

**STATE OF ILLINOIS
PROCUREMENT POLICY BOARD**

COMPLIANCE EXAMINATION

For the Two Years Ended June 30, 2006

STATE OF ILLINOIS
PROCUREMENT POLICY BOARD
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2006

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STATE OF ILLINOIS
PROCUREMENT POLICY BOARD
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2006

AGENCY OFFICIALS

Executive Director

Matthew Brown

Chief Fiscal Officer

Jennifer Rapp

The members of the Board as of June 30, 2006 were:

- Terrence Healy, Chairman
- Michael Bass
- Ed Bedore
- Ricardo Morales
- Carmen Triche- Colvin

Board administrative office is located at:

511 West Capitol
Suite 102
Springfield, IL 62704



STATE OF ILLINOIS
PROCUREMENT POLICY BOARD

Terrence Healy, Chairman

Members: Michael Bass, Ed Bedore, Ricardo Morales, Carmen Triche-Colvin

Honorable William G. Holland
Auditor General
State of Illinois
Iles Park Plaza
740 East Ash
Springfield, IL 62703-3154

September 20, 2006

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Procurement Policy Board (Board). We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Agency's compliance with the following assertions during the two-year period ended June 30, 2006. Based on this evaluation, we assert that during the years ended June 30, 2006 and June 30, 2005, the Agency has materially complied with the assertions below.

- A. The Board has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Board has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Board has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. Any State revenues and receipts collected by the Board are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Any money or negotiable securities or similar assets handled by the agency on behalf of the State or held in trust by the Board have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

Procurement Policy Board

(Matt Brown, Executive Director)

(Jennifer Rapp, Fiscal Officer)

STATE OF ILLINOIS
PROCUREMENT POLICY BOARD
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2006

COMPLIANCE REPORT

SUMMARY

The compliance testing performed in this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

AUDITORS' REPORTS

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

<u>Number of</u>	<u>This Report</u>	<u>Prior Report</u> *
Findings	8	N/A
Repeated findings	N/A	N/A
Prior recommendations implemented or not repeated	N/A	N/A

* This is the first examination of the Procurement Policy Board.

Details of findings are presented in a separately tabbed report section.

SCHEDULE OF FINDINGS

FINDINGS (STATE COMPLIANCE)

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
06-1	8	Property control weaknesses
06-2	10	Voucher processing weaknesses
06-3	12	Lack of formal policies and procedures
06-4	14	Statements of Economic Interest not filed
06-5	15	Failure to comply with the State Records Act
06-6	17	Inadequate controls over expenditure records
06-7	19	Inadequate controls over employee timekeeping

STATE OF ILLINOIS
PROCUREMENT POLICY BOARD
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2006

SCHEDULE OF FINDINGS (continued)

FINDINGS (STATE COMPLIANCE)

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
06-8	20	Inadequate controls over contractual agreements

EXIT CONFERENCE

Board management waived having an exit conference in a letter dated December 27, 2006. Responses to the recommendations were provided by Matt Brown, Executive Director, in correspondence dated January 9, 2007.

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

INDEPENDENT ACCOUNTANTS' REPORT ON STATE COMPLIANCE,
ON INTERNAL CONTROL OVER COMPLIANCE, AND ON
SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

We have examined the State of Illinois, Procurement Policy Board's (Board) compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the two years ended June 30, 2006. The management of the Board is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Board's compliance based on our examination.

- A. The Board has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Board has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Board has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. Any State revenues and receipts collected by the Board are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Any money or negotiable securities or similar assets handled by the Board on behalf of the State or held in trust by the Board have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in Government Auditing Standards issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Board's compliance with specified requirements.

In our opinion, the Board complied, in all material respects, with the aforementioned requirements during the two years ended June 30, 2006. However, the results of our procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with criteria established by the Audit Guide issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State findings as findings 06-1, 06-2, 06-3, 06-4, 06-5, 06-6, 06-7 and 06-8. As required by the Audit Guide, immaterial findings relating to instances of noncompliance are excluded from this report and have been reported in a separate letter.

Internal Control

The management of the Board is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations. In planning and performing our examination, we considered the Board's internal control over compliance with the aforementioned requirements in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General.

Our consideration of internal control over compliance with the aforementioned requirements would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to one or more of the aforementioned requirements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance that we consider to be material weaknesses. However, the results of our procedures disclosed other matters involving internal control, which are required to be reported in accordance with criteria established by the Audit Guide issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State findings as findings 06-1, 06-2, 06-3, 06-5, 06-6, 06-7 and 06-8. As required by the Audit Guide, immaterial findings relating to internal control deficiencies excluded from this report have been reported in a separate letter.

Supplementary Information for State Compliance Purposes

Our examination was conducted for the purpose of forming an opinion on compliance with the requirements listed in the first paragraph of this report. The accompanying supplementary information as listed in the table of contents as Supplementary Information for State Compliance Purposes is presented for purposes of additional analysis. We have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the 2006 and the 2005 Supplementary Information for State Compliance Purposes, except for information on the Service Efforts and Accomplishments on which we did not perform any procedures. However, we do not express an opinion on the supplementary information.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and agency management, and is not intended to be and should not be used by anyone other than these specified parties.


Bruce L. Bullard, CPA
Director of Financial and Compliance Audits

September 20, 2006

STATE OF ILLINOIS
PROCUREMENT POLICY BOARD
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2006

06-1 **FINDING** (Property control weaknesses)

The Procurement Policy Board (Board) did not maintain adequate controls over the recording and reporting of its property.

During testing we noted the following:

- The Board filed 7 of 8 (88%) of its FY05 and FY06 Quarterly Reports of State Property (C-15's) with the Comptroller between 5 and 283 days late. In addition, we noted that C-15's were not accurately being reported. The initial amount transferred-in from the Department of Central Management Services (DCMS) to the Board was understated on the Board's C-15's by \$6,300. Property was not reported in the quarter in which it was received and the overall amount reported for additions was understated by \$232 in FY05 and by \$269 in FY06. Statewide Accounting Management System (SAMS) Section 29.20.10 requires that C-15 reports be submitted to the Office of the Comptroller no later than the last day of the month following the last day of the quarter. This section also requires that all additions to an asset category must be reported in the quarter that the transaction occurred.
- Fourteen of 14 (100%) equipment items, totaling \$8,367, purchased during FY05 and FY06 were not added to the Boards property records. The Illinois Administrative Code (44 Ill. Admin. Code 5010.400) requires that all agencies adjust property records within 30 days of acquisition, change or deletion of equipment items.
- The property listing provided to DCMS as part of the Board's annual physical inventory was not accurate. All equipment items purchased during the period which had a purchase price greater than \$500, totaling \$6,445, could not be traced to the property listing provided to DCMS. The Illinois Administrative Code (44 Ill. Adm. Code 5010.460) requires agencies to provide the DCMS on an annual basis a listing of all equipment items valued in excess of \$500. Good business practices require proper internal controls to be established to ensure the accuracy and reliability of accounting data.
- Two of 10 (20%) equipment items selected for backwards testing contained property tag numbers that did not agree to the property listing. In addition, one of 10 (10%) equipment items selected for backwards testing was not tagged with a property identification number. The Illinois Administrative Code (44 Ill. Admin. Code 5010.210) states that all agencies are responsible for marking each piece of State-owned equipment in their possession with a unique six digit identification number to be assigned by the agency holding the property. The State Property Control Act (30 ILCS 605/4) requires agencies to be accountable for the supervision, control and inventory of all property under its jurisdiction and control.
- One of 14 (7%) equipment items purchased during FY05 and FY06, totaling \$569, was for the purchase of new furniture over \$500 and the Board did not file a new furniture purchase

affidavit with DCMS. The State Property Control Act (30 ILCS 605/7a) requires that agencies that desire to purchase new furniture shall first check with the administrator if any of the surplus furniture under the administrator's control can be used in place of new furniture. If any agency finds that it is unable to use the surplus property, the agency shall file an affidavit with the administrator prior to the purchase, specifying the types of new furniture, the cost per type, and the total cost per category. This Section applies only to the purchase of an item of furniture with a purchase price of \$500 or more.

Board personnel stated that the C-15's were filed late in FY05 because they were unaware of the reporting requirements and the FY06 C-15's were late due to oversight. In addition, the other property control weaknesses were due to oversight.

Failure to file accurate C-15's in a timely manner is non-compliance with SAMS and reduces the reliability of Statewide property information. In addition, failure to maintain accurate property control records increases the potential that a loss or theft of State property could occur and not be detected. Failure to file new furniture purchase affidavits is non-compliance with State law and increases the risk of unnecessary expenditures and duplicating state property. (Finding Code No. 06-1)

RECOMMENDATION

We recommend that the Board implement the necessary internal controls to ensure that C-15's are accurately and timely submitted to the Office of the State Comptroller, equipment items purchased are recorded timely on the property listing, and that all equipment items are properly tagged with an identification number and can be traced back to the property listing. In addition, the Board should comply with the State Property Control Act concerning the purchase of new furniture.

AGENCY RESPONSE

The transition of property from CMS to PPB was not seamless. There were both initial and repetitive inaccuracies in the transfer of equipment from CMS to the Procurement Policy Board. Additionally, there was no transfer of knowledge during the change.

Board staff was unaware of quarterly compliance documents and other reporting outside of the automated inventory system for much of the compliance period. Board staff is now aware of those requirements and compliant.

Tagging of transferred equipment did not occur in a timely manner due to delays in acquiring tags and an error was made in the assignment of two tags. Subsequently all equipment is tagged and reconciled.

Board staff attempted to acquire a desk from surplus property prior to purchasing a new one. None were available. The omission of the affidavit for furniture purchases over \$500 was an oversight. All subsequent transactions will be properly documented.

06-2 **FINDING** (Voucher processing weaknesses)

The Procurement Policy Board (Board) did not exercise adequate control over voucher processing.

During testing we noted the following:

- Eleven of 50 (22%) vouchers tested, totaling \$4,162, were not signed and/or dated by the receiving officer. SAMS procedure 17.20.20 states that each invoice-voucher, upon receipt of goods or services, must be signed by the receiving officer verifying goods or services meet the stated specifications.
- The Board did not approve all vouchers for payment within the required time limits. We noted 13 of 50 (26%) vouchers tested, totaling \$12,086, were approved for payment from 4 to 55 days late. No interest charges were incurred. The Illinois Administrative Code (74 Ill. Adm. Code 900.70) requires an agency to review a bill and either deny the bill in whole or in part, ask for more information necessary to review the bill, or approve the bill in whole or in part, within 30 days after physical receipt of the bill.
- Five of 50 (10%) vouchers tested, totaling \$4,432 were not coded with the proper SAMS code. SAMS procedure 11.10.50 states the purpose of assigning a correct detail object code is to report expenditure information at a more refined level within a common object.
- The Board did not have adequate controls in place to ensure that expenditure obligations were only paid once. The Board approved and paid one invoice in the amount of \$192 three times for a total payment of \$576. The Board received a refund in the amount of \$384. Good business practices require proper internal controls be established to help prevent improper expenditures.

Agency personnel stated that the voucher processing weaknesses were due to oversight. In addition, the late approval of vouchers was due to the lack of a date stamp or dating the invoice when received, which lead to the actual invoice date being used to determine timeliness.

Failure to maintain adequate control over voucher processing increases the likelihood that a loss from errors or irregularities could occur and remain undetected in the normal course of employees executing their assigned duties. In addition, failure to promptly approve vouchers may result in late payment of bills to vendors and could result in interest charges owed by the Board. (Finding Code No. 06-2)

RECOMMENDATION

We recommend that the Board strengthen its controls over voucher processing and comply with SAMS procedures by having a receiving officer sign and date each voucher/invoice to indicate goods were received and by using the correct SAMS object codes. In addition, we recommend the Board comply with the Illinois Administrative Code and implement controls to ensure vouchers are approved within the required time frame and only paid once.

AGENCY RESPONSE

Untimely voucher submission was based on lack of date stamping; adversely, dates were assigned and tested during the audit based on mailing or account billing periods. All invoices are now date stamped upon receipt. Additionally, all goods are now formally received and documented for vouchering purposes.

Duplicative payment to one vendor was an oversight; reconciliation procedures are now in place to prevent this occurrence.

Board staff has examined Detail Object Code listings to determine which Codes are appropriate. Codes that are unclear in their assignment will be examined and we will seek advice from the Comptroller on which ones to assign before moving forward.

06-3 **FINDING** (Lack of formal policies and procedures)

The Procurement Policy Board (Board) does not have formal personnel policies and procedures.

During the examination period, the Board employed 4-5 individuals and made personnel related expenditures totaling \$130,342 in FY05 and \$165,842 in FY06. During testing we noted that the Board did not have formal policies and procedures that addressed the following personnel and payroll issues:

- Employee attendance
- Vacation, Sick, and Personal time
- Salary / Raises
- Training policies
 - The Board did not provide training or policies on sexual harassment.
- Overtime / Compensatory time
- Hiring
- Terminations
- Evaluations
 - Two out of 5 (40%) employees did not receive an employee evaluation during the examination period.
- Leave of Absence
- Prohibited political activity

Good internal controls would require that formal policies and procedures governing personnel transactions be established to ensure transactions are reasonable, appropriately approved, and adequately documented. Good business practices require all employees' performances be evaluated and documented on an annual basis to identify strengths and weaknesses and provide validation for any merit adjustments or promotions. A copy of all annual performance appraisals should be maintained in each employee's personnel file. The Illinois Human Rights Act (775 ILCS 5/2-105 (B)(5)) states that every agency shall maintain a continuing sexual harassment program that shall include providing training on sexual harassment prevention and the agency's sexual harassment policy as a component of all ongoing or new employee training.

Board personnel stated that they were not aware of the sexual harassment training and other training requirements. In addition, Board personnel stated that they were not aware that the adoption of the Department of Central Management Services on-line policy manual was insufficient.

Lack of formal policies and procedures increases the risk of unauthorized transactions. Performance evaluations are a systematic and uniform approach used for the development of employees and communication of performance expectations to employees. Performance evaluations should serve as a foundation for salary adjustments, promotion, demotion, discharge, layoff, recall, and reinstatement decisions. Failure to provide sexual harassment

training is a failure to comply with a statutory mandate and exposes the State to potential legal liability. (Finding Code No. 06-3)

RECOMMENDATION

We recommend the Board develop formal policies and procedures and provide those to all employees, which includes sexual harassment training as a component of ongoing and new employee training.

AGENCY RESPONSE

At the point of transition from under the CMS administrative umbrella to an independent Agency, the Board elected to continue using the policy manuals that govern CMS. Those manuals were consistently made available and updated in an online environment. Upon receiving the initial audit findings that this was not adequate, the Board established its own policy manual.

Sexual harassment awareness and prevention training has occurred for all employees. Performance evaluations for all employees have been conducted.

During the timeframe covered by the audit, the Executive Director elected to delay evaluations based on the following: the addition of one newly hired Procurement Analyst mid-year FY05; one existing position reclassification mid-year FY05 to create an Office Administrator, an anticipated mid-year hire of an Office Assistant and a subsequent desire to shift all staff evaluations to this mid-year point to match employment entrance dates. Prior to this the Board only had two employees. That decision prevented one existing employee who was promoted in FY05 from receiving an FY06 evaluation and a new hire in FY05 from receiving an FY06 evaluation.

This change has been effected and all employees will receive performance evaluations on 12 month intervals at the longest.

06-4 **FINDING** (Statements of Economic Interest not filed)

The Procurement Policy Board (Board) did not require its employees to file Statements of Economic Interest during the engagement period.

During our testing we noted that the Executive Director, Fiscal Officer, and Procurement Analyst did not file Statements of Economic Interest for FY05 or FY06.

The Illinois Governmental Ethics Act (5 ILCS 420/4A-101(f)) requires a written statement of economic interest to be filed by persons who are employed by any branch, agency, authority or board of the government of this State who, among other things:

- 1) are, or function as, the head of a department, commission, board, division, bureau, authority or other administrative unit within the government of this State, or who exercise similar authority within the government of this State;
- 2) have direct supervisory authority over, or direct responsibility for the formulation, negotiation, issuance or execution of contracts entered into by the State in the amount of \$5,000 or greater; or
- 3) have authority for the issuance or promulgation of rules and regulations within areas under the authority of the State.

Board personnel stated that they interpreted the statute to require only board members to file economic interest disclosures.

Failure to file Statements of Economic Interest with the Secretary of State lessens governmental oversight and is noncompliance with the Illinois Governmental Ethics Act. (Finding Code No. 06-4)

RECOMMENDATION

We recommend the Board comply with the requirements of the Illinois Governmental Ethics Act by ensuring that all persons required to file statements of economic interest file them in a timely manner.

AGENCY RESPONSE

From the effective date of the Ethics Act; all Members of the Procurement Policy Board completed Statements of Economic Interest. At that time it was interpreted that the filing requirements did not apply to staff. All staff members are now filing economic interest disclosures.

06-5 **FINDING** (Failure to comply with the State Records Act)

The Procurement Policy Board (Board) did not maintain adequate documentation to support their financial operations. During our testing we noted the following:

- The Board did not maintain copies of its Quarterly Reports of State Property (C-15) submitted to the Comptroller. In addition, the Board did not maintain any documentation supporting amounts reported for additions, deletions or net transfers. The Board reported \$14,138 and \$16,127 in equipment on the C-15's as of June 30, 2005 and June 30, 2006.
- The Board did not maintain documentation to support amounts reported in the Board's GAAP package and the GAAP form SCO-580. The Board reported \$221,000 for expenditures in its FY06 GAAP package. In addition, the Board reported \$11,000 as its total compensated absences liability on the FY06 SCO-580 form.
- The Board did not maintain supporting documentation regarding employee salaries for 2 out of 5 (40%) employees.
- The Board did not maintain support, such as deposit slips and treasurer's drafts, for the deposit of the two refunds received during the period totaling \$640.
- The Board was unable to locate 4 of 50 (8%) vouchers selected for testing and related supporting documentation, totaling \$3,853.

The State Records Act (5 ILCS 160 *(et seq)*) requires agencies to establish and maintain a program for agency records management, which shall include effective controls over maintenance of records. The Act also states that reports and records of the obligation, receipt and use of public funds of the State are public records available for inspection by the public, except as access to such records is otherwise limited or prohibited by law or pursuant to law. These records shall be kept at the official place of business of the State or at a designated place of business of the State. In addition, good business practices require maintaining documentation to adequately support financial transactions. The Statewide Accounting Management System (SAMS) Procedure 17.10.20 requires that each State agency maintain all supporting documentation necessary to substantiate their expenditures.

Board personnel stated that when each of the circumstances were tested, they were not aware of documentation requirements for C-15's, GAAP packages, refunds and salary statements.

Failure to maintain adequate supporting documentation is noncompliance with the State Records Act and increases the risk that errors and loss due to theft could occur and not be detected. (Finding Code No. 06-5)

RECOMMENDATION

We recommend that the Board implement controls to comply with the State Records Act and ensure adequate documentation is maintained and readily available.

AGENCY RESPONSE

As referenced in finding 06-1; the Board was unaware of C-15 filings regarding State property and the Board is now compliant.

The Board was unaware of the standard procedures for compilation of GAAP package reporting and its related record keeping. Subsequently, staff will be retaining all documents used for compilation of the GAAP report.

Procedures for filing inventory and GAAP packages have been reviewed and staff is to certify for accuracy and completeness prior to subsequent filings.

The two employees that did not have salary statements in their files have been employed since the Board's inception and were employed under the CMS administrative umbrella. Those employees now have salary statements in their personnel files.

Not maintaining records of 2 refunds was an omission in standard recordkeeping. Moving forward, all refunds will be formally recorded and receipts kept.

The inability to produce 4 vouchers has led to a more intense level of recordkeeping which should prevent future occurrences. The only assumption is that those vouchers were misfiled with other office documents or erroneously destroyed.

06-6 **FINDING** (Inadequate controls over expenditure records)

The Procurement Policy Board (Board) did not adequately monitor expenditures during the period.

During testing we noted the following:

- The Board did not track and monitor actual expenditures versus amounts appropriated during FY05 and FY06; therefore, the Board could not determine its unexpended appropriations available to pay current and upcoming expenditures.

Good business practices require proper internal controls be established to help prevent improper expenditures and ensure accuracy and reliability of accounting data. In addition, information flows and internal reporting should be sufficient and accurate enough to facilitate operational activities and planning.

- The Board did not perform monthly expenditure reconciliations of agency records to the Comptroller's Monthly Appropriation Status Report (SB01) during FY05 or FY06. During our testing, we noted that the Board's expenditure records were inaccurate and did not agree to the State Comptroller's records. We noted differences for yearly and lapse period expenditures ranging from \$1,200 to \$66,070.

The Comptroller's Statewide Accounting Management System (SAMS) procedures 11.40.20 require each agency to reconcile cash receipts and appropriation expenditures monthly and notify the Comptroller of corrections and unreconcilable differences.

Board personnel stated that due to the low volume of expenditures a detailed expense ledger was not considered necessary. Beginning in FY07 the Board has began utilizing an expenditure tracking system to monitor expenditures on a monthly and yearly basis. In addition, Board personnel stated that they were not aware of the requirement to reconcile expenditures monthly.

Failure to adequately track and monitor expenditures or perform monthly reconciliations could lead to inaccurate accounting records and could allow the Board to incur expenditures greater than its appropriation. (Finding Code No. 06-6)

RECOMMENDATION

We recommend that the Board perform monthly reconciliations of agency expenditures to Comptroller records as required by SAMS to ensure accurate accounting records are maintained. Further, we recommend the Board implement controls to track and monitor actual versus budgeted expenditures.

AGENCY RESPONSE

Monthly review of expenditures was not deemed necessary due to the low volume of transactions occurring at the Board. All transactions were and continue to be reviewed by the Executive Director.

Staff was not aware that a monthly reconciliation against Comptroller SBO1 reports was required. In response, an expense ledger has been created and implemented and monthly reconciliation is now occurring.

06-7 **FINDING** (Inadequate controls over employee timekeeping)

The Procurement Policy Board (Board) did not require its employees to periodically submit time sheets documenting the time spent each day on official State business.

The Board only required employees to submit leave requests documenting time taken (negative reporting) instead of documenting the time spent on official State business (positive timekeeping).

The State Officials and Employees Ethics Act (5 ILCS 430/5-5) requires State employees to periodically submit time sheets documenting the time spent each day on official State business.

Board personnel stated that they were not aware of the requirement.

Failure to periodically submit time sheets documenting the time spent each day on official State business is noncompliance with State statute. (Finding Code No. 06-7)

RECOMMENDATION

We recommend the Board comply with the State Officials and Employees Ethics Act and require that its employees periodically submit time sheets documenting the time spent each day on official State business.

AGENCY RESPONSE

Staff was unaware that existing timekeeping procedures were not adequate. In addition to participating in the CMS electronic timekeeping system, all employees now fill out weekly certifications of time on the job.

06-8 **FINDING** (Inadequate controls over contractual agreements)

The Procurement Policy Board (Board) did not exercise adequate controls over its contractual services agreements.

During the period, the Board entered into two contractual agreements for professional services totaling \$12,000 and \$14,500 in FY05 and FY06, respectively. During our testing we noted the following deficiencies with the FY05 contract:

- Services began 30 days before the written contract was approved;
- The contract was filed with the Illinois Office of the State Comptroller (IOC) 8 days late, and the contract obligation document (COD) was not properly completed. The dates of service on the COD stated 11/1/2004 – 6/30/2005 while the contract stated 10/1/2004 – 7/21/2005. In addition, Board personnel stated that the actual dates of service were 10/1/2004 – 6/30/2005.

Good business practices require all contracts entered into be executed by all involved parties prior to the beginning of services. In addition, the Illinois Procurement Code (Code) (30 ILCS 500/20-80) requires State agencies to reduce to writing contractual liabilities involving expenditures of more than \$10,000 and file them with the IOC within 15 days. The Code also requires professional and artistic services contracts involving expenditures of more than \$5,000 be filed with the IOC before payment of services can occur. The Statewide Accounting Management System (SAMS) Procedure 15.20.10 provides instruction for proper completion of contract obligation documents. In addition, good business practices require a careful review of source documentation and prepared reports before submission.

Board personnel stated that the untimely approval and filing of the contract was due to vendor delays. Board personnel also stated that the COD was not properly completed due to clerical errors.

Failure to exercise adequate control over contractual agreements may result in loss of State funds and may subject the State to unnecessary legal risks. (Finding Code No. 06-8)

RECOMMENDATION

We recommend the Board strengthen controls to ensure that contractual agreements are approved prior to the performance of services and filed with the Office of the State Comptroller timely. We further recommend that the Board strengthen controls to ensure that all documents regarding contracts are completed accurately.

AGENCY RESPONSE

The Board's lease and legal services contract have been difficult to pay according to established terms due to inappropriate billing from the vendors. Reconciliation with the vendors during the audit period was often difficult and the vendor's automated billing systems did not accommodate the terms of the contract.

We have contacted the vendors and established protocols for providing accurate billing to which vouchers can be assigned and payments made in a timely manner.

The legal services contract was significantly delayed at the vendor location during the audit period. At that time, staff was unaware of the late filing affidavit requirements. Any subsequent late filings have included an affidavit.

STATE OF ILLINOIS
PROCUREMENT POLICY BOARD
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2006

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

SUMMARY

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:
 - Schedule of Appropriations, Expenditures and Lapsed Balances
 - Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
 - Schedule of Changes in State Property
 - Analysis of Significant Variations in Expenditures
 - Analysis of Significant Lapse Period Spending

- Analysis of Operations:
 - Agency Functions and Planning Program
 - Average Number of Employees
 - Service Efforts and Accomplishments (Not Examined)

The auditors' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states the auditors have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the 2006 and 2005 Supplementary Information for State Compliance Purposes, except for information on Service Efforts and Accomplishments on which they did not perform any procedures. However, the auditors do not express an opinion on the supplementary information.

STATE OF ILLINOIS
 PROCUREMENT POLICY BOARD
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
 For The Fiscal Year Ended June 30, 2006

P.A. 94-0015 FISCAL YEAR 2006	Appropriations (Net of Transfers)	Lapse Period		Balances Lapsed August 31
		Expenditures Through June 30	Expenditures July 1 to August 31	
General Revenue Fund - 001				
Ordinary and Contingent Expenses	\$ 262,000	\$ 207,709	\$ 10,079	\$ 44,212
Total Fiscal Year 2006	<u>\$ 262,000</u>	<u>\$ 207,709</u>	<u>\$ 10,079</u>	<u>\$ 44,212</u>

Note: Appropriations, expenditures, and lapsed balances were obtained from the State Comptroller records and have been reconciled to records of the Agency.

STATE OF ILLINOIS
 PROCUREMENT POLICY BOARD
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
 For The Fiscal Year Ended June 30, 2005

P.A. 93-0842 FISCAL YEAR 2005	Appropriations (Net of Transfers)	Lapse Period		Balances Lapsed August 31
		Through June 30	July 1 to August 31	
General Revenue Fund - 001				
Ordinary and Contingent Expenses	\$ 262,000	\$ 163,120	\$ 15,805	\$ 83,075
Total Fiscal Year 2005	<u>\$ 262,000</u>	<u>\$ 163,120</u>	<u>\$ 15,805</u>	<u>\$ 83,075</u>

Note: Appropriations, expenditures, and lapsed balances were obtained from the State Comptroller records and have been reconciled to records of the Agency.

STATE OF ILLINOIS
 PROCUREMENT POLICY BOARD
**COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,
 EXPENDITURES AND LAPSED BALANCES**
 For the Fiscal Years Ended June 30,

	Fiscal Year	
	2006	2005
General Revenue Fund - 001	P.A. 94-0015	P.A. 93-0842
Appropriations (Net of Transfers)	\$ 262,000	\$ 262,000
<u>Expenditures</u>		
Ordinary and Contingent Expenses	\$ 217,788	\$ 178,925
Lapsed Balances	\$ 44,212	\$ 83,075

STATE OF ILLINOIS
 PROCUREMENT POLICY BOARD
SCHEDULE OF CHANGES IN STATE PROPERTY
 For the Two Years Ended June 30, 2006

		Equipment
Balance at July 1, 2004		\$ 0
Additions	5,877	
*Auditor adjustment	232	
Adjusted Additions Total		6,109
Deletions		0
Net Transfers	8,261	
*Auditor adjustment	6,300	
Adjusted Transfers Total		14,561
Balance at June 30, 2005		\$ 20,670
Balance at July 1, 2005		\$ 20,670
Additions	1,989	
*Auditor adjustment	269	
Adjusted Additions Total		2,258
Deletions		0
Net Transfers		0
Balance at June 30, 2006		\$ 22,928

Note: The above schedule has been derived from Agency records which have been reconciled to property reports submitted to the Office of the Comptroller.

*Auditor adjustments reflect errors noted in finding #06-1 in the Schedule of Findings

STATE OF ILLINOIS
 PROCUREMENT POLICY BOARD
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
 For the Two Years Ended June 30, 2006

<u>GENERAL REVENUE FUND – 001</u>	<u>FISCAL YEAR</u>	
	<u>2006</u>	<u>2005</u>
Personal Services	\$ 144,574	(A) \$ 106,077
State Retirement	11,267	(B) 17,088
Social Security	10,001	(C) 7,177
Contractual Services	43,654	35,530
Travel	1,736	(D) 2,888
Commodities	1,418	(E) 2,837
Printing	328	241
Equipment	2,333	(F) 4,392
Telecommunications	<u>2,477</u>	<u>2,695</u>
Total General Revenue Fund Expenditures	<u>\$ 217,788</u>	<u>\$ 178,925</u>

Explanations of significant variations in expenditures (fluctuations of 20% or more and \$1,000) for the two years ended June 30, 2006 are presented below:

- (A) , (C) The increase in expenditures in FY06 is attributed to the Board hiring an additional employee in FY06.

- (B) The decrease in expenditures in FY06 is attributed to the employer contribution to retirement system decreasing from 16.107% in FY05 to 7.792% in FY06.

- (D) The decrease in expenditures in FY06 is attributed to a decrease in the overnight travel being required and no conferences were attended in FY06.

- (E) , (F) The decrease in expenditures in FY06 is due to the additional expenses associated with the initial start-up costs to establish the Board that were incurred in FY05 and FY06 only included normal operating costs.

STATE OF ILLINOIS
 PROCUREMENT POLICY BOARD
ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING
 For the Two Years Ended June 30, 2006

<u>GENERAL REVENUE FUND – 001</u>	<u>FISCAL YEAR</u>	
	<u>2006</u>	<u>2005</u>
Personal Services	\$ 0	\$ 0
State Retirement	0	0
Social Security	0	0
Contractual Services	8,974 (A)	14,680 (B)
Travel	152	494
Commodities	351	256
Printing	84	0
Equipment	0	0
Telecommunications	<u>518</u>	<u>375</u>
Total General Revenue Fund Expenditures	<u>\$ 10,079</u>	<u>\$ 15,805</u>

Explanations of significant variations in expenditures (fluctuations of 20% or more and \$1,000) for the two years ended June 30, 2006 are presented below:

- (A) One invoice for legal services totaling \$3,300, one invoice for association dues totaling \$3,375, and one invoice for employee tuition and fees totaling \$780 were paid during the lapse period for services provided prior to June 30.
- (B) One invoice for legal services totaling \$3,000, one invoice for association dues totaling \$3,235, six invoices for the lease of office space totaling \$7,863, and four invoices for utilities totaling \$504 were paid during the lapse period for services provided prior to June 30.

STATE OF ILLINOIS
PROCUREMENT POLICY BOARD
ANALYSIS OF OPERATIONS
For the Two Years Ended June 30, 2006

AGENCY FUNCTIONS AND PLANNING PROGRAM

FUNCTIONS

The Procurement Policy Board (Board) is statutorily charged with the responsibility to review, comment upon and recommend rules and practices governing the procurement, management, control and disposal of supplies, services, professional and artistic services, construction, and real property and capital improvement leases procured by the State. In particular, the Board is specifically responsible for the approval of lease renewals for State agencies and by recent legislative action the review of most State contracts prior to execution. Leases and contracts reviewed number more than 6,000 annually.

PA 93-839 established a contract review process by which any proposed State contract that is bid or let through the Procurement Bulletin (which is the statutorily prescribed tool for bid letting) be reviewed over a 30 day time period. The Board may waive the 30 days in order to expedite transactions but this does not abdicate the Board's review authority.

From a programmatic standpoint, the Board's single mandate is the facilitation of procurement policy for the State of Illinois. In an ongoing capacity, the Board is in communication with the Chief Procurement Officers, State Purchasing Officers, and their designees for the purposes of policy review and development. In this context, the Board offers assistance in the way of standardized educational seminars for staff in need of foundation level procurement education. The seminars are structured in a format that allows procurement staff members to apply the coursework towards professional certification in this field.

The Board is governed by five members appointed one each by the four legislative leaders and the Governor. Within the Board's operations there are currently four employees and the statutory authority to staff accordingly in order to manage the contract review requirements of the Procurement Code. Professional and support staff are subordinate to the Executive Director and all employees function under the direction of the board.

PLANNING PROGRAM

Policy development is an ongoing function of the Board. When planning for some targeted project, the Executive Director and the board members discuss cause, effect, timing, cost, and implementing issues involved. Board members meet monthly to discuss issues such as approving the Board's operational budget, authorizing the number of employees and advising and recommending policies for the operation of the Board.

AUDITORS' ASSESSMENT

The Board's planning program appears adequate for meeting its statutorily defined functions.

STATE OF ILLINOIS
 PROCUREMENT POLICY BOARD
AVERAGE NUMBER OF EMPLOYEES
 For the Two Years Ended June 30, 2006

AVERAGE NUMBER OF EMPLOYEES

The following table, prepared from Agency records presents the average number of employees, by function, for the Fiscal Years ended June 30,

	<u>2006</u>	<u>2005</u>
Director	1	1
Fiscal Officer	1	1
Contract Analyst	1	1
Administrative Assistant	1	0
Total average full-time employees	<u>4</u>	<u>3</u>

STATE OF ILLINOIS
 PROCUREMENT POLICY BOARD
SERVICE EFFORTS AND ACCOMPLISHMENTS
 For the Two Years Ended June 30, 2006
 (Not Examined)

Pursuant to Section 5-30 of the Illinois Procurement Code, no contract procured above the small purchases limit may be executed until 30 days after notice of its award or letting appears in the Procurement Bulletin, without the Procurement Policy Board (Board) having the opportunity to review the proposed contract. The contracting agency may request, and the Board may agree to waive the 30-day period as necessary.

Board review occurs on proposed contracts that appear contrary to existing policy, contracts that are proposed under newly established policy and contracts that are particularly unique and do not find a ready course through existing procurement policy.

The following data provides details on the State's contracting activity in the areas of sole source, emergency, professional and artistic, and construction contracts in addition to Board reviews initiated and information requests and results for calendar year 2005. Calendar year 2006 information is not yet available.

	Calendar Year 2005
Contracts by Procurement Approach	
Amendment / Changes	148
Competitive Bid (IFB, RFP, etc)	3,123
Emergency	144
Orders (On-Going Notices)	58
Quality Based Selection	340
Professional and Artistic Exception to RFP	7
Renewal	518
Sole source	<u>1,397</u>
Total by Procurement Approach	<u><u>5,735</u></u>
 Contracts by Relevant Category	
Commodities	1,038
Construction	476
Entertainment	62
Equipment	737
Facilities	38
General Services	1,451
Health and Medical Services	42
Highway Construction	1,238
IT (Information Technology)	578
Pharmaceuticals	36
Telecom	<u>39</u>
Total by Relevant Category	<u><u>5,735</u></u>

STATE OF ILLINOIS
 PROCUREMENT POLICY BOARD
SERVICE EFFORTS AND ACCOMPLISHMENTS
 For the Two Years ended June 30, 2006
 (Not Examined)

	Calendar Year 2005
Contract Extensions by Method of Procurement	
Emergency	20
Sole Source	42
Other	8
Total Extensions by Method of Procurement	70
Procurement Reviews Initiated	
Contract Award Notice	15
Emergency	1
Sole Source	6
Total Procurement Reviews Initiated	22
More Information Requested and Results	
More Information Requested	408
Procurement Withdrawn Due to Board Inquiry	13
Professional and Artistic Contracts	
Professional and Artistic All Methods	373
Professional and Artistic Sole Source	131
Sole Source Contracts by Relevant Category	
Commodities	238
Construction	4
Entertainment	18
Equipment	255
Facilities	4
General Services	461
Health and Medical Services	10
Highway Construction	98
IT (Information Technology)	377
Pharmaceuticals	25
Telecom	19
Total Sole Source Contracts by Relevant Category	1,509