

REPORT DIGEST

MEDICAL DISTRICT COMMISSION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

For the Two Years Ended
June 30, 2004

Summary of Findings:

Total this audit	10
Total last audit	6
Repeated from last audit	4

Release Date:
March 31, 2005



State of Illinois
Office of the Auditor General
WILLIAM G. HOLLAND
AUDITOR GENERAL

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SYNOPSIS

- ◆ The Illinois Medical District Commission made payments for efficiency initiative billings without documentation of the nature or amount of savings the Commission had realized. Efficiency initiative payments totaled \$38,395 during Fiscal Year 2004.
- ◆ The Commission failed to record and report certain capital expenditures on its property records, its Agency Report of State Property, and on its year-end accounting reports.
- ◆ The Commission did not have adequate controls to ensure that accounts payable and notes receivable were properly recorded.
- ◆ The Commission's property control records and its reporting of State property were inaccurate.
- ◆ The Commission's controls over travel expenditures were inadequate.

{Financial Information is summarized on the reverse page.}

MEDICAL DISTRICT COMMISISON
FINANCIAL AND COMPLIANCE AUDIT EXAMINATON
For The Two Years Ended June 30, 2004

EXPENDITURE STATISTICS	FY 2004	FY 2003	FY 2002
• Total Expenditures (All Appropriated Funds) ..	\$3,719,433	\$5,427,365	\$5,019,412
% of Total Expenditures	100%	100%	100%
Personal Services	-----	\$ 315,323	\$ 298,080
% of Total Expenditures		5.8%	5.9%
Other Payroll Costs (FICA, Retirement)	-----	67,603	\$63,699
% of Total Expenditures		1.2%	1.3%
Contractual Services	-----	\$243,034	\$279,982
% of Total Expenditures		4.5%	5.6%
Operation/Development of Chicago Technology Park	-----	\$116,882	\$116,719
% of Total Expenditures		2.2%	2.3%
Ordinary and Contingent Expenses	\$494,732	-----	-----
% of Total Expenditures	13.3%		
Property Acquisition/Demolition/Improvements ..	\$3,224,701	\$4,684,523	\$4,260,932
% of Total Expenditures	86.7%	86.3%	84.9%
• Cost of Property and Equipment	\$33,361,350	\$33,797,851	\$30,095,996
• Employees*	24	24	28
*Note: Includes contractual employees and employees paid from locally held funds.			
LOCALLY HELD FUND STATISTICS	FY 2004	FY 2003	FY 2002
• Revenues.....	\$14,386,310	\$5,296,998	\$2,466,772
• Expenditures	\$ 6,437,360	\$3,585,586	\$2,443,469
• Fund Balance as of June 30	\$11,665,926	\$3,629,076	\$2,343
EXECUTIVE DIRECTOR(S)			
During Audit Period: Thomas Livingston (7/1/02 TO 7/15/03); George Davis (7/16/03 – 2/29/04), Interim Executive Director; Samuel Pruett (3/1/04 – 6/30/04)			
Currently: Samuel Pruett			

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**PAYMENTS WERE MADE FOR EFFICIENCY
INITIATIVE BILLINGS WITHOUT
DOCUMENTATION OF THE NATURE OR AMOUNT
OF SAVINGS**

The Illinois Medical District Commission made savings payments for efficiency initiative billings without documentation of the nature or amount of savings that the Commission had realized. The payments resulted in revenue shortfalls that the Commission had to cover using a locally held fund.

The State Finance Act outlines a program for efficiency initiatives to reorganize, restructure and reengineer the business process of the State. It details that the amount designated as savings from efficiency initiatives implemented by the Department of Central Management Services (CMS) shall be paid into the Efficiency Initiatives Revolving Fund. **“State agencies shall pay these amounts...from the line item appropriations where the cost savings are anticipated to occur.”**

During FY04, the Commission received two billings totaling \$38,395 from CMS: one for Procurement Efficiency (\$34,815); and one for Information Technology (\$3,580). The Commission did not receive guidance or documentation with the billings from CMS detailing from which line item appropriations savings were anticipated to occur. Commission staff indicated that no savings have been evident to date.

The Commission received two billings totaling \$38,395 from CMS

The Commission did not receive guidance or documentation with the billings from CMS

Based on our review, we question whether the appropriate appropriations, as required by the State Finance Act, were used to pay for the anticipated savings. The Commission had only one General Revenue Fund (GRF) appropriation and reported it **does not use** CMS for any procurement services. (Finding 1, pages 13-14)

We recommended the Commission only make payments for efficiency initiative billings from line item appropriations where savings would be anticipated to occur. Further, the Commission should seek an explanation from CMS as to how savings levels were calculated.

The Commission had only one GRF appropriation and reported it does not use CMS for any procurement services

Commission officials responded that they receive only one GRF line item appropriation and made the efficiency initiative payments out of that line item as it did not appear that

any other line item would be appropriate. The Commission also noted that they have requested clarification from CMS as to how the efficiency initiative billings were calculated.

Auditor Comment

In an Auditor Comment, we noted that the Commission reported it **does not use** CMS for any procurement services. The State Finance Act, and not CMS, requires agencies to make payments from line item appropriations where cost savings are anticipated to occur. Yet the Commission used the lump sum GRF appropriation to pay for procurement savings that it had not, and would not, experience.

FAILURE TO RECORD AND REPORT CAPITAL ASSETS

The Medical District Commission failed to record and report certain capital expenditures on its property records, its Agency Report of State Property, and on its year-end accounting reports (GAAP package) to the State Comptroller.

Twenty expenditures for capital assets totaling \$809,426 were not recorded on property control records

We examined 66 equipment and permanent improvement expenditures totaling \$3,660,910 to determine if purchased items were recorded on the Agency's property control records. We noted 20 expenditures for capital assets totaling \$809,426 that were not recorded on the property control records. Four of these expenditures totaling \$114,503 were recorded on a "not-owned" property list that the Commission was tracking to be added to the property control records in the future. The Commission, did, however, own these properties as of June 30, 2004 and therefore should have added them to its property control records.

Several transactions for the sale of real property, including net sales of \$6,587,501 for assets sold through escrow accounts, had not been recorded

In addition, the Agency Reports of State Property filed with the Office of the State Comptroller, Form C-15, were inaccurate. The Commission acknowledged that they had failed to record several transactions for the sale of real property. These transactions included net sales of \$6,587,501 for assets sold through escrow accounts. We also noted two of four (50%) capital leases with a cost of \$87,900 that had not been recorded. (Finding 2, pages 15-16) **This finding was first reported in 2002.**

We recommended the Commission develop procedures to ensure that all acquisitions and sales of capital assets are promptly recorded and properly reported.

Commission officials responded that it had spent significant time and money with its staff and outside consultants since June 2004 to reflect the activities related to its fixed assets and properly report such activities and has established procedures

within its accounting, legal and operations departments to ensure that fixed assets are recorded promptly and accounted for at all times. (For previous Commission response, see Digest Footnote #1)

INADEQUATE CONTROLS OVER FINANCIAL REPORTING

The Medical District Commission did not have adequate controls to ensure that accounts payable and notes receivable were properly recorded. The Commission also did not properly record several non-routine transactions.

We reviewed a sample of payments made subsequent to year end to determine if accounts payable had been properly recorded. Of the 25 payments reviewed for Fiscal Year 2004, 9 payments (36%) totaling \$93,148 were determined to be liabilities of Fiscal Year 2004 which had not been recorded. Of the 25 payments selected for Fiscal Year 2003, 5 payments (20%) totaling \$26,337 were determined to be liabilities of Fiscal Year 2003 which had not been recorded.

Liabilities at June 30th had not been recorded

The Commission did not record certain transactions from prior years related to certificates of participation in the amount of \$30,625,000 and an installment sale contract for \$6,471,000

We also noted that the Commission did not record certain transactions from prior years related to the issuance of certificates of participation (conduit debt for the University of Illinois) in the amount of \$30,625,000, an installment sale contract for \$6,471,000 and various escrow accounts that related to other sales, purchases and projects. The Commission has reported a prior period adjustment in the amount of \$7,550,297. (Finding 3, page 17) **This finding was first reported in 2002.**

The Commission's property control records and its reporting of state property were inaccurate

We recommended the Commission implement procedures to ensure accounting records are appropriately maintained.

Commission officials responded that they concur with the finding, and, in conjunction with the actions addressing finding 2 above, have rectified the past omissions. Proper recording methods and instruction have been given to staff members responsible and/or involved in financial reporting. (For previous Commission response, see Digest Footnote #2.)

INACCURATE EQUIPMENT AND PROPERTY CONTROL RECORDS

The Medical District Commission's property control records and its reporting of State property were inaccurate.

We selected 35 (18%) of 198 equipment items from the Commission's property control records for testing, with a total cost of \$47,713 (12% of the total \$389,174) and found:

- Four of 35 items selected (11%) did not have a purchase date recorded on the property control records.
- One of 35 items selected (3%) could not be located.

In addition we noted that 6 (60%) of 10 equipment additions tested were recorded incorrectly resulting in a \$5,524 understatement of the cost of these items, and 3 (33%) of 9 deletions tested lacked documentation related to the deletion. (Finding 4, pages 18-19) **This finding was first reported in 2000.**

Commission officials agreed with our recommendation to implement procedures to ensure that property and equipment records are properly maintained. As stated in its response to finding 2, the Commission has put forth time and money to improve the condition of the fixed asset control records. A new fixed asset database, along with new reporting and reconciling procedures will allow the Commission to maintain a current and accurate record of these assets. (For previous agency response, see Digest Footnote #3.)

INADEQUATE CONTROLS OVER TRAVEL EXPENDITURES

The Medical District Commission's controls over travel expenditures were inadequate.

We reviewed 21 travel expenditure reimbursements noting the following:

- For 7 vouchers, (33%) the purpose of travel was not indicated on the travel voucher.
- For 7 vouchers (33%) the date the voucher was approved by the Agency Head was not indicated on the voucher.
- For 11 vouchers (52%) the date the traveler signed the voucher was not indicated.
- For 2 vouchers (10%) the traveler did not turn in receipts for expenditures.
- For 3 vouchers (14%) the traveler charged marketing expenses totaling \$557 to travel.
- For 1 voucher (5%) the departure and arrival time for a return trip from Washington D.C. was not included, which

The Commission's controls over travel expenditures were inadequate

precluded determining the correct per-diem.

In addition, the Commission could not locate its Headquarters Reports (Form TA-2) filed for Fiscal Year 2004. (Finding 5, pages 20-21) **This finding was first reported in 2002.**

We recommended the Commission implement procedures to ensure travel regulations are adhered to.

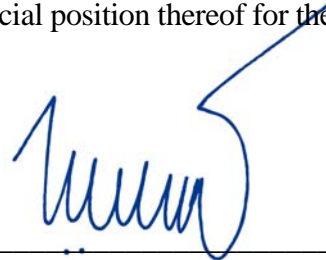
Commission officials agreed that travel expenditures need to be monitored and have the appropriate documentation and stated that staff training sessions will be scheduled to review travel regulations and that these sessions will be conducted semi-annually. (For previous agency response, see Digest Footnote #4.)

OTHER FINDINGS

Other findings dealt with improper contract disclosures, uncollateralized deposit accounts, State vehicle license plates, notification of public hearings, and untimely deposits of Commission funds. We will review the Commission's progress toward implementation of all our recommendations in our next audit.

AUDITORS' OPINION

Our auditors state that the financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Commission, as of June 30, 2004 and June 30, 2003, and the respective changes in financial position thereof for the years then ended.

A handwritten signature in blue ink, appearing to read "William G. Holland", is written over a horizontal line. A blue arrow points from the signature towards the right side of the page.

WILLIAM G. HOLLAND, Auditor General

WGH:KMC:drh

SPECIAL ASSISTANT AUDITORS

Our special assistant auditors for this audit were Nykiel-Carlin & Co.

DIGEST FOOTNOTES

#1 – FAILURE TO RECORD AND REPORT CAPITAL

ASSETS – Previous Agency Response

2002: The Commission has added the \$220,909 to its C-15 report. The Commission has also established an asset detail notebook and ongoing procedures for maintaining it. Procedures are being developed to codify all contracts according to the revised asset guidelines.

#2 –INADEQUATE CONTROLS OVER FINANCIAL

REPORTING – Previous Agency Response

2002: The Commission has developed a plan for reporting the Chicago Technology Park Corporation. A review is underway to establish internal protocols for recording intrastate transactions for grants and reimbursements. A year end and month end checklist have been established for recording accounts payable and receivable.

#3 – INADEQUATE EQUIPMENT AND PROPERTY CONTROL

RECORDS – Previous Agency Response

2002: The Commission has added the capital lease assets to its quarterly C-15 reports. An additional tag sequence has been developed to mark equipment with a value of less than \$500. A subledger has also been established to record each asset acquisition on an ongoing basis. A substitute tag has been created to use if original tags fall off or are destroyed.

#4 – INADEQUATE CONTROLS OVER TRAVEL– Previous Agency Response

2002: The Commission staff has historically recorded and tracked all travel and marketing expenditures in similar practices to those used by the State of Illinois. Such expenses were paid by the Commission from its locally held funds (Chicago Technology Park Fund and Property Management Fund). The Executive Director has instructed the staff to formally use the C-10 Travel voucher for all travel reimbursements. In addition, an examination of the chart of the accounts is underway to determine if additional accounts would further distinguish marketing and networking expenditures from travel expenditures.