



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF COMMERCE AND ECONOMIC OPPORTUNITY

**COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2012**

Release Date: March 13, 2013

Summary of Findings:

Total this audit:	9
Total last audit:	6
Repeated from last audit:	3

SYNOPSIS

- The Department of Commerce and Economic Opportunity (Department) did not ensure proper controls were established in the administration of its grant programs.
- The Department did not fully comply with the requirements of the Fiscal Control and Internal Auditing Act.
- The Department did not complete employee performance evaluations annually and timely.
- The Department did not complete small business impact analyses timely.

{Expenditures and Activity Measures are summarized on the reverse page.}

**DEPARTMENT OF COMMERCE AND ECONOMIC OPPORTUNITY
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2012**

EXPENDITURE STATISTICS	2012	2011	2010
Total Expenditures (All Funds).....	\$ 1,031,896,384	\$ 1,159,637,130	\$ 1,181,087,330
OPERATIONS TOTAL.....	\$ 52,003,093	\$ 80,295,877	\$ 72,415,103
% of Total Expenditures.....	5.0%	6.9%	6.1%
Personal Services.....	10,325,662	6,782,867	19,055,546
Other Payroll Costs (FICA, Retirement, Group Insurance).....	2,666,236	3,867,163	6,307,154
Contractual Services.....	4,327,847	2,290,811	5,790,820
Lump Sum Expenditures.....	33,189,936	66,783,519	39,468,523
All Other Operating Expenditures.....	1,493,412	571,517	1,793,060
AWARDS AND GRANTS.....	\$ 979,893,291	\$ 1,079,119,703	\$ 1,108,603,649
% of Total Expenditures.....	95.0%	93.1%	93.9%
REFUNDS TOTAL.....	\$ -	\$ 221,550	\$ 68,578
% of Total Expenditures.....	0.0%	0.0%	0.0%
Average Number of Employees.....	399	430	437

CASH RECEIPTS	2012	2011	2010
Federal Grants.....	\$ 609,162,869	\$ 699,342,222	\$ 684,348,565
License and Fees.....	129,312,955	131,567,276	157,322,791
Prior Year Refunds.....	6,273,956	9,352,668	7,354,656
Sale of Investments and Interest Income.....	2,556,366	2,751,907	2,609,034
Loan Repayments.....	268,108	12,188,176	489,111
State Grants.....	14,281,441	21,663,082	1,981,923
Private Donor.....	56,712,544	37,250,608	11,566,796
Other.....	583,906	658,752	417,214
Total.....	<u>\$ 819,152,145</u>	<u>\$ 914,774,691</u>	<u>\$ 866,090,090</u>

AGENCY DIRECTOR
During Examination Period: Warren Ribley (through March 31, 2012); David Vaught (through November 25, 2012) Currently: Mr. Adam Pollet (Acting) (effective November 26, 2012)

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**NEED TO MAKE IMPROVEMENTS TO GRANT
ADMINISTRATION**

Proper controls not established

The Department did not ensure proper controls were established in the administration of its grant programs.

\$2,059,012,994 spent on grants

The Department expended \$2,059,012,994 for awards and grants, or 94% of its \$2,191,533,514 total expenditures during the two year examination period. We tested 60 grant agreements covering five program areas: Energy Assistance, Business Development, Coal Development, Illinois Energy Office, and Grants Management Unit.

Specific weaknesses noted in the grant program areas tested follow:

Failure to monitor grants

- The Department did not have a policy to define the timeframe to close out a grant after the grant period ends.
- The Department failed to monitor seven (12%) tested grants beyond reviews of quarterly financial and project status reports.
- The Department failed to perform required desk reviews for seven (12%) tested grants which were funded through the American Recovery and Reinvestment Act.
- The Department failed to ensure grant modifications were properly executed for two (3%) tested grants. One modification was not approved by the Department's Director, and the other modification was signed by a person who was not an authorized signatory or designee of the grantee.
- The Department accepted and approved financial and project status reports which were signed by an employee who was not an authorized signatory or designee of the grantee for six (10%) tested grants. (Finding 1, pages 11-13) **This finding was first reported in 2008.**

**Signatures accepted from
unauthorized individuals**

We recommended the Department strengthen its controls over the grant management process and establish a reasonable timeframe for the close out grants. Further, the Department should modify its approach to monitoring the performance of grantees.

Department agrees with auditors

Department management concurred with our finding and stated they will establish a close out policy with reasonable due dates for final grant reports and Department review. The Department will also improve grant management controls using a risk-based monitoring plan. *(For the previous Department response, see Digest Footnote #1.)*

NEED TO COMPLY WITH FISCAL CONTROL AND INTERNAL AUDITING ACT REQUIREMENTS

Internal audits not conducted

The Department did not comply with the requirements of the Fiscal Control and Internal Auditing Act (Act).

The Department's Office of Internal Audit (OIA) did not conduct and complete an audit of the Department's major systems of internal accounting and administrative controls during the last two years as required by the Act.

In addition, the OIA did not conduct reviews of the design of major new electronic data processing systems and major modifications to existing systems prior to their installation to ensure these systems provide for adequate audit trails and accountability. (Finding 2, pages 14-15)

We recommended the Department's OIA complete internal audits of its major systems of internal accounting and administrative controls as required by the Act.

Department agrees with auditors

Department management concurred with our finding.

NEED TO COMPLETE EMPLOYEE PERFORMANCE EVALUATIONS TIMELY

Evaluations not completed timely

The Department did not timely perform annual employee performance evaluations. During our testing of 53 employee files, the following was noted:

Untimely reviews

- The Department did not complete performance evaluations for eight (15%) tested employees as of the completion of our testing.
- The Department completed performance evaluations for 21 (40%) tested employees from two to 283 days late. (Finding 3, pages 16-17) **This finding was first reported in 2006.**

We recommended the Department evaluate its procedures for monitoring performance evaluations to ensure that performance evaluations are completed timely.

Department agrees with auditors

Department management concurred with our finding and recommendation. *(For the previous Department response, see Digest Footnote #2.)*

NEED TO COMPLETE SMALL BUSINESS IMPACT ANALYSES TIMELY

Untimely analyses

The Department did not complete small business impact analyses within the timeframe required.

The Illinois Administrative Procedure Act (5 ILCS 100/5-30(c)) states that the Business Assistance Office (Office) within the Department shall prepare an impact analysis of the rule or amendment describing its effect on small business whenever the Office believes, in its discretion, that an analysis is warranted or whenever requested to do so by 25 interested persons, an association representing at least 100 interested persons, the Governor, a unit of local government, or the Joint Committee on Administrative Rules (JCAR). The impact analysis shall be completed before or within the notice period as described in subsection (b) of Section 5-40 which states that each agency shall give at least 45 days' notice of its intended action to the general public. This first notice period shall commence on the first day the notice appears in the Illinois Register.

During our testing of 25 small business impact analyses, we noted 14 (56%) analyses were completed from one to 287 days beyond the 45 day notice period. (Finding 8, page 28)

We recommended the Department ensure compliance with the requirements to prepare business impact analyses within the required timeframe.

Department agrees with auditors

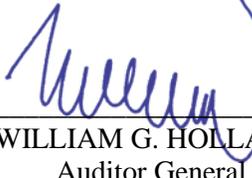
Department management concurred with our finding and stated that they have implemented a tracking system to ensure small business impact analyses are completed within the 45 day notice period.

OTHER FINDINGS

The remaining findings pertain to: 1) failure to timely submit required reports in accordance with various statutory mandates, 2) failure to ensure newly hired employees complete required ethics training timely, 3) failure to ensure various boards, committees, and councils are fully staffed, 4) failure to comply with various statutory mandates, and 5) failure to provide notice of new legislation affecting local governments. We will follow up on these findings during our next examination of the Department.

AUDITORS' OPINION

We conducted a compliance examination of the Department as required by the Illinois State Auditing Act. The Department has no funds that require an audit leading to an opinion of financial statements.



WILLIAM G. HOLLAND
Auditor General²

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SPECIAL ASSISTANT AUDITORS

E. C. Ortiz & Co., LLP were our special assistant auditors.

DIGEST FOOTNOTES

#1 – NEED TO MAKE IMPROVEMENTS TO GRANT ADMINISTRATION

2010: The Department agrees with the recommendation and has implemented several new controls for grantee reporting in fiscal year 2010. The new control environment in eGrants provides an efficient method for staff to follow-up on grantee delinquent reports and documents the date reports are received and approved. Each grantee also receives a “Welcome Package” with a copy of their executed grant agreement that includes a grant-specific report deliverable schedule that lists report due dates. eGrants generates automated emails to remind each grantee of upcoming report due dates and also sends out a series of late notice emails if a report has not been received and the receipt date of the report is not entered into the system. This provides an automated follow-up process for delinquent reports that is documented in eGrants. The eGrants system places a “lock” on a grantee’s Federal Employer Identification Number (FEIN) if a report is 15 days or more past due. The FEIN lock prevents the Department from processing any payments or approving future funding for the organization until the problem is resolved.

The Department is committed to continue to strengthen its monitoring controls and will begin development of a monitoring quality assurance program. The monitoring quality assurance program will ensure Department-wide monitoring policies and procedures are established and each office has completed an assessment of the risks for their programs.

#2 – NEED TO COMPLETE EMPLOYEE PERFORMANCE EVALUATIONS TIMELY

2010: The Department agrees with the recommendation. On September 1, 2010, the Department implemented a new employee evaluation tracking system. The system sends automated emails to both the office's senior manager and evaluation tracking coordinator for all evaluations that are to be completed by that office. Email notifications are sent 30 days prior to the end of the evaluation period and a second reminder is sent 7 days before it is due. Late notices are then sent weekly for untimely evaluations and continue until the evaluation is completed. During this examination period, the evaluations sampled were twice as many from the prior examination period and the Department's rate of untimely completion from the sample decreased from 56% to 28%.