in the ERP property system.

- Develop and document procedures for tracking, monitoring and proper accounting of construction in progress from inception to completion.

- Incorporate internal review procedures within its property reporting function to ensure capital asset information is complete, properly recorded, and accounted for to permit the preparation of reliable financial information and reports to the Office of Comptroller.

DEPARTMENT RESPONSE

Recommendation accepted. The Department continues devoting the resources necessary to ensure Capital Asset Reporting is prepared in an accurate manner. The Department will strive to increase timeliness of recordkeeping and reduce the number of manual calculations.

A property control accountant position is anticipated to be filled within the next few months. This will allow devoting of these resources to improving timeliness and limiting errors and oversights. A new manager has been assigned and work has begun implementing adjustments to further address improving the timeliness of recordkeeping, reducing errors, and manual calculations.

2020-003 **<u>FINDING</u>:** (Lack of controls over computer systems)

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

In order to meet its mission of "serving justice in Illinois and increase public safety," the Department utilizes computer systems such as Offender 360 and Fund Accounting and Commissary Trading Systems. The Department utilizes these systems to track offender's location, information, and maintain accounting of offender's finances and the Department's finances.

Since 2016, we have determined the Department had not implemented adequate controls over its computing environment. During the current audit, the Department still had not taken appropriate actions to document and implement the necessary controls.

During testing, we noted:

- The Department had not developed a disaster recovery plan or conducted testing.
- The Department had not performed a review of user access to its applications.
- The Department had not implemented a formal change management process to control changes to its environment and applications. In addition, it was noted programmers had access to the production environment.

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.

The Security and Privacy Controls for Information Systems and Organizations (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology (NIST), Access Control section, sanctions the appropriateness of access rights, including periodic access reviews. Additionally, the Configuration Management section enforces the development of controls over changes, including enforcing logical restrictions to the production environment. Furthermore, the Contingency Planning section, supports the development and testing of disaster recovery plans.

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

Due to the severity of the deficiencies noted, the auditors were unable to rely upon the IT environment controls. The auditors consider the weakness to be a material weakness in the Department's internal control over financial and fiscal operations. (Finding Code No. 2020-003, 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. In February 2020, work started to address the issues noted in this finding with respect to disaster recovery planning. Target completion date has been pushed out to late summer of 2021 due to the impact of COVID-19 remote working conditions. The Department of Innovation and Technology's Business Impact Analysis Team is working with the Department of Corrections for planning and scheduling.

In-place security governance has been implemented to address the issues noted in this finding with respect to user access controls. Staff are on-board to monitor, control, and govern application security concerns. An Application User Access request process is in place for anyone requiring access to any of the Department of Corrections server and client systems. The Department is proactive in maintaining the proper security controls. Formal documented data and security governance policies and guidelines are in place under the Department of Innovation and Technology umbrella.

To address the issues noted in this finding with respect to change management, procedures have been established to ensure proper management approvals are obtained prior to making changes to the current systems. The Department is in the process of establishing a change management committee to further refine the process and establish policies and procedures to ensure data and security integrity is not compromised. Formal documented change management guidelines will be in place post establishment of the change management committee.

2020-004 **FINDING** (Lack of fiscal controls and proper financial reporting over Offender 360 project)

The Department of Corrections (Department) did not ensure fiscal requirements were controlled and documented, and did not ensure proper financial reporting was performed for the Offender 360 project.

In June 2010, the Department embarked on the development of the Offender 360 system in order to meet the statutory requirements of Public Act 097-0697 to manage the awarding of sentence credits to eligible offenders. Over the last ten years, the Department has added additional functionality to Offender 360 in the areas of offender tracking, offense information, security levels, offender personal, and medical information.

Since the Fiscal Year 2014 engagement, we have reported the Department had not implemented controls over the fiscal requirements and vendor payments related to Offender 360 and failed to determine the capitalizable costs for the development of Offender 360. During the current engagement, we continued to identify weaknesses regarding monitoring, tracking and financial reporting of software application development costs and noted management did not take all reasonable steps to implement appropriate and sufficient corrective action.

During our testing, we requested the Department provide documentation supporting the cost of the Offender 360 project through Fiscal Year 2020. In response, the Department provided spreadsheets which documented the Department had paid $88,520,691 for vendor services since Fiscal Year 2010. The spreadsheets did not include the total cost of Department staff and some additional hardware and software purchases. The Department provided a summary of staffing costs totaling $1,440,607 from Fiscal Year 2010 to Fiscal Year 2019. The Department stated these vendor and staffing costs included costs of the Youth 360 system for the Department of Juvenile Justice, but the Department did not have adequate information to determine the amount that should have been excluded from the Offender 360 costs. We also noted the spreadsheets were the same spreadsheets provided in the prior audit and had not been updated with all Fiscal Year 2019 and any Fiscal Year 2020 additional vendor and staff costs. The Department subsequently provided vendor invoices incurred through Fiscal Year 2020.

In addition, we noted:

- In response to the prior finding, the Department reviewed vendor payments and determined the Department had paid the vendor in full for services not yet rendered as of June 30, 2020 totaling $7,359,021. The Department subsequently entered into a spend-down agreement with the vendor to apply the credit balance to future infrastructure stabilization and maintenance services. We noted the Department did not recognize this prepaid expense in the Generally Accepted Accounting Procedures Package and financial statements for Fiscal Year 2020. The Department subsequently adjusted its financial statements to report the prepaid expense.

- The Department had not capitalized the costs for the development of Offender 360. Furthermore, it was determined the Department had not maintained sufficient records to determine the development costs related to the Offender 360 project and the modules which the Department subsequently discontinued development, to properly exclude in the capitalizable costs.

  The amount to be capitalized is to include all vendor and Department staff development costs since June 2010 for software projects expected to be completed. The Department was not able to obtain sufficient details from internal records or the vendor to be able to separate the costs between capitalizable amounts and expenses. The Department also did not maintain detailed time records for staff involvement in development tasks to properly compute capitalizable staffing costs.

- The Department still had not developed adequate policies and procedures to identify projects that are capitalizable, determine what costs should be included in the capitalization, and track and maintain support for the costs to be capitalized.

- Since the prior audit, the Department had not taken adequate corrective action as of June 30, 2020 to strengthen internal controls over development, fully complete a central repository of information, or track and monitor deliverables and performance for internally generated software, in order to accurately identify capitalizable assets.

Total cumulative costs incurred, including both vendor payments as well as software licenses and subscriptions, through Fiscal Year 2020 amounted to $103,775,797 based on the Department's listing of invoices and staffing cost estimates that had not been analyzed to identify properly capitalizable amounts related to the application development phase or to determine costs incurred related to the Youth 360 system.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that revenues, expenditures, and transfer 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 to maintain accountability over the State's resources.

Governmental Accounting Standards Board (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* requires government-wide financial statements to be prepared using the economic resources measurement focus and the accrual basis of accounting and also requires acquired but unused goods and services be reported as assets until they are used.

GASB Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets* requires specified-conditions to be met for the development cycle of computer software before the outlays can be capitalized. This Statement specifies outlays can be grouped into the preliminary project stage, application development stage or the post-implementation/operation state, but only outlays incurred for activities during the application development stage of internally generated software should be capitalized.

The State Records Act (5 ILCS 160/8) requires each agency head to preserve records containing adequate and proper documentation of the policies, decisions, procedures, and essential transactions of the agency.

The State Finance Act (30 ILCS 105/9.05) states "the voucher shall state on its face that the goods or services are being procured pursuant to a formal, written contract the terms of which require advance payment… The voucher shall also state the contract requires the goods or services to be delivered or received prior to the expiration of the lapse period of the fiscal year to which the expenditures are charged."

Department management stated staffing changes contributed to the lapse in monitoring and controlling expenditures for this project. Department management further stated a substantial number of hours had been spent trying to determine whether the development costs could be identified and Department management concluded there was no benefit in spending more time evaluating invoices and determining an unreliable estimate of capitalizable costs. Department management stated they did not initially recognize a prepaid expense for the overpayment as of June 30, 2020 due to oversight. In addition, Department management stated policies, procedures and records had not been developed to identify, track, and report capitalizable software projects and new costs incurred since the prior audit due to turnover of staff intricately involved in the project and conflicting staff priorities.

This material weakness in the Department's internal control over financial and fiscal operations poses a reasonable possibility that future material misstatements of the Department's financial statements or material noncompliance will occur and not be prevented or detected and corrected on a timely basis.

Failure to properly maintain documentation and control expenditures has resulted in overpayment and potential improper payments to the vendor and material financial misstatements. Failure to establish adequate controls and track costs incurred related to capitalizable application developments for internally developed software may result in a material misstatement of financial statements and is a departure from generally accepted accounting principles. Due to the absence of adequate information to calculate capitalizable development costs, the amount by which this departure would affect the assets, net position, and expenses of the governmental activities cannot be determined. Accordingly, the auditor's opinion on the financial statements of governmental activities was qualified. This qualification will continue until the potential capitalizable costs would have been fully depreciated or until the Department is able to provide adequate substantiation to determine the actual capitalizable costs. (Finding Code No. 2020-004, 2018-010, 2016-010, 2014-018)

RECOMMENDATION

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

DEPARTMENT RESPONSE

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

The Department would like to point out that the $103,775,797 listed in the finding represents both internal development staffing costs and the total amount paid to the outside vendor over the time periods of fiscal years 2011-2020. Included in this amount are costs for items such as storage, maintenance support, and software licensing, in addition to the development costs for modules that were later determined to be inoperable and contracted deliverables that were never provided by the vendor.

Through negotiations with the vendor, the Department was able to recoup $7,359,021 to offset storage and maintenance costs of the application, which was fully utilized in early 2021.

Furthermore, in March of 2021, the Department switched vendors for the maintenance of the application.

2020-005 **FINDING** (Inadequate Internal Controls over Census Data)

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

Census data is demographic data (date of birth, gender, years of service, etc.) of the active, inactive, or retired members of a pension or OPEB plan. The accumulation of inactive or retired members' census data occurs before the current accumulation period of census data used in the plan's actuarial valuation (which eventually flows into each employer's financial statements), meaning the plan is solely responsible for establishing internal controls over these records and transmitting this data to the plan's actuary. In contrast, responsibility for active members' census data during the current accumulation period is split among the plan and each member's current employer(s). Initially, employers must accurately transmit census data elements of their employees to the plan. Then, the plan must record and retain these records for active employees and then transmit this census data to the plan's actuary.

We noted the Department's employees are members of both the State Employees' Retirement System of Illinois (SERS) for their pensions and the State Employees Group Insurance Program sponsored by the State of Illinois, Department of Central Management Services (CMS) for their OPEB. In addition, we noted these plans have characteristics of different types of pension and OPEB plans, including single employer plans and cost-sharing multiple-employer plans.

During testing, we noted the following:

1) The Department had not performed an initial complete reconciliation of its census data recorded by SERS and CMS to its internal records to establish a base year of complete and accurate census data.

2) After establishing a base year, the Department had not developed a process to annually obtain from SERS and CMS the incremental changes recorded by SERS and CMS in their census data records and reconcile these changes back to the Department's internal supporting records.

3) Six of 120 (5%) employees tested had an event occur impacting CMS' census data records that was not reported until a subsequent fiscal year. In addition, we noted it took between 35 and 152 days from the occurrence of the event and when this information was entered into CMS' records. We worked with CMS' actuary to project the impact of these errors on CMS' valuation and determined these exceptions did not materially impact the Department's financial statements.

4) One of 120 (1%) employees tested had a discrepancy between the change date recorded within CMS' records and the Department's records. We noted the reported date within CMS' census data records was 202 days after the event purportedly occurred according to the Department's records. We considered the impact of this discrepancy and determined this amount did not materially impact the Department's financial statements.

For employers where their employees participate in plans with multiple-employer and cost-sharing features, the American Institute of Certified Public Accountants' *Audit and Accounting Guide: State and Local Governments* (AAG-SLG) (§ 13.177 for pensions and § 14.184 for OPEB) notes the determination of net pension/OPEB liability, pension/OPEB expense, and the associated deferred inflows and deferred outflows of resources depends on employer-provided census data reported to the plan being complete and accurate along with the accumulation and maintenance of this data by the plan being complete and accurate. To help mitigate against the risk of a plan's actuary using incomplete or inaccurate census data within similar agent multiple-employer plans, the AAG-SLG (§ 13.181 (A-27) for pensions and § 14.141 for OPEB) recommends an employer annually reconcile its active members' census data to a report from the plan of census data submitted to the plan's actuary, by comparing the current year's census data file to both the prior year's census data file and its underlying records for changes occurring during the current year.

Further, the State Records Act (5 ILCS 160/8) requires the Department make and preserve records containing adequate and proper documentation of its essential transactions to protect the legal and financial rights of the State and of persons directly affected by the Department's activities.

Finally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

Department management indicated they were unaware of the need to perform a reconciliation of the census data information recorded by SERS and CMS to the Department's records. Department management indicated delays in reporting and data input occurred due to submission of manual forms and a need for additional supporting documents and approval.

Failure to ensure census data was timely reported to CMS which was complete and accurate could have resulted in a material misstatement of the Department's financial statements and reduced the overall accuracy of CMS-related OPEB liabilities, deferred inflows and outflows of resources, and expense recorded by the State and its agencies. In addition, failure to reconcile active members' census data reported to and held by SERS and CMS to the Department's records could result in each plan's actuary relying on incomplete or inaccurate census data in the calculation of the Department's pension and OPEB balances, which may result in a misstatement of these amounts. (Finding Code No. 2020-005)

RECOMMENDATION

We recommend the Department implement controls to ensure reportable events are timely and accurately transmitted to CMS.

Further, we recommend the Department work with SERS and CMS to develop an annual reconciliation process of its active members' census data from its underlying records to a report from each plan of census data submitted to the plan's actuary. After completing an initial full reconciliation, the Department may limit the annual reconciliations to focus on the incremental changes to the census data file from the prior actuarial valuation, provided no risks are identified that incomplete or inaccurate reporting of census data may have occurred during prior periods.

DEPARTMENT RESPONSE

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

Although there is no law, regulation, rule or internal policy requiring changes to be entered into the Central Management Services (CMS) system on a timely basis, the Department's Central Office strives to enter these changes within a few days of receiving the required paperwork and approvals from its employees.

Furthermore, the Department takes great comfort in knowing that its financial statements for the years ended June 30, 2019, and 2020 were not materially misstated with respect to the items listed in this finding.

2020-006 **<u>FINDING</u>** (Inadequate administration of and controls over locally held funds)

The Department of Corrections' (Department) did not adequately administer and maintain controls over locally held funds 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 25 correctional centers, Joliet Treatment Center, and Kewanee Life Skills Re-entry Center (correctional centers or centers); the 4 Adult Transition Centers (ATCs) and the Central Office (Springfield). The specific locally held funds tested included the DOC Commissary Funds (Resident's Commissary Fund and Employee's Commissary Fund), DOC Resident's Trust Fund, DOC Resident's and Employee's Benefit Fund (Resident's Benefit Fund and Employee's Benefit Fund), Travel and Allowance Revolving Fund, and Moms and Babies Fund.

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

	Fiscal Year 2019	Fiscal Year 2020
DOC Commissary Funds	$ 10,005,651	$ 8,881,941
DOC Resident's Trust Fund	$ 12,281,593	$ 13,684,362
DOC Resident's and Employee's Benefit Fund	$ 13,881,411	$ 17,187,085
Travel and Allowance Revolving Fund	$ 269,500	$ 243,393
Moms and Babies Fund	$ 1,937	$ 2,188

During the current examination, we continued to identify weaknesses regarding the Department's administration and controls over locally held funds and noted management did not take all reasonable steps to implement appropriate and reasonable corrective action to provide sufficient resources and oversight, prevent errors, and ensure locally held funds were properly administered and transactions were adequately maintained and recorded. These issues were first reported during the examination for the period ended June 30, 1994.

We identified several exceptions and weaknesses related to the controls over the Department's locally held funds as follows:

- Auditors tested all 27 correctional centers and noted the following exceptions related to the recording of financial transactions:
  - Three (11%) correctional centers (Graham, Lincoln and Stateville) were not able to provide a complete listing of outstanding invoices comprising DOC Commissary Funds accounts payable balance of $204,048 and $445,719, for Fiscal Years 2019 and 2020, respectively. As a result, auditors were unable to conclude the correctional centers' population records were sufficiently precise and detailed under the Attestation Standards promulgated by the American Institute of Certified Public Accountants (AT-C § 205.35) to test the DOC Commissary Funds accounts payable. Also, the auditors were not able to

determine if accounts payables for the DOC Commissary Funds were properly reported for Fiscal Years 2019 and 2020 for these correctional centers.

- Four (15%) correctional centers (Decatur, Lincoln, Jacksonville, and Taylorville) were not able to provide supporting documents for 6 of 270 (2%) DOC Commissary Funds accounts payable samples selected for Fiscal Years 2019 and 2020, totaling $8,108 and $3,390, respectively.

- Three (11%) correctional centers (Joliet, Logan, and Shawnee) did not correct errors in DOC Commissary Funds accounts payable during Fiscal Years 2019 and 2020, totaling $12,882 and $19,808, respectively.

- One (4%) correctional center (Lincoln) did not properly record Fiscal Year 2020 transactions, resulting in a negative balance of $31,555 in the Inmate Trust Fund cash on hand.

- Four (15%) correctional centers (Decatur, Hill, Lincoln, and Taylorville) understated DOC Commissary Fund accounts payable by a total of $2,162 and $729, during Fiscal Years 2019 and 2020, respectively.

Governmental Accounting Standards Board (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* requires governmental fund financial statements to be prepared using the modified accrual basis of accounting and fiduciary fund financial statements to be prepared using the accrual basis of accounting. These bases of accounting require the recognition of expenses and liabilities in the accounting period they are incurred.

- Financial reports of ATCs did not agree to supporting documents. We noted the following unexplained differences:

	Financial Reports Over (Under)		
	Cash / Fund Balances	Revenues / Additions	Expenditures / Deletions
Fiscal Year 2020			
Crossroads	$ 13,759	$ 17,037	$ 658
North Lawndale	(19)	(20,152)	5,960
Fox Valley	3,197	-	-
	$ 16,937	$ (3,115)	$ 6,618
Fiscal Year 2019			
Crossroads	$ 5,152	$ (44,080)	$ 14,662
North Lawndale	26,158	16,006	5,385
Fox Valley	1,338	-	-
	$ 32,648	$ (28,074)	$ 20,047

The Statewide Accounting Management System 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. In addition, 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. Furthermore, 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.

- The auditors tested 560 receipts at 27 correctional centers, 80 receipts at the ATCs, and 120 receipts at Central Office and noted the following exceptions:

    - Thirty of 760 (4%) locally held funds receipts tested, totaling $372,377, were deposited between 1 and 89 days late during Fiscal Years 2019 and 2020. This condition was noted at Centralia, Decatur, Dixon, Hill, Jacksonville, Lawrence, Lincoln, Pinckneyville, Robinson, Sheridan, Southwestern, and Vandalia Correctional Centers and at Fox Valley, North Lawndale, and Peoria ATCs.

      The Department's 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.

    - Seven of 760 (1%) locally held funds receipts tested, totaling $120,814, did not have complete supporting documents. This condition was noted at Lincoln and Sheridan.

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

    - Twenty-seven (4%) receipts tested were deposit transfers from the Inmate Trust Fund to the Inmate Commissary Fund, which were made one to three months late for purchases during Fiscal Years 2019 and 2020 totaling $1,094,197 and $1,246,981, respectively. This condition was noted at Decatur, Dixon and Stateville Correctional Centers.

      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.

      Department management stated untimely deposits from the Trust Fund to the Inmate Commissary Fund were due to untimely receipt of reimbursements for Offender's payroll. In addition, Center personnel indicated they have been directed to maintain a sufficient cash balance in the Trust Fund account to cover the due to inmates amount in the event of a Center closure.

Sound internal controls require that all funds received should be deposited intact. The total amount of the deposit should equal the total of the supporting documents. A reconciliation of deposit amounts with the supporting receipt documents should be performed and formally documented.

- The auditors tested 560 disbursements at 27 correctional centers, 80 disbursements at the ATCs and 78 disbursements at Central Office and noted the following exceptions:

  - For 55 of 718 (8%) locally held fund disbursements tested, totaling $131,083, adequate supporting documents were not provided, such as invoices, receiving reports, and committee member meeting minutes. This condition was noted at Centralia, Danville, Dixon, Graham, Illinois River, Jacksonville, Lawrence, Lincoln, Menard, Pinckneyville, Pontiac, Sheridan, Stateville, Taylorville, Vandalia, and Western Illinois Correctional Centers, Joliet Treatment Center, and at Central Office. A.D. (02.43.102) and A.D. (02.45.102) establish written requirements for Benefit Fund expenditures, including documentation of committee decisions at each facility for review and approval of purchase requests. A.D. (02.95.105) requires records be properly identified for ready access, stored, and safeguarded at the facility.

  - Eight of 718 (1%) locally held fund disbursements tested, totaling $30,871, did not contain all the required signatures for approval or had improper approval signatures. These conditions were noted at Centralia, Dixon, and Sheridan Correctional Centers and at Central Office. The Department's A.D. (02.40.102) requires two signatures on all checks and specifies positions with signature authority.

  Sound internal controls over disbursements require all disbursements be adequately supported and approved by authorized personnel

- We tested bank reconciliations at 27 correctional centers, 4 ATCs and Central Office and noted the following:

  - Lincoln Correctional Center was unable to provide documentation supporting $71,846 of outstanding checks in the Resident's Commissary Fund's bank reconciliation for June 30, 2020.

  - The Department could not provide explanations for the differences noted between the cash balances reported in the bank reconciliation and the general ledger for 7 of 60 (12%) Resident's Trust Fund bank reconciliations tested totaling $15,148, and for 1 of 60 (2%) Travel and Allowance Fund bank reconciliations tested, amounting to $1,608. These conditions were noted at

Danville, Decatur, Lincoln, and Sheridan Correctional Centers and at North Lawndale, Fox Valley and Crossroads ATCs.

- The auditors noted 63 of 450 (14%) bank reconciliations tested did not have all the required signatures of the preparer and/or the individuals responsible for approval and the dates of preparation and approval were not always indicated. These 63 bank reconciliations were missing 82 of 189 (43%) required signatures. These conditions were noted at Big Muddy, Centralia, Danville, Decatur, Dixon, Lincoln, Logan, Taylorville, Vandalia, and Vienna Correctional Centers; Crossroads, Fox Valley, and North Lawndale ATCs; and at Central Office.

- Logan Correctional Center failed to timely void a $689 check that had been outstanding for more than three months for the Employee's Commissary Fund during Fiscal Year 2020. The check was voided 482 days late. In addition, at three ATCs, there were 7 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 North Lawndale (two instances, totaling $21,785), Peoria (three instances, totaling $506), and Fox Valley (two instances, totaling $300).

Good internal controls require that monthly bank reconciliations be reviewed by the preparer's supervisor for accuracy and timely resolution of reconciling items. A.D. (02.40.104) requires reconciliation of the locally held fund, the 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 Administrative Officer for review and signature. Furthermore, A.D. (02.40.104) requires the Center to review checks outstanding for three months and issue a stop payment request.

- We reviewed segregation of duties at 27 correctional centers and the 4 ATCs. We noted 4 (13%) facilities lacked sufficient segregation of duties over all commissary fund duties at Danville and Vienna Correctional Centers and over the trust fund duties at Sheridan Correctional Center and Fox Valley ATC. The Centers and the ATC did not have the required statement in writing by the Chief Administrative Officer, approved by the Chief Financial Officer, for the exceptions to specified segregation of duties.

  Sound internal control requires adequate segregation of duties to ensure that effective checks and balances are in place to minimize the risk of loss. A.D. (02.40.101) states that individuals designated to write checks should not be responsible for mailing checks, and that individuals designated to reconcile the funds should not have the authority to sign checks. Any exceptions to the separation of duties as outlined in the directive are to be stated in writing by the Chief Administrative Officer and approved by the Chief Financial Officer.

- We tested signature authority at 27 correctional centers and the 4 ATCs and noted exceptions at 3 (10%) correctional centers as follows:

  - Logan and Sheridan Correctional Centers failed to provide DOC Commissary Funds and Resident's Trust Fund signature cards from the bank for 7 months and 21 months of the examination period, respectively.

  - At Stateville Correctional Center, one of five (20%) individuals included on the Resident's Commissary and Resident's Trust Fund's signature cards was a former employee who left the Center two months prior to our inquiry. In addition, the Warden did not have signature authority for over six months after his appointment. Center personnel indicated the Fund's signature cards were not updated timely due to limitations brought on by COVID-19.

  A.D. (02.40.102) states the Business Administrator shall ensure the bank is notified in writing of any changes to signature authority and maintain copies of the notification and current bank signature cards in the locally held fund file.

- During our analysis of the Employee's Commissary Fund, we noted 19 of 21 (90%) Centers with an Employee's Commissary Fund reported negative gross margins in their Inventory Sales Gross Margin reports reviewed during the examination period:

Center	# of Months Operated at a Negative Gross Margins During the 24-month Review Period (Exception Percentage)	Total Negative Gross Margin
Big Muddy River	9 (38%)	$ 18,487
Danville	2 (8%)	$ 1,474
Decatur	2 (8%)	$ 1,465
Dixon	1 (4%)	$ 679
Graham	9 (38%)	$ 4,453
Hill	7 (29%)	$ 1,096
Illinois River	2 (8%)	$ 458
Jacksonville	8 (33%)	$ 4,876
Kewanee	4 (17%)	$ 983
Lawrence	1 (4%)	$ 640
Lincoln	7 (29%)	$ 4,388
Logan	3 (13%)	$ 13,415
Menard	5 (21%)	$ 1,209
Pinckneyville	11 (46%)	$ 8,132
Shawnee	1 (4%)	$ 332
Taylorville	1 (4%)	$ 145,180
Vandalia	6 (25%)	$ 1,502
Vienna	7 (29%)	$ 2,890
Western	5 (21%)	$ 1,049

Department management indicated these negative gross margins reflected in the reports were mainly due to timing differences in updating sales transactions and errors on cost of sales calculations. Management stated other less significant negative gross margins were due to inventory adjustments made and lower sales due to COVID.

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 agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that funds held outside of the State Treasury are managed, used, and obtained in strict accordance with the terms of their enabling authorities and that no unauthorized funds exist.

- The Department utilized a Commissary Fund Cash Review Form (DOC 0075) to calculate the available cash to effectuate the transfer of accrued profits in compliance with the Unified Code of Corrections (Code) (730 ILCS 5/3-4-3(c)). We performed a review of the DOC 0075 completed during Fiscal Years 2019 and 2020 for 27 centers and noted the following:

  - Four (15%) centers were unable to provide complete documentation of DOC 0075 for the Resident's Commissary Fund and the Employee's Commissary Fund for Fiscal Years 2019 and 2020. This condition was noted at Danville, Decatur, Lincoln, and Taylorville Correctional Centers. Since the documentation was incomplete, we were unable to determine accurately how much money was available to be transferred to the Resident's and Employee's Benefit Funds.

  - We noted the year-to-date amounts indicated in the DOC 0075 forms did not agree with the amounts on the monthly Statement of Operations for July 2019, totaling $37,259, at Decatur Correctional Center and Joliet Treatment Center.

  - Furthermore, we noted differences between the amounts indicated in the DOC 0075 forms and the General Ledger Trial Balance (GLTB) Reports for Fiscal Years 2019 and 2020, totaling $9,297,534 and $8,930,525, respectively, at 96% of centers, or all except Sheridan Correctional Center.

Department management indicated the differences in amounts between DOC 0075 and the GLTB is due to timing of generating the report used at the time the centers completed the DOC 0075 but those supporting reports were not kept on file. Management indicated additional adjustments may have been posted in the final GLTB reports used by the auditors.

Good 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 financial reports used in performing analysis of operations 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. In addition, good business practice requires maintenance of adequate documentation to support reports or required forms completed.

The Code (730 ILCS 5/3-4-3(c)) 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 amounts 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 on a monthly basis, 40% of the net profit of the Employee's Commissary shall be accrued to the Employee's 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 required to be prepared expeditiously, allowing sufficient time to ensure receipt by the 20th of the month at the Office of the Central Accounting Section.

A.D. (02.44.110) also states "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, 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 Department did not adequately perform formal monitoring procedures of its locally held funds to ensure that cash balances maintained at various financial institutions were fully secured and collateralized. The Department had bank accounts with 44 financial institutions with bank balances totaling $42 million. Of this total, the cash balance as of June 30, 2020 held with one financial institution was $484,300 over the Federal Deposit Insurance Coverage (FDIC) of $250,000 and no additional collateral pledged by the financial institution was obtained to cover the remaining uninsured amount. Department management stated the exception was due to turnover of the staff responsible for maintaining the monitoring spreadsheets and oversight.

> Administrative Directive (02.40.102) states, if the sum of locally held funds excluding offender trust funds on deposit at a single financial institution exceeds $250,000, the Business Administrator shall request pledged collateral to equal the amount in excess of the $250,000 Federal Insurance maximum.
>
> The State Officers and Employees Money Disposition Act (30 ILCS 230/2c) requires that a bond, pledged securities, or other eligible collateral be obtained whenever funds deposited with a bank or savings and loan association exceed the amount of federal deposit insurance coverage.

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.

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 Agency to protect the legal and financial rights of the State.

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, which shall provide assurance that funds are safeguarded against loss.

Department management stated the exceptions related to controls over locally held funds were due to lack of employee oversight, insufficient training and staffing, failure to follow established policies and procedures, human error, and competing priorities at the correctional center level. At the Central Office level, Department management stated a 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. 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 and increased risk of inadvertent loss. 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. In addition, inadequate administration may result in a misstatement of the financial statements. Failure to adequately monitor and ensure Department funds are sufficiently covered by collateral increases the risk that the deposits on these accounts may not be repaid or returned to the Department in case of bank failure. (Finding Code No. 2020-006, 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, provide sufficient training on locally held funds, ensure sufficient oversight, and implement sufficient internal controls to ensure adequate administration of locally held funds. The Department should also ensure records are timely updated and printed, perform reconciliations of financial reports with the general ledger balances and resolve differences to ensure accuracy of reports used in operational procedures and analysis. In addition, adequate supporting documentation for any forms or reports completed should be maintained on file to resolve differences that may be identified.

DEPARTMENT RESPONSE

Recommendation accepted. The Department will continue working with Center staff on the requirements related to operation and maintenance of locally held funds and train staff on the various policies that apply to the locally held funds regarding receipts, disbursements, and record keeping. In addition, the Department will devote adequate resources, ensure sufficient oversight, and implement sufficient internal controls to ensure adequate administration of locally held funds.

Going forward, Central Office staff will monitor the bank account levels of the locally held funds accounts on a quarterly basis to ensure any amounts over the $250,000 of FDIC insurance are properly collateralized.

In addition, the Department would like to mention that although the General Ledger Trial Balance (GLTB) account balance amounts were not accurately reported on the internal DOC 0075 form, the GLTB amounts were used to prepare the Department’s financial statements for the fiscal years ended June 30, 2019, and 2020.

In addition, the Department would like to mention the negative net margins as noted in the finding were primarily due to fewer sales for several weeks at a time during the year while the Centers were responding to COVID. Furthermore, some negative net margins were due to errors that persisted for several months, however, were eventually corrected.

Furthermore, the Department takes great comfort in knowing that its financial statements for the years ended June 30, 2019, and 2020 were not materially misstated with respect to the items listed in this finding.

2020-007 **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 service providers.

We requested the Department provide its population of 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 service providers utilized. During our testing, we worked with the Department to identify their service providers to determine the services delivered.

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 eight service providers identified.

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 conducted independent internal control reviews for five of the eight (63%) service providers tested.
- Conducted an analysis of the three (60%) SOC reports obtained to determine the impact of the modified opinion(s) or the noted deviations.
- Conducted an analysis of the Complementary User Entity Controls (CUECs) documented in the SOC reports.
- Obtained and reviewed SOC reports for subservice organizations or performed alternative procedures to determine the impact on its internal control environment.

Additionally, we noted 5 of 7 (71%) contracts between the Department and the service providers did not contain a requirement for an independent review to be completed.

Department management stated the exceptions were due to staff turnover, competing staff priorities, and contract managers new to the Department who were unaware of the need for SOC reports from certain types of service providers.

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.

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, including the National Institute of Standards and Technology, endorses the review and assessment of internal controls related to information systems and operations to assure the accurate processing and security of information.

The Security and Privacy Controls for Information Systems and Organizations (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology (NIST), Maintenance and System and Service Acquisition sections, require entities outsourcing their IT environment or operations to obtain assurance over the entities internal controls related to the services provided. Such assurance may be obtained via System and Organization Control reports or independent reviews.

Without having obtained and reviewed a SOC report or another form of independent internal controls review, the Department does not have assurance the service providers' or subservice organizations' internal controls are adequate. (Finding Code No. 2020-007, 2018-007)

RECOMMENDATION

We recommend the Department:

- Develop a process for identifying service providers and assessing the effect on internal controls of these services on an annual basis.
- Obtain SOC reports or perform independent reviews of internal controls associated with service providers at least annually.
- Analyze the SOC reports obtained to determine the impact of the report's opinion or noted deviations.
- Monitor and document the operation of the CUECs relevant to the Department's operations.
- 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.

DEPARTMENT RESPONSE

Recommendation accepted. The Department will work to compile a list of external service providers going forward. SOC Reports and full background checks are a requirement for existing and new vendors and providers of technical services for the Department of Corrections. The Department will obtain and review SOC reports for internal control deficiencies at the vendor.

2020-008 **<u>FINDING</u>** (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, 2020 totaled $13.8 million, excluding the inventory balance of the Department's Correctional Industries. Each correctional center (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 a sample of the Department's 27 centers. The determination of which centers to test by sampling for each step was made based upon an analysis of the centers' inventory, locally held fund balances, and other factors.

During the current examination, we continued to identify weaknesses regarding the Department's internal controls over commodity and commissary inventory. We noted management did not take all reasonable steps to implement appropriate and reasonable corrective action to provide sufficient resources and to prevent errors and oversight to ensure commodity and commissary inventory were adequately maintained and accurately reported. This finding was first noted during the examination for the period ended June 30, 2008.

Auditors noted the following weaknesses in controls over commodity and commissary inventory:

- The Department did not adjust inventory balances for advance sales orders at centers totaling $227,818. As a result, inventory and unearned revenues reported in the financial statements were understated by $227,818. These conditions were noted at Big Muddy River, Centralia, Danville, Dixon, East Moline, Graham, Jacksonville, Kewanee, Lawrence, Lincoln, Pinckneyville, Pontiac, Robinson, Shawnee, Stateville, Southwestern, Vandalia, Vienna, and Western Correctional Centers.

  Governmental Accounting Standards Board (GASB) Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* paragraph 23 requires revenues from exchange transactions be accounted for at the time a transaction is completed.

- At 7 of 27 (26%) centers tested, the inventory counts and/or balances did not agree with physical count and inventory records, and errors were noted in the total final inventory list resulting in a net inventory overstatement of $47,679 and a net understatement of $1,642 at June 30, 2020 and 2019, respectively. These conditions were noted at Big Muddy River, Dixon, Lawrence, Lincoln, Menard, Pinckneyville, and Vienna Correctional Centers.

- Dixon Correctional Center's inventory procedures did not identify and direct staff how to handle obsolete or damaged items and third-party owned inventory, and the Employee Commissary was not organized in an orderly manner to facilitate an accurate count.

- Lincoln Correctional Center was unable to provide the June 30, 2020 physical inventory count documents for the Inmate Commissary and Employee Commissary inventory totaling $92,005.

  The State Records Act (5 ILCS 160/8) requires each agency head to preserve records containing adequate and proper documentation of the procedures and essential transactions of the agency. The Statewide Accounting Management System (SAMS) (Procedure 03.60.20) requires agencies 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. A good internal control system on performing physical inventories requires inventory items to be organized properly to ensure an accurate count.

  The Department's Administrative Directive (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.

- We tested 66 inventory items with inventory balances exceeding $5,000 as of June 30, 2020 at six centers for overstocking and noted Lincoln Correctional Center was holding more than one year's supply of inventory for one (2%) item, amounting to an excess amount of $7,912.

  The Illinois Procurement Code (30 ILCS 500/50-55) requires every State agency to stock no more than a 12-month 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.

- The complete selling price lists for Fiscal Year 2019 for 5 of 27 (19%) inmate commissaries (Joliet Treatment Center, Lincoln, Pontiac, Shawnee, and Sheridan) and 1 of 21 (5%) employee commissaries (Danville) were not provided. The complete selling price lists for Fiscal Year 2020 for 1 of 27 (4%) inmate commissaries (Sheridan) and 2 of 21 (10%) employee commissaries (Danville and Western) were not provided. As a result, we were not able to test these Centers' compliance with statutory requirements on mark-ups of commissary items.

  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.

- We tested 210 Employee Commissary inventory items and noted 49 (23%) were priced 0.3% to 414.24% over the allowed mark-up at Big Muddy River, Hill, Illinois River, Lincoln, Logan, Pinckneyville, Shawnee, Vienna, and Western Correctional Centers. We tested 280 inmate commissary items and noted one (.36%) item tested was priced 24.81% over the allowed markup at Hill Correctional Center.

- Four of 210 (2%) Employee Commissary items tested at centers were priced between 3.35% and 43.92% below the actual cost of the item at Danville and Logan Correctional Centers during Fiscal Year 2020. One of 280 (.36%) Inmate Commissary items tested at centers was priced 1.98% under the actual cost of the item at Western Correctional Center.

  The Unified Code of Corrections (Code) (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.

- Sheridan Correctional Center did not maintain adequate segregation of duties by having two employees, individually order, receive, record, and price the goods in the inmate commissary.

  The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds, property, and other assets are safeguarded against loss and misappropriation and assets are properly recorded and accounted for to maintain accountability over the State's resources.

The SAMS Manual (Procedure 03.60.20) outlines the reporting process for inventory, which is necessary for the Office of Comptroller to complete the Statewide financial statements in accordance with Generally Accepted Accounting Principles.

Department management indicated the conditions noted were caused by lack of knowledge of requirements and training, staff shortages, incomplete documentation of costs of employee commissary items, calculation errors in inventory spreadsheets, human error, and employee oversight.

Strong internal controls require improved centralized oversight functions related to inventory. Failure to implement such controls could lead to theft, loss of assets, and noncompliance with legislative intent, as well as inaccurate reporting of fiscal year-end inventory balances which would, in turn, reduce the reliability of state-wide financial reporting. (Finding Code No. 2020-008, 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 adequate controls, compliance with procedures and rules, as well as provision of guidance, reminders, and assistance to the Center's staff. We also recommend the Department ensure staff are adequately trained on inventory policies and procedures.

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 Fund Accounting and Commissary Trading System (FACTS). In addition, the Department will continue providing guidance, reminders and training to the Centers to help facility staff improve compliance and internal controls. In addition, the Department takes great comfort in knowing that its financial statements for the years ended June 30, 2019, and 2020 were not materially misstated with respect to the items listed in this finding.

A. **FINDING** (Adult transition centers financial transactions not properly recorded and administered)

In the prior audit, the Department did not properly record, maintain required documentation, or ensure adequate internal controls over financial transactions at the Adult Transition Centers.

In the current audit, this finding has been combined into Finding 2020-006, Inadequate administration of and controls over locally held funds. (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)