ADELFIA LLC
CERTIFIED PUBLIC ACCOUNTANTS

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS
FINANCIAL AUDIT
For the Year Ended June 30, 2022

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, 2022

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Other Report Issued Under a Separate Cover

The Department of Corrections' State Compliance Examination for the two years ended June 30, 2022, will be issued under a separate cover.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS
FINANCIAL AUDIT
For the Year Ended June 30, 2022

AGENCY OFFICIALS

Director – Acting (04/01/23 – Present)	Ms. Latoya Hughes
Director (07/01/21 – 03/31/23)	Mr. Rob Jeffreys
Assistant Director – Acting (07/08/22 – Present)	Ms. Alyssa Williams
Assistant Director (07/01/21 – 07/07/22)	Vacant
Chief of Staff (04/01/23 – Present)	Vacant
Chief of Staff (08/16/22 – 03/31/23)	Ms. Latoya Hughes
Chief of Staff (07/02/22 – 08/15/22)	Vacant
Chief of Staff (07/01/21 – 07/01/22)	Ms. Camile Lindsay
Chief Legal Counsel	Mr. Robert Fanning
Chief Administrative Officer	Mr. Jared Brunk
Chief Fiscal Officer	Mr. James Deen
Chief Internal Auditor	Ms. Amy Jenkins
Chief Information Officer (02/1/22 - Present)	Mr. Christopher McDaniel *
Chief Information Officer (11/15/21 – 01/31/22)	Vacant*
Chief Information Officer (09/01/21 – 11/14/21)	Mr. Krishna Brahmamdam * & **
Chief Information Officer (07/01/21 – 08/31/21)	Mr. Kelton Ingram *

*DoIT position
** On a seventy-five-day appointment

DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES

Chief Executive Officer (07/16/21 – Present)	Ms. Kim Larson
Chief Executive Officer (07/01/21 – 07/15/21)	Vacant

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, 2022

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

Number of	Current Report	Prior Report
Findings	8	8
Repeated Findings	8	8
Prior Recommendations Implemented or Not Repeated	-	-

SCHEDULE OF FINDINGS

Item No.	Page	Last/First Report	Description	Finding Type
			Current Findings	
2022-001	65	2020/2008	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
2022-002	68	2020/2008	Weaknesses in the financial accounting for, and inaccurate and inadequate recordkeeping of capital assets	Material Weakness
2022-003	73	2020/2012	Lack of controls over computer systems	Material Weakness
2022-004	76	2020/2020	Lack of proper financial reporting over Offender 360 project	Material Weakness
2022-005	79	2020/2020	Inadequate internal controls over census data	Material Weakness
2022-006	82	2020/2018	Lack of adequate controls over the review of internal control over service providers	Material Weakness

Item No.	Page	Last/First Report	Description	Finding Type
			Current Findings	
2022-007	84	2020/2008	Inadequate administration of and controls over locally held funds	Significant Deficiency
2022-008	92	2020/2008	Inadequate controls over commodity and commissary inventory	Significant Deficiency

EXIT CONFERENCE

The Department waived an exit conference in a correspondence from Amy Jenkins, Chief Internal Auditor, on May 15, 2023. The responses to the recommendations were provided by Amy Jenkins, Chief Internal Auditor, in a correspondence dated May 25, 2023.

ADELFIA LLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on the Audit of the Financial Statements

Qualified and Unmodified Opinions

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, each 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, 2022, and the related notes to the financial statements, as listed in the table of contents.

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 of the Department, as of June 30, 2022, 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.

Basis for Qualified and Unmodified Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department, and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified audit opinions.

Matter Giving Rise to the Qualified Opinion on the Governmental Activities

The Department did not maintain adequate records and was unable to adequately support the capitalized costs related to an internally developed software with total cumulative project costs of approximately $103,775,797 through June 30, 2022. 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.

Emphasis of Matter

As discussed in Note 2, the financial statements of the Department are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each 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, 2022, 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgement and maintain professional skepticism throughout the audit.

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.

- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the 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 financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements of the Department in an appropriate operational, economic, or historical context. Our opinions on the financial statements are not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's financial statements. The combining General Fund schedules and nonmajor governmental funds and department fund financial statements (accompanying supplementary information) are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Department Officials listing but does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2023, 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 Department's 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 7, 2023

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS
STATEMENT OF NET POSITION
JUNE 30, 2022
(Expressed in Thousands)

	Governmental Activities
ASSETS	
Unexpended appropriations	$ 215,950
Cash equity with State Treasurer	8,220
Cash and cash equivalents	24,583
Other receivables, net of $0 allowance	12
Due from other State funds	561
Inventories	47,540
Prepaid expenses	41
Capital assets not being depreciated	113,049
Capital assets being depreciated, net	608,563
Total assets	1,018,519
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources - State Employees' Retirement System	1,086,152
Deferred outflows of resources - Other Post Employment Benefits	463,352
Total deferred outflows of resources	1,549,504
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2,568,023
LIABILITIES	
Accounts payable and accrued liabilities	166,593
Intergovernmental payables	25,368
Due to other State funds	60,355
Due to Department fiduciary funds	1,821
Due to other State fiduciary funds	7,410
Due to State of Illinois component units	2,684
Long term obligations:	
Due within one year	109,205
Due subsequent to one year	12,360,774
Total liabilities	12,734,210
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - State Employees' Retirement System	625,554
Deferred inflows of resources - Other Post Employment Benefits	2,248,399
Deferred inflows of resources - Teachers' Retirement System	9
Total deferred inflows of resources	2,873,962
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	15,608,172
NET POSITION (DEFICIT)	
Net investment in capital assets	713,938
Restricted	2
Unrestricted	(13,754,089)
Total net position (deficit)	$ (13,040,149)

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, 2022
(Expressed in Thousands)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Net (Expense) Revenue**
Governmental activities				
Public protection and justice	$ 2,019,196	$ 46,266	$ 23,501	$ (1,949,429)
Interest	219	51	-	(168)
Total governmental activities	2,019,415	46,317	23,501	(1,949,597)
General revenues and transfers				
Appropriations from State resources				2,260,435
Lapsed appropriations				(108,775)
Receipts collected and transmitted to State Treasury				(85,100)
Operating grants and contributions				173,193
Interest and investment income				336
Loss on disposition of assets				(13,666)
Other revenues				3,230
Capital transfers from other State agencies				32,347
Total general revenues and transfers				2,262,000
Change in net position				312,403
Net position (deficit), July 1, 2021, as restated				(13,352,552)
Net position (deficit), June 30, 2022				$ (13,040,149)

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, 2022
(Expressed in Thousands)

	General Fund	Nonmajor funds	Total Governmental Funds
ASSETS			
Unexpended appropriations	$ 167,622	$ 48,328	$ 215,950
Cash and cash equivalents	217	24,366	24,583
Other receivables, net of $0 allowance	-	12	12
Due from other Department funds	29,266	10,504	39,770
Due from other State funds	-	560	560
Inventories	42,048	5,492	47,540
Total assets	$ 239,153	$ 89,262	$ 328,415
LIABILITIES			
Accounts payable and accrued liabilities	$ 147,438	$ 19,127	$ 166,565
Due to other Department funds	56	39,714	39,770
Due to other State funds	43,051	17,295	60,346
Due to Department fiduciary funds	1,798	23	1,821
Due to other State fiduciary funds	3	7,407	7,410
Due to Local government	2,388	18,779	21,167
Due to Federal government	3,193	1,008	4,201
Due to State of Illinois component units	915	1,769	2,684
Total liabilities	198,842	105,122	303,964
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	-	10	10
Total Deferred Inflows of Resources	-	10	10
FUND BALANCES (DEFICITS)			
Nonspendable for inventories	42,048	5,492	47,540
Restricted	-	2	2
Unrestricted:			
Committed	-	23,840	23,840
Unassigned	(1,737)	(45,204)	(46,941)
Total fund balances (deficits)	40,311	(15,870)	24,441
Total liabilities, deferred inflows of resources, and fund balances (deficits)	$ 239,153	$ 89,262	$ 328,415

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, 2022
(Expressed in Thousands)

Total fund balances-governmental funds		$ 24,441
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.		721,612
Prepaid expenses for governmental activities are current uses of financial resources for funds.		41
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	1,086,152	
Deferred outflows of resources - Other Post Employment Benefits	463,352	
		1,549,504
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		10
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.		8,184
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	(625,554)	
Deferred inflows of resources - Other Post Employment Benefits	(2,248,399)	
Deferred inflows of resources - Teachers' Retirement System	(9)	
		(2,873,962)
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	(7,674)	
Compensated absences	(79,523)	
Net Pension Liability - State Employees' Retirement System	(7,197,775)	
Liability for Other Post Employment Benefits	(5,184,998)	
Net Pension Liability - Teachers' Retirement System	(9)	
		(12,469,979)
Net position (deficit) of governmental activities		$ (13,040,149)

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, 2022
(Expressed in Thousands)

	General Fund	Nonmajor funds	Total Governmental Funds
REVENUES			
Federal government	$ 131,541	$ 65,153	$ 196,694
Interest and other investment income	-	51	51
Other	6,160	3,107	9,267
Other charges for services	680	52,460	53,140
Total revenues	138,381	120,771	259,152
EXPENDITURES			
Public protection and justice	2,187,056	161,799	2,348,855
Debt service - principal	1,555	-	1,555
Debt service - interest	219	-	219
Capital outlays	7,366	-	7,366
Total expenditures	2,196,196	161,799	2,357,995
Excess (deficiency) of revenues over (under) expenditures	(2,057,815)	(41,028)	(2,098,843)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES			
Appropriations from State resources	2,133,440	126,995	2,260,435
Lapsed appropriations	(71,069)	(37,706)	(108,775)
Receipts collected and transmitted to State Treasury	(1,448)	(83,652)	(85,100)
Transfers-in	-	10,623	10,623
Transfers-out	10	(10,633)	(10,623)
Proceeds from capital lease financing	2,323	-	2,323
Net other sources of financial resources	2,063,256	5,627	2,068,883
Net change in fund balances	5,441	(35,401)	(29,960)
Fund balances, July 1, 2021	4,450	17,470	21,920
Increases for changes in inventories	30,420	2,061	32,481
FUND BALANCES (DEFICITS), JUNE 30, 2022	$ 40,311	$ (15,870)	$ 24,441

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, 2022
(Expressed in Thousands)

Net change in fund balances	$ (29,960)
Change in inventories	32,481
	2,521
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.	(32,176)
Some capital assets were transferred in from other State agencies and, therefore, were received at no cost and not recorded in governmental funds.	32,347
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	1,555
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.	(2,323)
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.	(12,806)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in governmental funds. This amount represents the decrease in unavailable revenues from the prior year.	(9)
Prepaid expenses are recorded as uses of current financial resources in governmental funds, but do not affect expenses reported on the Statement of Activities. This is the amount prepaid expenses decreased during the year.	(10)
Gains and losses on disposal of assets are not recorded in governmental funds, but are reported as other revenues and expenses in the Statement of Activities.	(13,666)
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	(1,919,718)
Change in deferred outflows	(138,006)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Below are such activities.	
Decrease in State Employees' Retirement System pension liability	381,011
Decrease in Other Post Employment Benefit liability	2,007,934
Decrease in Teachers' Retirement System pension liability	1
Decrease in compensated absences obligation	5,748
Change in net position of governmental activities	$ 312,403

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

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2022
(Expressed in Thousands)

	Governmental Activities - Internal Service Fund
	Working Capital Revolving Fund
ASSETS	
Cash equity with State Treasurer	$ 8,220
Due from other State funds	1
Total current assets	8,221
Total assets	8,221
LIABILITIES	
Accounts payable and accrued liabilities	28
Due to other State funds	9
Total current liabilities	37
Total liabilities	37
NET POSITION	
Unrestricted	8,184
Total net position	$ 8,184

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, 2022
(Expressed in Thousands)

	Governmental Activities - Internal Service Fund
	Working Capital Revolving Fund
OPERATING REVENUES	
Charges for sales and services	$ (6,865)
Total operating revenues	(6,865)
OPERATING EXPENSES	
Cost of sales and services	240
Total operating expenses	240
Operating loss	(7,105)
NONOPERATING REVENUES (EXPENSES)	
Interest Income	336
Other expenses	(10,098)
Net loss	(16,867)
NET POSITION, JULY 1, 2021	25,051
NET POSITION, JUNE 30, 2022	$ 8,184

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, 2022
(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	$ 161
Cash received from sales and services to other State funds	13,882
Cash payments to suppliers for goods and services	(5,400)
Cash receipts from other operating activities	336
Net cash provided by operating activities	8,979
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(1,208)
Net cash used in capital and related financing activities	(1,208)
Net increase in cash equity with State Treasurer	7,771
CASH EQUITY WITH STATE TREASURER, JULY 1, 2021	449
CASH EQUITY WITH STATE TREASURER, JUNE 30, 2022	$ 8,220

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, 2022
(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	$ (7,105)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Cash receipts from other nonoperating income	336
Changes in assets and liabilities:	
Decrease in accounts receivables	146
Decrease in intergovernmental receivables	12
Decrease in due from other funds	20,651
Decrease in due from State of Illinois component units	44
Decrease in prepaid expenses	1
Decrease in accounts payable and accrued liabilities	(4,607)
Decrease in intergovernmental payables	(3)
Decrease in due to other funds	(495)
Decrease in due to State of Illinois component units	(1)
Total adjustments	16,084
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 8,979
Noncash investing, capital and financing activities:	
Transfer of assets to other State funds	$ (4,061)
Inventory transferred to General Revenue Fund	$ (6,037)

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

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2022
(Expressed in Thousands)

		DOC Resident's Trust
ASSETS		
Cash and cash equivalents	$	23,067
Other receivables		2
Due from other Department funds		1,821
Total assets		24,890
LIABILITIES		
Other liabilities		609
Total liabilities		609
NET POSITION		
Restricted net position		24,281
Total net position	$	24,281

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

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2022
(Expressed in Thousands)

	DOC Resident's Trust
ADDITIONS:	
Deposits/Contributions:	
Custodial fund deposits received	$ 20,585
Total contributions	20,585
INVESTMENT INCOME:	
Interest, dividends and other investment income	20
Net investment income	20
Other additions	8,567
Total additions	29,172
DEDUCTIONS	
Custodial fund disbursed	13,810
Other Deductions	22,844
Total deductions	36,654
Net decrease in fiduciary net position	(7,482)
Net position, July 1, 2021	31,763
Net position, June 30, 2022	$ 24,281

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

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS

Notes to the Basic Financial Statements

For the Year Ended June 30, 2022

(1) Organization

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

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

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

(2) Summary of Significant Accounting Policies

The financial statements of the Department have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are significant accounting policies.

(a) Financial Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

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

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

(b) Basis of Presentation

The accompanying financial statements of the State of Illinois, Department of Corrections, are intended to present the net position, changes in net position, and cash flows of only that portion of the governmental activities, the major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 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 (State Coronavirus Urgent Remediation Emergency (CURE) 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:

Custodial – 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 State CURE 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 ACFR.

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:

Unexpended Appropriations

This "asset" account represents lapse period expenditure transactions processed by the State Comptroller's Office after June 30 annually in accordance with Statewide Accounting Management System (SAMS) records plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year and voucher, interfund payment, and mandatory SAMS transfer transactions held by the State Comptroller's Office at June 30, 2022.

Appropriations from State Resources

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

Lapsed Appropriations

Lapsed appropriations are the legally adopted appropriations less net warrants issued for the 14 month period from July to August of the following year and re-appropriations to subsequent years according to SAMS records.

Receipts Collected and Transmitted to State Treasury

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

(e) Eliminations

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

(f) Cash and Cash Equivalents

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

(g) Inventories

Inventories, consisting primarily of raw materials, work in process, finished goods, and operating supplies are valued at the lower of cost or market, principally on the first-in, first-out (FIFO) method for commissaries and the moving average cost for general commodities. 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) Leases

The Department is a lessee for non-cancellable leases of equipment and buildings. The Department recognizes a lease liability and an intangible right to use lease asset in the government-wide financial statements. The Department recognizes lease liabilities with an initial, individual value of $25,000 or more. At the commencement of a lease, the Department initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over the shorter of the asset useful life or the lease term.

(k) *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.

(l) *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.

(m) *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 8).

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.

(n) 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 9).

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

(o) 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, 2022: 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, 2022.

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 DOC Resident's and Employee's Benefit Fund had a committed fund balance as of June 30, 2022. 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, 2022.

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, 2022: General Fund, Department of Corrections Reimbursement 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.

(p) 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.”

(q) 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.

(r) Adoption of New Accounting Pronouncements

Effective for the year ending June 30, 2022, the Department adopted 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. The impact of implementing this statement has been disclosed in Note 14.

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) simplify accounting for interest cost incurred before the end of a construction period. The implementation of this statement had no financial impact on the Department’s net position or results of operations.

The portion of 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 related to (a) intra-entity transfers of assets, (b) reporting assets accumulated for defined benefit postemployment benefits provided through plans that are not administered through trusts that meet specified criteria, (c) applicability of certain requirements of Statement No. 84 to postemployment benefit arrangements, (d) exception to acquisition value in a government acquisition and (e) nonrecurring fair value measurements. The implementation of this statement had no financial impact on the Department's net position or results of operations.

The portion of Statement No. 93, *Replacement of Interbank Offered Rates*, which is intended to remove the London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate. The implementation of this statement had no financial impact on the Department's net position or results of operations.

The portion of 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 enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The implementation of this statement had no financial impact on the Department's net position or results of operations.

The portion of GASB Statement No. 99, *Omnibus 2022*, related to extending the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions Statement No. 34, as amended, and terminology updates related to Statement No. 53 and Statement No. 63 were effective upon issuance in April 2022. The implementation of this statement had no financial impact on the Department's net position or results of operations.

(s) Future Adoption of GASB Statements

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. Upon the Department's adoption of Statement No. 95, Postponement of the Effective Dates of Certain Authoritative

Guidance, the effective date of the Statement was delayed for the Department until the fiscal year ended June 30, 2023.

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 portion of Statement No. 99, *Omnibus 2022*, which is intended to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees related to leases, public-private and public-public partnerships, and subscription-based information technology arrangements.

Effective for the year ending June 30, 2024, the Department will adopt the following GASB statements:

The portion of Statement No. 99, *Omnibus 2022*, related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53.

Statement No. 100, *Accounting Changes and Error Corrections*, which is intended to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

Effective for the year ending June 30, 2025, the Department will adopt the following GASB statements:

Statement No. 101, *Compensated Absences*, which is intended to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

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 ACFR.

Cash on deposit for locally held funds had a carrying amount of $47.593 million and bank balance of $51.518 million at June 30, 2022. 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 no deposits at the end of the year that are exposed to custodial credit risk.

(4) Interfund Balances and Activity

(a) Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) at June 30, 2022, represent amounts due from other Department and State funds.

	Due from	
Fund Type	**Other Department Funds**	**Other State Funds**
General (a)	$ 29,266	$ -
Nonmajor governmental (b)	10,504	560
Internal service (c)	-	1
Totals	$ 39,770	$ 561

Description/Purpose

(a) Due from other Department funds for American Rescue Plan Act (ARPA) and travel reimbursement.
(b) Due from other Department funds for commissary profits, commissary salaries, and reimbursements. Due from other State funds for unreimbursed grants expenditures.
(c) Due from other State funds for purchases of goods and services.

The following balances (amounts expressed in thousands) at June 30, 2022, 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)	$ 56	$ 43,051	$ 1,798	$ 3
Nonmajor governmental (b)	39,714	17,295	23	7,407
Internal service (c)	-	9	-	-
Totals	$ 39,770	$ 60,355	$ 1,821	$ 7,410

Description/Purpose

(a) Due to other Department funds for loans from commissary funds and for reimbursements. Due to other State funds for ARPA reimbursement and services provided. Due to Department fiduciary funds for reimbursements of expenditures and accrued inmate payroll. Due to State fiduciary funds for retirement.

(b) Due to other Department funds for ARPA reimbursement, travel reimbursement and commissary profits/salaries. Due to other State funds for unspent COVID-19 and grant proceeds as well as for purchases. Due to Department fiduciary funds for reimbursements of expenditures. Due to State fiduciary funds for retirement.

(c) Due to State funds pursuant to Public Act 92-0357.

(b) Transfers to/from Other Funds

Interfund transfers in (amounts expressed in thousands) for the year ended June 30, 2022, were as follows:

Fund Type	Transfers in from Other Department Funds
Nonmajor governmental (a)	$ 10,623
Totals	$ 10,623

Description/Purpose

(a) Transfers from other Department nonmajor governmental funds for commissary profits and salaries and travel reimbursements. Transfer amount is net of a negative transfer of $10 from other Department general funds to correct for start-up fund activity that will not be returned.

Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2022, were as follows:

Fund Type	Transfers out to Other Department Funds
General Fund (a)	$ (10)
Nonmajor governmental (b)	10,633
Totals	$ 10,623

Description/Purpose

(a) Transfer from other Department general funds to correct for start-up fund activity that will not be returned.

(b) Transfer from 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, 2022, represent amounts due to State of Illinois Component Units for reimbursements for expenses incurred.

	Due to Component Units						
Fund Type	**Northern Illinois University**	**University of Illinois**	**Southern Illinois University**	**Illinois State University**	**Eastern Illinois University**	**Illinois State Toll Highway Authority**	**Total**
General	$ 3	$ 177	$ 693	$ 2	$ 39	$ 1	$ 915
Nonmajor	17	1,752	-	-	-	-	1,769
Totals	$ 20	$ 1,929	$ 693	$ 2	$ 39	$ 1	$ 2,684

(5) Capital Assets

(a) Changes in Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2022, was as follows:

	Balance July 1, 2021, as restated	Additions	Deletions	Net Transfers	Balance June 30, 2022
Capital assets not being depreciated/amortized:					
Land and land improvements	$ 54,986	$ -	$ -	$ -	$ 54,986
Construction in Progress	42,521	-	65	15,607	58,063
Total capital assets not being depreciated/amortized	97,507	-	65	15,607	113,049
Capital assets being depreciated/amortized:					
Site improvements	87,859	27	1	-	87,885
Buildings and building improvements	1,558,810	-	506	16,721	1,575,025
Right-to-use Leases - Buildings	5,855	-	-	-	5,855
Equipment	79,805	6,199	3,155	554	83,403
Right-to-use Leases - Equipment	1,050	2,323	-	-	3,373
Non-internally generated software	103,937	-	-	-	103,937
Total capital assets being depreciated/amortized	1,837,316	8,549	3,662	17,275	1,859,478
Less accumulated depreciation/amortization:					
Site improvements	85,601	928	633	-	85,896
Buildings and building improvements	984,370	20,645	(13,324)	-	1,018,339
Right-to-use Leases - Buildings	-	688	-	-	688
Equipment	71,083	3,171	2,752	535	72,037
Right-to-use Leases - Equipment	-	966	-	-	966
Non-internally generated software	59,845	13,144	-	-	72,989
Total accumulated depreciation/amortization	1,200,899	39,542	(9,939)	535	1,250,915
Total capital assets being depreciated/amortized, net	636,417	(30,993)	13,601	16,740	608,563
Total capital assets, net	$ 733,924	$ (30,993)	$ 13,666	$ 32,347	$ 721,612

Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2022, was charged as follows:

Public protection and justice	$ 39,542

(b) Impairment of Capital Assets

The Department has a closed, idle facility with carrying values of $37.9 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, 2022, were as follows:

	Balance July 1, 2021, as restated	Additions	Deletions / Adjustment	Balance June 30, 2022	Due Within 1 Year
Other long-term obligations:					
Compensated absences	$ 85,271	$ 82,675	$ 88,423	$ 79,523	$ 8,238
Lease obligations	6,906	2,323	1,555	7,674	1,510
Net pension liability – State Employees' Retirement System	7,578,786	-	381,011	7,197,775	-
Other Post-Employment Benefits Liability	7,192,932	-	2,007,934	5,184,998	99,457
Net pension liability – Teachers' Retirement System	10	-	1	9	-
Totals	$ 14,863,905	$ 84,998	$ 2,478,924	$ 12,469,979	$ 109,205

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.

(7) Leases

The Department has entered into various leases for office facilities, equipment, and other right to use assets with remaining lease terms ranging from less than one year to over 8 years. 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 noncancelable leases for financial reporting purposes. The renewal and termination options are not included in the right to use asset or lease liability balance until they are reasonably certain of exercise.

At June 30, 2022, right-to-use assets under leases (amounts expressed in thousands) are as follows:

	Amount
Buildings and building improvements	$ 5,855
Equipment	3,373
	9,228
Less: Accumulated amortization	1,654
	$ 7,574

Future minimum commitments (amounts expressed in thousands) for non-cancelable leases as of June 30, 2022, are as follows:

Year Ending June 30	Principal	Interest
2023	$ 1,510	$ 207
2024	1,210	166
2025	1,123	132
2026	1,131	98
2027	790	69
2028-2032	1,910	75
Total minimum lease payments	$ 7,674	$ 747

(8) 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, 130 special districts, and 10 other State agencies that contribute to the TRS plan as of the measurement date June 30, 2021. 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.

Regular Formula Tier 1	Regular Formula Tier 2
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.	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 2021 rate is $116,740. 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.

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 2022, this amount was $119,892.

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 2022, 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 2022, the employer contribution rate was 56.169%. The Department's contribution amount for fiscal year 2022 was $7.737 million. In addition, the Department recorded $551.339 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, 2022 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 2022, this amount was $119,982. The Department's contribution amount for fiscal year 2022 was less than $1 thousand. In addition, the Department recorded $53 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, 2022, the Department reported a liability of $7.198 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, 2021 (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, 2021. As of the current year measurement date of June 30, 2021, the Department's proportion was 21.7451%, which was an increase of 0.0099% from its proportion measured as of the prior year measurement date of June 30, 2020.

For the year ended June 30, 2022, the Department recognized pension expense of $600.002 million. At June 30, 2022, 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, 2021, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 112,930	$ 6,276
Changes of assumptions	280,181	8,187
Net difference between projected and actual investment earnings on pension plan investments	-	554,794
Changes in proportion	133,965	56,297
Department contributions subsequent to the measurement date	559,076	-
Total	**$ 1,086,152**	**$ 625,554**

$559.076 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, 2023. 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
2023	$ 51,807
2024	12,649
2025	(49,208)
2026	(113,726)
Total	**$ (98,478)**

Teachers' Retirement System

At June 30, 2022, the Department reported a liability of $9 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 $733 thousand. The total net pension liability for the Department's employees participating in TRS was $742 thousand as of the measurement date. The net pension liability was measured as of June 30, 2021 (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, 2020, and rolled forward to June 30, 2021. 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, 2021. At June 30, 2021, the measurement date, the Department's proportionate share was 0.00001121% for the TRS plan, which was a 0.0000000019 % decrease from its proportion measured at the prior year measurement date of June 30, 2020.

For the year ended June 30, 2022, the Department recognized pension expense of $4 thousand. At June 30, 2022, the Department reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2021, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	-	1
Changes in proportion	-	8
Total	**$ -**	**$ 9**

No amount is reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date, and thus no amount will be recognized as a reduction to the net pension liability in the year ended June 30, 2023. 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
2023	$ (5)
2024	(3)
2025	(1)
Total	**$ (9)**

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	06/30/21	06/30/20*
Measurement date	06/30/21	06/30/21
Actuarial cost method	Entry Age	Entry Age
Actuarial assumptions:		
Investment rate of return	6.75%	7.00%
Projected salary increases**	2.75% - 7.17%	3.50% - 8.50%
Inflation rate	2.25%	2.25%
Postretirement benefit increases		
Tier 1	3%, compounded	3%, compounded
Tier 2	Lesser of 3% or ½ of CPI^, on original benefit	1.125% not compounded
Retirement age experience study^^	July 2015 - June 2018	July 2017 - June 2020
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	PubT-2010 adjusted for TRS experience with future mortality improvements on a fully generational basis using projection table MP-2020

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	TRS
Projected salary increases**		4.50% - 9.50%
Inflation rate		2.50%
Postretirement benefit increases Tier 2		1.25%, not compounded
Retirement age experience study^^		July 2014 – June 2017
Mortality^^^		mortality improvements on a fully generational basis using projection table MP-2017

* The total pension liability is based on an actuarial valuation date of June 30, 2020, 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, 2021, 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%	4.8%
Developed Foreign Equity	13%	5.3%
Emerging Market Equity	8%	6.5%
Private Equity	7%	6.8%
Intermediate Investment Grade Bonds	14%	0.4%
Long-term Government Bonds	4%	0.6%
TIPS	4%	0.3%
High Yield and Bank Loans	5%	2.5%
Opportunistic Debt	8%	4.3%
Emerging Market Debt	2%	2.2%
Real Estate	10%	5.6%
Infrastructure	2%	6.5%
Total	100%	

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, 2021, that were used by the actuary are summarized in the following table:

Asset Class	TRS Target Allocation	TRS Long-Term Expected Real Rates of Return
U.S. Equities Large Cap	16.7%	6.20%
U.S. Equities Small/Mid Cap	2.2%	7.38%
International Equities Developed	10.6%	6.93%
Emerging Market Equities	4.5%	9.17%
U.S. Bonds Core	3.0%	1.58%
International Debt Developed	1.0%	0.37%
International Debt Emerging	4.0%	4.38%
Cash Equivalent	2.0%	0.12%
TIPS	1.0%	0.78%
Real Estate	16.0%	5.75%
Hedge Funds (Absolute Return)	10.0%	3.94%
Infrastructure	4.0%	6.29%
Private Equity	15.0%	10.38%
Private Debt	10.0%	6.47%
Total	100.0%	

Discount Rate.

State Employees' Retirement System

A discount rate of 6.20% was used to measure the total pension liability. The June 30, 2021 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 1.92%, 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 plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the statutory contributions and the member rate. 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 2076. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2076, and the municipal bond rate was applied to all benefit payments after that date.

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, based on an index of 20 year general obligation bonds as published by The Bond Buyer, as of the end of the current fiscal year. 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 was projected to be available to make all projected future benefit payments as of June 30, 2021. Therefore, the long-term expected rate of return was applied to all projected periods of projected benefit payments to determine the total pension liability as of June 30, 2021.

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 5.20%	Discount Rate 6.20%	1% Increase 7.20%
Department's Proportionate Share of the SERS Net Pension Liability	$ 8,881,695	$ 7,197,775	$ 5,815,761

	1% Decrease 6.00%	Discount Rate 7.00%	1% Increase 8.00%
Department's Proportionate Share of the TRS Net Pension Liability	$ 11	$ 9	$ 7

Payables to the pension plan. At June 30, 2022 the Department reported a payable of $7.407 million to SERS, for the outstanding amount of contributions to the pension plans required for the year ended June 30, 2022.

(9) 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 8. 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 2022, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $11,363.04 ($6,290.40 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and $13,619.28 ($5,623.44 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, 2022, was measured as of June 30, 2021, with an actuarial valuation as of June 30, 2020. At June 30, 2022, the Department recorded a liability of $5.185 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, 2021. As of the current year measurement date of June 30, 2021, the Department's proportion was 15.0407%, which was a decrease of 2.1514% from its proportion measured as of the prior year measurement date of June 30, 2020.

The Department recognized OPEB expense for the year ended June 30, 2022, of $254.117 million. At June 30, 2022, the Department reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2021, from the following sources (amounts expressed in thousands):

Deferred outflows of resources	
Differences between expected and actual experience	$ 37,873
Changes of Assumptions	117,283
Changes in proportion and differences between Employer contributions and proportionate share of contributions	208,738
Department contributions subsequent to the measurement date	99,458
Total deferred outflows of resources	**$ 463,352**
Deferred inflows of resources	
Differences between expected and actual experience	$ 36,074
Changes of assumptions	1,426,989
Changes in proportion and differences between Employer contributions and proportionate share of contributions	785,336
Total deferred inflows of resources	**$ 2,248,399**

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, 2023. 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
2023	$ 496,181
2024	387,980
2025	476,944
2026	441,809
2027	81,591
Total	**$ 1,884,505**

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, 2020, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2020.

Valuation Date	June 30, 2020
Measurement Date	June 30, 2021
Actuarial Cost Method	Entry Age Normal
Actuarial assumptions:	
Inflation Rate	2.25%
Projected Salary Increases*	2.50% - 12.25%
Healthcare Cost Trend Rate:	
Medical & Rx (Pre-Medicare & Post-Medicare)	8.00% grading down 0.25% per year over 15 years to 4.25% in year 2038. There is no additional trend rate adjustment due to the repeal of the Excise Tax.
Dental and Vision	3.75% grading up 0.25% in the first year to 4.00% through 2038.

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 years 2021 and 2022 are based on actual premiums. Premiums after 2022 were projected based on the same healthcare cost trend rates applied to per capita claim costs.

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

Healthcare Cost Trend Rate:	
Medical and Rx (Pre-Medicare & Post-Medicare)	8.25% grading down 0.25% per year over 16 years to an ultimate trend of 4.25% in the year 2037. There is no additional trend rate adjustment due to the repeal of the Excise Tax.
Dental and Vision	4.00% grading up 0.25% in the first year to 4.25% through 2037.

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

Since the last measurement date on June 30, 2021, the State has not been made any significant changes to the benefit terms affecting the measurement of the collective total OPEB liability. Additionally, the demographic assumptions used in the OPEB valuation are identical to those used in the June 30, 2020 valuations for GARS, JRS, SERS, TRS, and SURS as follows:

	Retirement age experience study^	Mortality^^
GARS	July 2015 – June 2018	Pub-2010 Above-Median Income General Healthy Retiree Mortality tables, sex distinct, scaling factors of 99% for males

	Retirement age experience study^	Mortality^^
		and females and generational mortality improvements using MP-2018 two-dimensional mortality improvement scales
JRS	July 2015 – June 2018	Pub-2010 Above-Median Income General Healthy Retiree Mortality tables, sex distinct, scaling factors of 102% for males and 98% for females and generational mortality improvements using MP-2018 two-dimensional mortality improvement scales
SERS	July 2015 – June 2018	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	July 2014 – June 2017	RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2017
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.
^^ Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.
Demographic assumptions used in OPEB valuation are identical to those used in the June 30, 2020 valuations for Pensions. Thus, for GARS, JRS and SERS, the 2020 valuation information for pensions is presented in the FY 2021 ACFR in FN 16. For TRS and SURS, the 2020 valuation information is presented in the FY 2021 ACFR in FN 16.

Discount rate. Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. A single discount rate of 2.45% at June 30, 2020, and 1.92% at June 30, 2021, 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 1.92%, 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 (2.92%) or lower (0.92%) than the current rate (amounts expressed in thousands):

	1% Decrease 0.92%	Current Single Discount Rate Assumption 1.92%	1% Increase 2.92%
Department's Proportionate Share of the Total OPEB Liability	$ 6,123,445	$ 5,184,998	$ 4,442,489

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 2023 decreasing to an ultimate trend rate of 4.25% in 2038.

	1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
Department's Proportionate Share of the Total OPEB Liability	$ 4,326,719	$ 5,184,998	$ 6,320,716

(10) Fund Balances (Deficits)

(a) Categories

At June 30, 2022, the Department's fund balances (deficits) were classified as follows (amounts expressed in thousands):

	General Fund	Nonmajor Governmental Funds	Total
Nonspendable			
Inventory	$ 42,048	$ 5,492	$ 47,540
Restricted Purposes			
Public Protection and Justice	-	2	2
Committed Purposes			
Public Protection and Justice	-	23,840	23,840
Unassigned	(1,737)	(45,204)	(46,941)
Total fund balances (deficits)/ net position	$ 40,311	$ (15,870)	$ 24,441

(b) Fund Deficits

The Reimbursement Fund (523) and the Commissary Funds, nonmajor governmental funds, had deficit unassigned fund balances (expressed in thousands) of $39,712 and 5,492, respectively, at June 30, 2022.

(11) Risk Management

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

The Department's risk management activities for self-insurance, unemployment insurance and workers' compensation are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the General Fund of the State. The claims are not considered to be a liability of the Department; and accordingly, have not been reported in the Department's financial statements for the year ended June 30, 2022.

(12) Commitments and Contingencies

(a) 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, 2022 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.

(b) 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.

(13) Illinois Correctional Industries (Working Capital Revolving Fund)

During fiscal year 2022, the Department ceased operations in its proprietary fund, Illinois Correctional Industries (Working Capital Revolving Fund). Prior to year-end, all capital assets and inventory were transferred to the Department's General Revenue fund. The fund will formally be closed once the applicable legislation has been passed.

(14) Restatement

The Department's financial statements and footnotes have been restated as of July 1, 2021, due to the following:

(a) Implementation of GASB Statement No. 87, Leases

GASB Statement No. 87, *Leases*, requires 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. Implementation of Statement No. 87 resulted in a restatement to the Department's beginning net position as well as a restatement to certain footnote tables. Note 5, Capital Assets and Note 6, Long-Term Obligations were restated at June 30, 2021 as a result of GASB 87 implementation.

(b) Capitalization of Offender 360

In June 2010, the Department began development of the Offender 360 system (system) to meet the statutory requirements of Public Act 097-0697 to manage the awarding of sentence credits to eligible offenders. Since then, the Department has added additional functionality to Offender 360 in the areas of offender tracking, offense information, security levels, offender personal, and medical information. The Department analyzed financial information to determine the capitalizable portion of the system. It was determined at June 30, 2021, the system's net value was $44.092 million. The capitalization of the system resulted in a restatement to the Department's beginning net position as well as a restatement to the tables included within footnote Note 5, Capital Assets.

(c) Restatement of Capital Asset Calculation

Capital Assets were restated as of June 30, 2021. The capital asset calculation resulted in a restatement to the Department's beginning balances as well as a restatement to the tables included within footnote Note 5, Capital Assets.

Capitalization of Offender 360, restatement of capital asset, and the recognition of leased assets and obligations were restated as follows:

	Net Position (Deficit)	Note 5 – Capital Assets	Note 6 – Long-Term Obligations – Lease Obligations
June 30, 2021, as previously reported	$ (13,396,760)	$ 684,053	$ 1,243
Implementation of GASB 87 (a)			
Right-to-use leased buildings	5,855	5,855	-
Right-to-use leased equipment	(1,524)	(1,524)	-
Accumulated depreciation	1,448	1,448	-
Lease obligations	(5,663)	-	5,663
	116	5,779	5,663
Offender 360 System (b)			
Non-internally generated software	103,776	103,776	-
Accumulated depreciation	(59,684)	(59,684)	-
	44,092	44,092	-
Capital Asset Classification (c)			
Building and building improvements	-	(82,017)	-
Accumulated depreciation – Building and building improvements	-	80,497	-
Site Improvements	-	82,017	-
Accumulated depreciation – Site and site improvements	-	(80,497)	-
	-	-	-
June 30, 2021, as restated	$ (13,352,552)	$ 733,924	$ 6,906

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS
COMBINING SCHEDULE OF ACCOUNTS
GENERAL FUND
JUNE 30, 2022
(Expressed in Thousands)

	Sub-Accounts				
	General Revenue	**State CURE**	**Travel and Allowance Revolving**	**Eliminations**	**Total**
ASSETS					
Unexpended appropriations	$ 167,622	$ -	$ -	$ -	$ 167,622
Cash and cash equivalents	-	-	217	-	217
Due from other Department funds	-	29,242	45	(21)	29,266
Inventories	42,048	-	-	-	42,048
Total assets	$ 209,670	$ 29,242	$ 262	$ (21)	$ 239,153
LIABILITIES					
Accounts payable and accrued liabilities	$ 147,436	$ -	$ 2	$ -	$ 147,438
Due to other Department funds	39	-	38	(21)	56
Due to other State funds	13,809	29,242	-	-	43,051
Due to Department fiduciary funds	1,797	-	1	-	1,798
Due to State fiduciary funds	3		-	-	3
Due to Local government	2,388	-	-	-	2,388
Due to Federal government	3,193	-	-	-	3,193
Due to State of Illinois component units	915	-	-	-	915
Total liabilities	169,580	29,242	41	(21)	198,842
FUND BALANCES (DEFICITS)					
Nonspendable for Inventories	42,048	-	-	-	42,048
Unassigned	(1,958)	-	221	-	(1,737)
Total fund balances (deficits)	40,090	-	221	-	40,311
Total liabilities and fund balances (deficits)	$ 209,670	$ 29,242	$ 262	$ (21)	$ 239,153

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2022
(Expressed in Thousands)

	Sub-Accounts			
	General Revenue	**State CURE**	**Travel and Allowance Revolving**	**Total**
REVENUES				
Federal operating grants	$ 131,541	$ -	$ -	$ 131,541
Other	6,082	-	78	6,160
Other charges for services	680	-	-	680
Total revenues	138,303	-	78	138,381
EXPENDITURES				
Public protection and justice	2,186,948	-	108	2,187,056
Debt service - principal	1,555	-	-	1,555
Debt service - interest	219	-	-	219
Capital outlays	7,366	-	-	7,366
Total expenditures	2,196,088	-	108	2,196,196
Excess (deficiency) of revenues over (under) expenditures	(2,057,785)	-	(30)	(2,057,815)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Appropriations from State resources	2,133,440	-	-	2,133,440
Lapsed appropriations	(71,069)	-	-	(71,069)
Receipts collected and transmitted to State Treasury	(1,448)	-	-	(1,448)
Transfers-out	-	-	10	10
Proceeds from capital lease financing	2,323	-	-	2,323
Net other sources of financial resources	2,063,246	-	10	2,063,256
Net change in fund balances	5,461	-	(20)	5,441
Fund balances, July 1, 2021	4,209	-	241	4,450
Increase for change in inventories	30,420	-	-	30,420
FUND BALANCES, JUNE 30, 2022	$ 40,090	$ -	$ 221	$ 40,311

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2022
(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	$ 48,328	$ -	$ -	$ -	$ 48,328
Cash and cash equivalents	57	6,219	18,088	2	24,366
Other receivables, net of $0 allowance	-	12	-	-	12
Due from other Department funds	4,678	50	5,776	-	10,504
Due from other State funds	560	-	-	-	560
Inventories	-	5,492	-	-	5,492
Total assets	$ 53,623	$ 11,773	$ 23,864	$ 2	$ 89,262
LIABILITIES					
Accounts payable and accrued liabilities	$ 17,812	$ 1,315	$ -	$ -	$ 19,127
Due to other Department funds	29,265	10,448	1	-	39,714
Due to other State funds	17,295	-	-	-	17,295
Due to Department fiduciary funds	-	-	23	-	23
Due to State fiduciary funds	7,407	-	-	-	7,407
Due to Local government	18,779	-	-	-	18,779
Due to Federal government	1,008	-	-	-	1,008
Due to State component units	1,769	-	-	-	1,769
Total liabilities	93,335	11,763	24	-	105,122
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	-	10	-	-	10
Total deferred inflows of resources	-	10	-	-	10
FUND BALANCES (DEFICITS)					
Nonspendable for Inventories	-	5,492	-	-	5,492
Restricted	-	-	-	2	2
Committed	-	-	23,840	-	23,840
Unassigned	(39,712)	(5,492)	-	-	(45,204)
Total fund balances (deficits)	(39,712)	-	23,840	2	(15,870)
Total liabilities, deferred inflows of resources and fund balances (deficits)	$ 53,623	$ 11,773	$ 23,864	$ 2	$ 89,262

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2022
(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	$ 65,153	$ -	$ -	$ -	$ 65,153
Interest and other investment income	-	6	45	-	51
Other	2,451	-	656	-	3,107
Other charges for services	-	52,460	-	-	52,460
Total revenues	67,604	52,466	701	-	120,771
EXPENDITURES					
Public protection and justice	112,100	43,894	5,805	-	161,799
Total expenditures	112,100	43,894	5,805	-	161,799
Excess (deficiency) of revenues over (under) expenditures	(44,496)	8,572	(5,104)	-	(41,028)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Appropriations from State resources	126,995	-	-	-	126,995
Lapsed appropriations	(37,706)	-	-	-	(37,706)
Receipts collected and transmitted to State Treasury	(83,652)	-	-	-	(83,652)
Transfers-in	5,234	-	5,389	-	10,623
Transfers-out	-	(10,633)	-	-	(10,633)
Net other sources (uses) of financial resources	10,871	(10,633)	5,389	-	5,627
Net change in fund balances	(33,625)	(2,061)	285	-	(35,401)
Fund balances (deficits), July 1, 2021	(6,087)	-	23,555	2	17,470
Increase for change in inventories	-	2,061	-	-	2,061
FUND BALANCES (DEFICITS), JUNE 30, 2022	$ (39,712)	$ -	$ 23,840	$ 2	$ (15,870)

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Frank J. Mautino
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each 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, 2022, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and we have issued our report thereon dated June 7, 2023. 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.

Report on 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 as a basis for designing 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 were not identified. However, as described in the accompanying Schedule of Findings as items 2022-001 through 2022-008, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items 2022-001 through 2022-006 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 2022-007 through 2022-008 to be significant deficiencies.

Report on 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Department's Responses to the Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Department's responses to the findings identified in our audit and described in the accompanying Schedule of Findings. The Department's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Restricted Use of this 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 7, 2023

2022-001 **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, 2022 financial statements:

- The Department did not have adequate accounting and review procedures to ensure all liabilities at June 30, 2022 were recorded promptly and accurately. The Department did not accrue liabilities totaling $19 million in the originally submitted GAAP Package to the Comptroller. These additional liabilities were identified as part of the review process by the Comptroller and reflected in the Department's draft financial statements submitted for audit.

- The Department improperly eliminated interdepartmental transfers in and transfers out in the governmental fund financial statements amounting to $10.6 million. Accordingly, the notes to the financial statements did not disclose these significant interfund activities. The Department also failed to eliminate other revenues and other expense transactions between governmental funds amounting to $6 million in the government-wide Statement of Activities.

- Weaknesses in the financial accounting for, and inaccurate and inadequate recordkeeping of, capital assets as discussed in Finding 2022-002 and lack of proper financial reporting over Offender 360 project as discussed in Finding 2022-004 resulted in financial audit adjustments and additional disclosures in the notes to the financial statements.

The Department subsequently adjusted the financial statements to correct the significant errors in eliminating entries and in Finding 2022-002 misstatements and included the required disclosures in the notes to financial statements.

This finding regarding weaknesses in financial reporting was first noted during the Department's Fiscal Year 2008 financial audit. As such, Department management has been unsuccessful in implementing a corrective action plan to remedy this deficiency.

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. The 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 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) provides detailed guidance to State government entities on the proper financial reporting for assets, liabilities, revenues and expenditures. 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.

GASB Statement No. 34 also requires interfund services provided and used and interfund transfers be reported separately in the fund financial statements and to be eliminated in the aggregated government-wide financial statements. GASB Statement No. 38 requires disclosure in the notes to the financial statements for the amounts of transfers, general description of the principal purpose of the interfund transfers and the intended purpose and amounts of significant transfers that do not occur on a routine basis and/or are inconsistent with the activities of the fund making the transfer for the interfund transfers reported in the fund financial statements.

Finally, the Department's management team is responsible for implementing timely corrective action on all of the findings identified during a financial audit.

Department management stated the additional liabilities in the current fiscal year were not identified due to delays in receipt and processing of vendor invoices. Department management further stated the improper and inadequate reporting of interfund transfers and activities was due to oversight. Management attributed financial reporting weaknesses over capital assets and software development to staff shortages, changes and errors.

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. 2022-001, 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 prepare, maintain documentation, and annually re-evaluate a methodology for the calculation and basis of liability estimates when vendor invoices remain outstanding during preparation of financial statements. Lastly, we recommend proper internal reviews be included in financial reporting procedures 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 has been working diligently to correct the weaknesses noted in this finding. To this end, the Department has hired a GAAP Coordinator to oversee the filing of the GAAP packages with the Office of the Comptroller and to coordinate the completion of the Department's financial statements. In addition, the Department has hired two Public Service Administrator 8Cs and is in the process of hiring two more. Furthermore, the Department is awaiting approval from the Department of Central Management Services to hire the chosen candidate for the position of Senior Public Service Administrator to oversee the Accounting and Compliance area.
- The Department would like to point out that although the topic sentence of the finding has been repeated since the Fiscal Year 2008 engagement, the issues noted in the current year finding are significantly different from those noted during the Fiscal Year 2008 and subsequent year's engagements. Over the years, various issues have been identified by the auditors and corrected by the Department. Therefore, the Department believes they have implemented an effective corrective action plan to address the individual items noted in the findings over the years since the Fiscal Year 2008 engagement.

AUDITOR'S COMMENT

Since 2008, we have consistently continued to identify weaknesses in the Department's preparation of GAAP reporting forms and year-end Department financial statements and schedules. The financial reporting errors identified, if not detected by the auditors and corrected by the Department, could have materially misstated the Department's financial statements, and negatively impacted the State-wide financial statements. As a result, although the Department has resolved a number of specific financial reporting errors since 2008, the Department has not been successful in ensuring accurate financial reporting.

2022-002 **<u>FINDING</u>** (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 assets and noted management did not take all reasonable steps to implement appropriate 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 numerous 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, capital assets reporting to the Office of Comptroller and financial reporting:

- The Department did not update its property records accurately and timely. We noted additions totaling $935,757 and Capital Development Board (CDB) capitalized transfers from 116 projects totaling $116,817,154 dating back to Fiscal Year 2011 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 $294,822.

  The Illinois Administrative Code (44 Ill. Admin. Code 5010.400) requires agencies to adjust property records within 90 days of acquisition, change, or deletion of equipment items.

- The Department did not record in the ERP system capital assets totaling $16,667,148, and related accumulated depreciation, totaling $250,007, for a CDB Project for the Joliet Treatment Center transferred from the Department of Juvenile Justice in Fiscal Year 2018.

  These capital assets were included in the manual capital asset schedule for capital assets reporting, but the following errors were noted for these assets:

  - The asset cost used in the schedule was understated by $91,062.
  - The start date of depreciation in the schedule was June 30, 2019 instead of the acquisition date of October 14, 2017.

- Fiscal Year 2022 depreciation and beginning accumulated depreciation adjustments were reported as Fiscal Year 2022 loss on disposal.

Accordingly, beginning accumulated depreciation was understated by $2,800,129, Fiscal Year 2022 depreciation expense was understated by $833,357, loss on disposal was overstated by $2,161,452 and the net book value as of June 30, 2022 was overstated by $1,380,972.

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 use the default useful life in ERP for various asset classes and therefore did not utilize the depreciation calculation in ERP. There are approximately 176,690 asset items recorded in ERP for which the Department had to manually calculate the depreciation and accumulated depreciation amounts.

- 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 beginning values of capital asset costs and accumulated depreciation were inaccurately reflected in the current year calculations and capital asset transactions were inaccurately summarized, causing capital asset costs to be understated by $1,734,070, depreciation to be understated by $4,282,871, loss on disposal to be understated by $140,327, beginning accumulated depreciation to be understated by $1,353,723 and beginning net position to be understated by $4,803,545.
    - Depreciation was improperly and inaccurately calculated for various asset items causing Fiscal Year 2022 depreciation to be understated by $3,574,164.
    - The Department incorrectly calculated depreciation on capitalized CDB projects based on the last quarterly transfer date instead of the project's substantial completion date. We also noted multiple start dates of depreciation for the same CDB project. This caused the depreciation expense to be overstated by $295,208.
    - Site improvements totaling $86,797,097 with accumulated depreciation as of June 30, 2022 of $85,694,631 were inaccurately reported as Building Improvements.
    - Building improvements totaling $4,780,367 with accumulated depreciation as of June 30, 2022 of $4,374,060 were inaccurately reported as Site Improvements.
    - Assets transferred out or demolished in prior years totaling $1,279,793 were still included as capital assets and reported with a net book value of $174,941 as of June 30, 2022.
    - A CDB Project for demolition of buildings totaling $3,702,033 was erroneously capitalized rather than expensed.

- Impairment adjustments totaling $950,983 to reduce land costs by $926,857 and to reduce net book value of impaired buildings and building improvements to zero for assets determined to be impaired in prior years were not reflected in the capital asset balances.

The Department subsequently adjusted the financial statements to correct the significant 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 (Procedure 03.30.40) on capital asset and depreciation expense reporting states the net cost of capital assets should be depreciated over their estimated useful lives and indicates the date the asset was placed in service should be considered to calculate depreciation on the capital asset.

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 limitations including lack of staffing in the property control area, competing priorities including the COVID-19 lockdowns and quarantines, data entry errors, learning the new ERP system, and employee oversight.

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 $1.9 billion as of June 30, 2022. 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. 2022-002, 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 complete, 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

- o Recommendation accepted.
- o The Department has been working diligently to maintain resources in the property control area to adequately update records. This is historically an area of high turnover for the Department. The manually tracked assets were included in the Department's GAAP packages when submitted to the Office of the Comptroller for inclusion in the State's Annual Comprehensive Financial Report. In addition, these amounts were also included in the Department's financial statements when prepared.
- o The Department would like to point out that although the topic sentence of the finding has been repeated since the Fiscal Year 2008 engagement, the issues noted in the current year finding are significantly different from those noted during the Fiscal Year 2008 and subsequent year's engagements. Over the years, various issues have been identified by the auditors and corrected by the Department. In fact, the Department is currently utilizing an entirely different fixed asset recordkeeping system than what was utilized for this purpose in Fiscal Year 2008. Therefore, the Department believes they have implemented an effective corrective action plan to address the individual items noted in the findings over the years since the Fiscal Year 2008 engagement.

AUDITOR’S COMMENT

Although the Department has implemented a different property system since 2008, the concerns reported 16 years ago continue to exist: improper recording of CDB transfers, depreciation misstatements, and insufficient support for reported capital asset amounts. Despite the Department’s progress on some individual exceptions over the years, weaknesses persist in the Department’s process for financial accounting for and reporting of capital assets.

2022-003 **<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 2012, 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.

As part of our audit, we requested the Department provide populations of users with access to the Department's application systems as of June 30, 2022, terminated users, and users transferred from one department to another during the fiscal year in order to determine if access was appropriate, properly approved and timely disabled. However, the Department did not provide the requested populations and provided only a user access report as of November 17, 2022.

Due to these conditions, we were unable to conclude the Department's populations 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 § 205.36). Even given the population limitations noted above, which hindered our ability to conclude whether the population was complete, we performed testing of the information provided.

During testing, we noted the Department:

- Did not have adequate and complete documentation of user access request and approval forms for 6 of 25 (24%) users to ensure appropriateness of access rights as well as timeliness of approvals and terminations of access.
- Had not performed a periodic review of user access to its applications.

In addition, the Department had not developed a disaster recovery plan or conducted testing.

Lastly, the Department had not developed a formal change management process or an effective mechanism to control changes to its environment and applications. In addition, it was noted programmers had access to the production environment.

The *Contingency Planning Guide for Information Technology Systems* published by the National Institute of Standards and Technology requires entities to have an updated and regularly tested disaster contingency plan to ensure the timely recovery of applications and data.

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.

The Framework for Improving Critical Infrastructure and 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, Configuration Management and System and Services Acquisition sections, requires entities to document the control over changes to applications and data to ensure changes are authorized and reviewed and ensure proper segregation of duties.

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 funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation and to maintain accountability over the State's resources.

Department management indicated the exceptions were due to the turnover in the Chief Information Officer role and lack of resources which hindered the development of a disaster recovery plan and also significantly hampered the ability of the Department to implement a change management process and maintain proper segregation of duties. In addition, Department management indicated the lack of resources and the sheer volume of users of the Department's applications severely hindered the ability to effectively review the access to applications for every individual employed or contracted with the Department on even an annual basis. Department management indicated the user access report is only available as of the date generated and they did not keep a file of the populations as of and for the period ended June 30, 2022.

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. 2022-003, 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.
- The computer systems used by the Department were not designed to track a historical population of new users, terminated users, and users who were transferred from one facility or unit to another within the Department.

- The Department has refined and implemented processes, although not documented in a formal policy, for giving access to the systems and revoking access via an Electronic Service Request (ESR) Form.
- The employees whose forms were missing began employment with the Department prior to the implementation of the ESR system for provisioning, deprovisioning, and changing application access.
- The client server applications that are resident on the DoIT tenant have been part of the DoIT data center failover and failback tests. These tests have been initiated, monitored, and reported on by DoIT Enterprise Services.
- The Department is working with DoIT to add up to 30 additional staff to the Information Technology unit.

2022-004 **<u>FINDING</u>** (Lack of proper financial reporting over Offender 360 project)

The Department of Corrections (Department) 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 twelve 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 audit, 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 audit, we continued to identify weaknesses in financial reporting of cumulative software application development costs incurred and noted management has been unsuccessful in implementing corrective action to remedy this deficiency.

The Department adjusted its books to record total internally generated software costs of $103,775,797 and accumulated amortization costs of $59,683,728 as a prior period adjustment in the Fiscal Year 2022 financial statements and amortization costs of $13,144,538 for the current fiscal year. We noted the following:

- The Department recorded and capitalized the full project costs as of June 30, 2021 of $103,775,797 provided by the Department, which included subscriptions for licenses totaling $28,285,839 and vendor support and Department staffing costs of $75,489,958.

    - The Department had not maintained sufficient records to determine the project development costs related to the Offender 360 project, including costs of the Youth 360 system for the Department of Juvenile Justice. 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 $75,489,958 of vendor support and Department staffing costs could not be broken down in any reliable manner to determine the proper amount of development costs to be capitalized. The Department also had not maintained detailed time records for staff involvement in development tasks.
    - The Department recorded and capitalized subscriptions for licenses that were not considered development costs and therefore should not have been capitalized.

- The Department calculated amortization on the capitalized costs based on the original date the costs were incurred and did not consider the development stages completed to start amortization from the time the system went live or when the modifications were deployed. As a result, accumulated amortization, calculated by the Department totaling $72,828,266 as of June 30, 2022 was overstated by an unknown amount.

- The Department identified $7,359,021 overpayments to the vendor in Fiscal Year 2020 and entered into a spend-down agreement with the vendor to apply the credit balance to future infrastructure stabilization and maintenance services. The Department properly reduced the amount capitalized by this amount. However, in calculating the amortization adjustment, this amount was recorded by the Department as a full reduction of the accumulated amortization cost as of June 30, 2021 rather than the applicable year to which this credit applied. Accordingly, the Department calculated amortization based on the reduced costs, which caused the beginning accumulated amortization costs to be understated and current year amortization costs to be overstated by unknown amounts.

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. 51 – *Accounting and Financial Reporting for Intangible Assets* requires specific conditions to be met for the development cycle of computer software before the outlays can be capitalized. This Statement specifies outlays should be grouped into the preliminary project stage, application development stage and post-implementation/operation stage, but only outlays incurred for activities during the application development stage should be capitalized.

The SAMS Manual (Procedure 03.30.40) on capital asset and depreciation expense reporting states the net cost of capital assets should be depreciated over their estimated useful lives and the date the asset was placed in service should be considered to calculate depreciation on the capital asset.

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.

Finally, the Department's management team is responsible for implementing timely corrective action on all of the findings identified during a financial audit.

Department management stated staffing changes contributed to the lapse in monitoring expenditures for these projects. Department management also stated a substantial number of hours had been spent trying to determine whether the development costs could be identified, and management concluded there was no benefit in spending more time evaluating invoices and determining an unreliable estimate of capitalizable and noncapitalizable costs. Thus, the Department capitalized the full project costs without consideration of non-development costs, calculated amortization costs based on the date the original costs were incurred and recorded the overpayment as a reduction of the accumulated amortization to avoid incurring additional time and effort and still recognize the transaction in the Department's financial statements.

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 track and account for costs incurred related to 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 can not been determined. Accordingly, the auditor's opinion on the financial statements of governmental activities was qualified. This qualification will continue until the capitalized 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. 2022-004, 2020-004, 2018-010, 2016-010, 2014-018)

RECOMMENDATION

We recommend the Department assign and train responsible staff and implement internal controls to ensure the costs related to future internally developed software are adequately tracked by development stage and project, analyzed for accurate calculation of costs to be capitalized and amortized, and accurately recorded in the financial statements.

DEPARTMENT RESPONSE

- Recommendation accepted.
- Responsible staff within the Department are ensuring development costs are adequately tracked by development stage and project, analyzed for accurate calculation of costs to be capitalized and amortized and accurately recorded in the financial statements.

2022-005 <u>**FINDING**</u> (Inadequate internal controls over census data)

The Department of Corrections (Department) did not properly reconcile and adequately document its reconciliation process to provide assurance census data submitted to its 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 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. CMS' actuaries use SERS' census data records to prepare the OPEB actuarial valuation.

During testing, the Department provided the data file received from SERS and a listing of employees maintained by the Department, which indicated 12,556 and 12,626 employees, respectively. The Department was unable to provide adequate documentation to support the reconciliation between both data sets to isolate the details of employees not found in each of the data sets and the disposition of the differences to properly establish completeness.

As part of the reconciliation process, the Department indicated each employee received an email with a copy of the form sent via a secured email to verify accuracy of their data. However, the Department indicated they did not receive responses from all employees and no documentation was provided to the auditors on the details of the employees that did not respond and how the Department established accuracy of the data for these employees. As a result, we were unable to obtain assurance the Department had properly performed a complete initial reconciliation of its census data recorded by SERS to its internal records to establish a base year of complete and accurate census data.

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 staff did not understand the census data reconciliation required the Department to verify the SERS file included all active employees. Management further stated some employees failed to return the forms verifying their census data information even after several attempts by the Human Resources Department staff to collect them.

Failure to ensure census data was complete and accurate 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. 2022-005, 2020-005)

RECOMMENDATION

We recommend the Department ensure complete reconciliation of its active members' census data from its underlying records to the SERS report of census data submitted to the plan's actuary to provide assurance census data submitted to the pension plan was complete and accurate. We further recommend the Department re-evaluate the data for the base year ended June 30, 2021 to identify any instances where data discrepancies may still exist and work with SERS to correct all such unresolved errors in the full reconciliation of Department and SERS records.

DEPARTMENT RESPONSE

- Recommendation accepted.
- The difference in the number of employees identified by State Employee Retirement System (SERS) and the number identified by the Department for the Fiscal Year 2021 is a total of 70 (0.56%) employees, which represents less than 1% of the population provided by SERS. The census data reconciliation instructions

that were provided by SERS on July 1, 2021, instructed the Department to verify the census data contained within a file provided by SERS on August 1, 2021, against Department records to determine the accuracy of the information. There was no mention in the instructions that the Department should compare the file received from SERS to the Department's payroll records to determine the SERS file contained all the employees eligible for retirement.

- The Department will work to complete the base year reconciliation of the employee census data.

AUDITOR'S COMMENT

The Department argues that SERS' "Annual Census Data Reconciliation Guidance" (Guidance) did not specifically state they should reconcile Department and SERS data. However, the requirement to agree Department and SERS records is implicit in the definition of reconciliation, which means ensuring two sets of records are in agreement. The Guidance also required Department staff to verify, for each employee in service on June 30, 2021, that the employee's personnel file contents matched the SERS census data extract provided and the Department's personnel and payroll systems. Further, reconciliation and documentation requirements were also communicated in the Finding 2020-005 and in meetings with the Department.

2022-006 **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. In response to our request, the Department identified fourteen service providers; however, they did not ensure the population was complete and accurate.

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 five service providers.

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 5 (100%) service providers.
- Conducted an analysis of the SOC reports to determine the impact of the modified opinion(s) or 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 2 of 4 (50%) 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 the service providers of the Department.

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.

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. 2022-006, 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 is in the process of training Department management on the performance of SOC report reviews for service providers. In addition, the Department is working to develop a system for identifying providers of services to the Department.

2022-007 **<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 2021	Fiscal Year 2022
DOC Commissary Funds	$ 10,092,595	$ 6,218,836
DOC Resident's Trust Fund	$ 30,813,682	$ 23,067,277
DOC Resident's and Employee's Benefit Fund	$ 18,466,520	$ 18,088,388
Travel and Allowance Revolving Fund	$ 269,336	$ 217,014
Moms and Babies Fund	$ 2,189	$ 2,189

During the current examination, we continued to identify weaknesses regarding the Department's administration and controls over locally held funds and noted management was unsuccessful in implementing corrective actions to remedy all deficiencies noted and 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 (Danville, Graham and Pontiac) were not able to provide the Resident Trial Balance for the Resident Trust Fund as of June 30, 2021. As a result, we were unable to conclude whether the correctional center's population records were sufficiently precise and complete under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AU-C § 330, AU-C § 530, AT-C § 205.36) to test the correctional center's resident account balances and wire transfers.

- Two (7%) correctional centers (Decatur and Pontiac) were not able to provide a complete listing of outstanding invoices comprising the Resident Commissary Fund accounts payable balance of $6,103 and $5,408, for Fiscal Years 2021 and 2022, respectively. As a result, auditors were unable to conclude the correctional centers' 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 § 205.36) to test the Resident Commissary Fund accounts payable. Also, the auditors were not able to determine if accounts payables for the Resident Commissary Fund were properly reported for Fiscal Years 2021 and 2022 for these correctional centers.

- Three (11%) correctional centers (Big Muddy, Shawnee, and Joliet Treatment Center) did not correct errors, totaling $9,694 and $5,167, in DOC Commissary Funds accounts payable during Fiscal Years 2021 and 2022, respectively.

- One (4%) correctional center (Western Illinois) improperly handled negative account balances for the Resident Trust Fund. Five of 11 (45%) negative account balances tested were due to inappropriately applied payroll adjustments. Additionally, for 2 of 11 (18%) negative account balances tested, the center failed to transfer to the receiving Facility the restricted account balances of individuals who were transferred during Fiscal Year 2022.

- Five (19%) correctional centers (Danville, Lincoln, Logan, Vandalia, and Vienna) understated DOC Commissary Funds accounts payable by a total of $37,429 and $559, as of the end of Fiscal Years 2021 and 2022, 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.

Administrative Directive (A.D.) (02.42.106) states when an individual in custody is transferred to another facility, the individual in custody's trust fund account balance shall also be transferred.

The Statewide Accounting Management System (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.

- 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 2021			
Crossroads	$ (12,528)	$ (3,696)	$ (4,726)
North Lawndale	18	(3,555)	(3,641)
	$ (12,510)	$ (7,251)	$ (8,367)
Fiscal Year 2022			
Crossroads	$ (12,467)	$ (9,510)	$ (9,571)
North Lawndale	880	(4,691)	(5,465)
	$ (11,587)	$ (14,201)	$ (15,036)

The SAMS Manual (Procedure 02.50.20) states agencies should establish control objectives and control techniques for fiduciary and trust funds to ensure detailed subsidiary records are maintained and are periodically reconciled to control accounts. In addition, 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 650 receipts at 27 correctional centers, 40 receipts at the ATCs, and 85 receipts at Central Office and noted the following exceptions:

  - 30 of 775 (4%) locally held funds receipts tested, totaling $1,094,389, were deposited between 1 and 105 days late during Fiscal Years 2021 and 2022. This condition was noted at Dixon, Lincoln, Pontiac, Stateville, Taylorville, and Western Correctional Centers, Kewanee Life Skills Re-entry Center, Joliet Treatment Center, and at Central Office.

  - 26 of 775 (3%) locally held funds receipts tested, totaling $218,435, lacked documentation of receipt date at Danville, Hill, Lincoln, Logan, and Western Illinois Correctional Centers, while documentation of a deposit slip was missing at Graham Correctional Center. Therefore, these centers could not demonstrate receipts were timely deposited as required.

A.D. (02.40.110) states 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.

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

- For 30 of 775 (4%) locally held funds receipts tested, totaling \$107,460 and \$184,218, during Fiscal Years 2021 and 2022, respectively, mailroom staff did not enter receipts directly into the Fund Accounting and Commissary Trading System (FACTS), nor did they prepare a money receipt list as required. Instead, incoming trust fund checks were handled by two to three staff prior to Trust Fund Officer entry into FACTS. This condition was noted at Dixon, Hill, and Illinois River Correctional Centers.

A.D. (02.42.102) states that the mailroom shall restrictively endorse all checks and shall record the amount received in each envelope in FACTS. Additionally, the mailroom shall create a money receipt list.

Sound internal controls require all funds received should be recorded upon initial receipt to limit the risk of loss or theft posed by multiple individuals having access to receipts prior to recording.

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

  - The auditors noted 20 of 316 (6%) 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 20 bank reconciliations were missing 20 of 63 (32%) required signatures. These conditions were noted at Big Muddy, Centralia, and Lincoln Correctional Centers, Fox Valley ATC, Kewanee Life Skills Re-entry Center and at Central Office.

  - Three (11%) correctional centers failed to timely void checks that had been outstanding for more than three months for the Employee's Commissary Fund amounting to \$4,131 during Fiscal Year 2021 and for the Resident Trust Fund amounting to \$440 during Fiscal Year 2022. The checks were voided 189 to 645 days late. The exceptions occurred at Danville (one instance, totaling \$1,893), Hill (four instances, totaling \$440), and Pinckneyville (one instance, totaling \$2,238).

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) states upon receipt of the bank statement for each checking account, the bank statement shall be reconciled with the General Ledger. The person completing the reconciliation and the Business Administrator shall sign the completed reconciliation documentation. The A.D. also states the Chief Administrative Officer shall ensure the funds and accounts are reconciled. 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 6 (19%) facilities lacked sufficient segregation of duties over commissary fund duties at Danville, Hill, Pontiac, Robinson, and Western Illinois Correctional Centers, over the trust fund duties at Hill and Pontiac Correctional Centers and Fox Valley ATC, and over the employee benefit fund duties at Pontiac Correctional Center. 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%) facilities as follows:

  - Western Illinois Correctional Center failed to provide a DOC Employee Commissary Fund signature card for one of the signatories in 1 of 5 (20%) disbursements tested, totaling $333 during Fiscal Year 2022.

  - Robinson Correctional Center was unable to provide support that signature cards were updated timely during the examination period. We noted two employees who left during Fiscal Year 2021 with no revocation forms provided, one who left during Fiscal Year 2022 with no revocation form provided, and two who remain at the Center, but no longer appear as authorized signers. As a result, we were unable to determine from the documentation provided when those individuals were removed from signature cards.

  - Taylorville Correctional Center did not update the bank signature cards of three employees in a timely manner, which is considered 30 days after the employee's departure.

  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.

- 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 2021 and 2022 for 27 centers and noted the following:

- 12 (44%) centers were unable to provide complete documentation of DOC 0075 forms for the Resident's Commissary Fund and the Employee's Commissary Fund for Fiscal Years 2021 and 2022. This condition was noted at Danville, Decatur, East Moline, Graham, Lincoln, Logan, Pontiac, Robinson, Taylorville, Vandalia, and Vienna Correctional Centers and Joliet Treatment Center. 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.

- 39 of 108 (36%) required DOC 0075 forms submitted by Dixon, Lincoln, Logan, Pontiac, and Taylorville Correctional Centers were not reviewed or approved timely or at all by the center's Business Administrator during Fiscal Year 2021. Further, 19 of 84 (23%) required DOC 0075 forms submitted by Dixon, East Moline, Pontiac, and Taylorville Correctional Centers and Joliet Treatment Center were not reviewed or approved timely or at all by the center's Business Administrator during Fiscal Year 2022.

- Danville and Lincoln Correctional Centers did not complete the DOC 0075 timely for 17 of 36 (47%) forms tested during Fiscal Year 2021 and 12 of 36 (33%) forms tested during Fiscal Year 2022. The forms were completed between 1 and 118 days late.

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. In addition, reconciling items should be investigated immediately and adjustments made to the general ledger.

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) states "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."

- Logan and Pontiac Correctional Centers did not provide adequate training to employees related to the Employee Benefit Fund during the examination period.

  A.D. (02.45.101) states that training shall be required for all staff serving as members of the Central Committee or any local Committee.

- During our IRS Form 1099-MISC (1099 forms) testing at the ATCs, we noted at Crossroads and North Lawndale ATCs, 7 of 23 (30%) 1099 forms reported earnings that did not agree to the Resident general ledger, noting a net difference of $500.

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

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 management and employee oversight, employee shortages, turnover and insufficient training of new staff, failure to follow established policies and procedures, documents misplaced or not printed on a specific date, failure to date stamp receipts when received, data entry errors, software glitches, 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. (Finding Code No. 2022-007, 2020-006, 2018-004, 2016-004, 2014-004, 12-04, 10-07, 08-08)

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 would like to point out that although the topic sentence of the finding has been repeated since the Fiscal Year 2008 engagement, the issues noted in the current year finding are significantly different from those noted during the Fiscal Year 2008 and subsequent year's engagements. Over the years, various issues have been identified by the auditors and corrected by the Department. Therefore, the Department believes they have implemented an effective corrective action plan to address the individual items noted in the findings over the years since the Fiscal Year 2008 engagement.
- The Department is reviewing internal policies and will provide ongoing guidance to staff in an effort to remedy the issues noted during the audit. The Department would like to note that COVID-19 pandemic mandated quarantines heavily impacted the facilities during the audit period with staff out of the office or handling other facility duties.

AUDITOR'S COMMENT

The Department has made progress in addressing a number of specific exceptions over locally held funds since the Department's Fiscal Year 2008 financial audit. However, internal control weaknesses continue to exist regarding the Department's administration and controls over locally held funds.

2022-008 **<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, 2022 totaled $47.5 million. Each correctional center (center) maintained at least a portion of that inventory balance with commodity and/or commissary inventory totaling $42.5 million.

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. This finding was first noted during the examination for the period ended June 30, 2008. As such, Department management has been unsuccessful in implementing sufficient corrective action to resolve these inventory internal control weaknesses.

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

- During the examination period, Stateville Correctional Center staff were not able to enter into the new accounting system commodity inventory items received or issued for extended periods of time during Fiscal Year 2021 and 2022. As a result, the center failed to provide a complete and accurate population of items held in inventory on June 30, 2021, and 2022. Additionally, the center failed to provide a complete and accurate population of items received and issued during the entire examination period. Due to these conditions, the center's population records for inventory of its commodity warehouse were not 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 § 205.36). The Center reported inventory totaling $1,078,286.

- Nonetheless, we tested a sample of 5 issuance reports prepared by the commodities warehouse prior to June 30, 2022 and noted 4 (80%) were not entered into inventory records prior to the fiscal year end at Stateville Correctional Center. Additionally, none of the 5 issuance reports included information as to the amount issued or the value of the goods issued; thus, the auditor was unable to calculate the inventory overstatement related to the issuance reports tested.

- 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 understatement of $7,606 and a net overstatement of $3,067 at June 30, 2022 and 2021, respectively. These conditions were noted at Big Muddy River, East Moline, Graham, Pontiac, Shawnee, Stateville, and Western Correctional Centers.

- Supporting documentation did not properly trace to inventory reports for 6 of 78 (8%) items tested in Fiscal Year 2021 and for 7 of 244 (3%) items tested in Fiscal Year 2022. Furthermore, 6 of 244 (2%) items tested on the final inventory report did not properly trace to other inventory records. These conditions were noted at Pontiac, Stateville, and Western Correctional Centers.

- For 4 of 30 (13%) inventory items tested, documentation was not sufficient to support the value recorded on inventory reports at Centralia Correctional Center.

- Inventory records were unreliable at East Moline Correctional Center based on the information and supporting documentation provided. We noted seven of 265 (3%) commodity items and one of 257 (1%) inmate commissary items on the center's inventory records which did not have an assigned dollar value. The Center reported commodity and inmate commissary inventory totaling $492,550 and $180,678 at June 30, 2022, respectively.

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

  The Professional Standards promulgated by the American Institute of Certified Public Accountants (AU-C § 330, AU-C§ 530, AT-C § 205.36) state that when using information produced by the entity, practitioners should evaluate whether the information is sufficiently reliable for the practitioner's purposes, including, as necessary, obtaining evidence about the accuracy and completeness of the information and evaluating whether the information is sufficiently precise and detailed for the practitioner's purposes.

- We tested 146 and 74 inventory items with inventory balances exceeding $5,000 as of June 30, 2022 and June 30, 2021, respectively, at 11 centers for overstocking and noted Stateville Correctional Center was holding more than one year's supply of inventory for 12 (8%) items and 8 (11%) items, respectively, amounting to excess amounts of $463,247 and $576,061.

- East Moline Correctional Center did not properly document and enter commodity inventory information into the accounting system until May of 2022. As a result, the center was unable to verify whether commodity items were being held for more than one year's supply of inventory for 12 of 12 (100%) commodity items selected for testing, totaling $82,759, per the center's final commodity inventory records as of June 30, 2022.

  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 list for Fiscal Year 2021 for 2 of 21 (10%) employee commissaries (Hill and Lawrence Correctional Centers) and 1 of 27 (4%) resident commissaries (Logan Correctional Center) was not provided. In addition, the selling price list for Fiscal Year 2022 for 1 of 21 (5%) employee commissaries (Logan Correctional Center) was missing one item. 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 198 Employee Commissary inventory items and noted 15 (8%) were priced 0.71% to 104% over the allowed markup at Centralia, Illinois River, Lawrence, Lincoln, and Western Illinois Correctional Centers.

- Two of 198 (1%) Employee Commissary items tested at centers were priced between 3% and 55% below the actual cost of the item at East Moline and Illinois River Correctional Centers during the audit period.

  The Unified Code of Corrections (730 ILCS 5/3-7-2a) states the selling price for goods sold in the inmate commissary and employee commissary shall be sufficient to cover the costs of the goods and an additional charge of up to 25% and 10%, respectively, for non-tobacco products.

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

- During observation and touring of the facility, we noted the inventory areas were not properly maintained at Pontiac and Stateville Correctional Center to facilitate accurate inventory counts.

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 Statewide Accounting Management System 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 employee turnover and shortages, insufficient training of new staff, software glitches, miscommunications, delayed vendor completion of building repairs, delayed vendor replacement due to ineffective product, and 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. 2022-008, 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 would like to point out that although the topic sentence of the finding has been repeated since the Fiscal Year 2008 engagement, the issues noted in the current year finding are significantly different from those noted during the Fiscal Year 2008 and subsequent year's engagements. Over the years, various issues have been identified by the auditors and corrected by the Department. Therefore, the Department believes they have implemented an effective corrective action plan to address the individual items noted in the findings over the years since the Fiscal Year 2008 engagement.

- The new ERP system for commodity inventory was implemented a little over six months prior to the current audit period. There was a learning curve for staff to become familiar with the system.
- In addition, the COVID-19 pandemic mandated quarantines and supply chain issues heavily impacted the inventory area of the Department's correctional centers.
- The Department is reviewing internal policies and will provide ongoing guidance to staff in an effort to remedy the issues noted during the audit.

AUDITOR'S COMMENT

Despite the Department's corrective actions taken since 2008, we continued to identify weaknesses in the Department's internal controls over inventory, which indicates measures taken have not been sufficient to prevent accounting and recordkeeping errors.