

**STATE OF ILLINOIS**

**DEPARTMENT OF  
CENTRAL MANAGEMENT SERVICES**

**SPECIAL EXAMINATION – STATUS OF PRIOR FINDINGS  
ISSUED PURSUANT TO  
LEGISLATIVE AUDIT COMMISSION  
RESOLUTION NO. 134**

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
SPECIAL EXAMINATION

**TABLE OF CONTENTS**

	<u>PAGE</u>
Agency Officials .....	1
Independent Accountant's Report.....	2
Status of Prior Findings Summary .....	4
Overall Response .....	6
Prior Findings – Implemented .....	7
Prior Findings – Partially Implemented.....	11
Prior Findings – Not Implemented .....	18
Prior Findings – Pending .....	30
Appendix A – Legislative Audit Commission Resolution No. 134.....	32

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
SPECIAL EXAMINATION

**AGENCY OFFICIALS**

Director	Mr. Michael M. Rumman (Effective through June 1, 2005)
	Mr. Paul J. Campbell (Acting, effective June 2, 2005)
Assistant Director	Mr. Paul J. Campbell (Effective through June 1, 2005)
Assistant Director	Mr. N. Keith Chambers
Chief Operating Officer	Mr. Brian Chapman
Chief Fiscal Officer	Mr. Ronald Banks
Chief Administrative Officer / General Counsel	Mr. H. Edward Wynn (Effective through July 31, 2005)
General Counsel	Ms. Letitia Dominici (Acting, effective August 1, 2005)
Chief Internal Auditor (Illinois Office of Internal Audit)	Mr. John Cressman

**AGENCY OFFICE LOCATION**

Stratton Office Building  
401 South Spring Street  
Springfield, IL 62706



## INDEPENDENT ACCOUNTANT'S REPORT

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois, Department of Central Management Services' implementation of the 2004 recommendations as specified in Legislative Audit Commission Resolution No. 134. The management of the State of Illinois, Department of Central Management Services' is responsible for implementation of these recommendations. Our responsibility is to express an opinion on the State of Illinois, Department of Central Management Services' implementation of the 2004 recommendations based on our examination.

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 State of Illinois, Department of Central Management Services' implementation of the 2004 recommendations and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Implementation of three of the 2004 recommendations is pending and, as such, we were unable to express an opinion on the State of Illinois, Department of Central Management Services' implementation of these recommendations.

In our opinion, except for the effect of matters we might have discovered had we been able to examine implementation relating to the three recommendations discussed in the preceding paragraph, the State of Illinois, Department of Central Management Services' has implemented six of the 2004 recommendations, has partially implemented four of the 2004 recommendations, and has not implemented eleven of the 2004 recommendations. The status of each 2004 recommendation is described on pages 7 through 31 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, and agency management, and is not intended to be and should not be used by anyone other than these specified parties.

*Arthur Andersen & Co, LLP*

Springfield, Illinois  
September 16, 2005

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
SPECIAL EXAMINATION

**STATUS OF PRIOR FINDINGS SUMMARY**

Finding Description	Prior Finding Code	Implemented	Partially Implemented	Not Implemented	Pending	Page
Efficiency initiative payments	04-1	X				7
Lack of documentation in contract files	04-2			X		18
Use of contractor work in developing RFP specifications	04-3			X		20
Changes in award evaluation criteria not communicated to proposers	04-4			X		21
Extensive vendor revisions to proposal during best and final process	04-5			X		22
Failure to publish that contract was awarded to other than the lowest priced vendor	04-6	X				7
Failure to include subcontractor information in contracts	04-7	X				8
Not timely in executing contracts	04-8			X		23
Contract monitoring deficiencies	04-9			X		24
Methodology for calculating savings amounts to bill agencies for savings initiatives	04-10			X		26
Inadequate documentation to support the validation of savings	04-11		X			11
Follow up to Management Audit of the Department's administration of the State's Space Utilization Program	04-12		X			14
Weaknesses in internal control over financial reporting	04-13				X	30

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
SPECIAL EXAMINATION

**STATUS OF PRIOR FINDINGS SUMMARY**

Finding Description	Prior Finding Code	Implemented	Partially Implemented	Not Implemented	Pending	Page
Noncompliance with the Fiscal Control and Internal Auditing Act	04-14				X	30
Surplus Property management process weaknesses	04-15		X			16
Reports of reorganization not filed as required	04-16	X				8
Preparation of year-end Department financial statements not timely	04-17				X	31
Inadequate control over property and equipment	04-18			X		27
Motor vehicle accident reports not submitted timely	04-19	X				9
Travel Control Board not meeting or submitting reports as required	04-20		X			16
Late approval of payment of vouchers	04-21			X		28
Employees not removed from payroll during leave of absence	04-22	X				9
Time sheets not maintained in compliance with the State Officials and Employees Ethics Act	04-23			X		28
Travel Headquarters Reports (Form TA-2) not properly completed	04-24			X		29

Auditor Notes:

#1 Refer to the Compliance Examination of the Department of Central Management Services for the Two Years Ended June 30, 2004 for the complete text of the issues summarized above and on the following pages. This report can be obtained at [www.state.il.us/auditor/agencies.htm](http://www.state.il.us/auditor/agencies.htm).

#2 Responses to the status of prior findings were provided by Mr. Paul Campbell in a letter dated October 13, 2005



### **Overall Response**

The Department agrees with the follow-up report and will redouble its efforts to improve its operations through implementation of the recommendations.

The Department continues to derive significant benefit from the audit process. While several of the recommendations have been implemented, we are dedicated to a process of continuous improvement and commit to fully and completely addressing each of the audit recommendations as quickly as possible.



STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
SPECIAL EXAMINATION

**STATUS OF PRIOR FINDINGS  
IMPLEMENTED**

1. Finding: Efficiency initiative payments  
Finding Code No.: 04-1

Synopsis: During the prior period, the Department paid efficiency initiative billings from improper line item appropriations. During FY04, the Department paid eight billings totaling \$24.8 million for efficiency initiatives. The payments for these billings were not from the line item appropriations where the cost savings were anticipated to have occurred, as provided for in the State Finance Act. Rather, the Department made payments for the billings generally where it had flexibility in funding levels.

Additionally, the Department allowed the Governor's Office of Management and Budget to establish the amounts that were billed to agencies for efficiency initiatives in September 2003.

Status: Implemented

For FY05, the Department was billed \$2.1 million for the Legal Consolidation, Communication Manager Consolidation, and Procurement Efficiency initiatives. The Department paid these billings in August 2005 from line items that were related to the initiative being billed.

In March 2005, the Department sent agencies details on the procurement initiative projects for which they were billed along with the methodology for how the FY05 billings were calculated. On July 26, 2005, the Department sent additional documentation and explanation, based on agency requests, for the IT and Telecom savings billings sent out in May 2005.

2. Finding: Failure to publish that contract was awarded to other than the lowest priced vendor  
Finding Code No.: 04-6

Synopsis: During the prior period, the Department failed to provide notification, in the Illinois Procurement Bulletin, that contracts were awarded to other than the lowest priced vendor. In 4 of the 9 contracts reviewed (44 percent), the Department awarded the contract to a vendor that was not the lowest priced proposer and did not publish this in the Procurement Bulletin.

Status: Implemented

During the current period, the procurement and award files for ten solicitations or contracts awarded in FY05, totaling a maximum award amount of approximately \$270 million, were selected for testing. During this review we noted the Department was in compliance with requirements to publish notification of contracts awarded to other than the lowest priced vendor.

3. Finding: Failure to include subcontractor information in contracts  
Finding Code No.: 04-7

Synopsis: During the prior period, the Department failed to ensure that subcontractor information required under the Procurement Code was included in contracts awarded by the Department. In 4 of the 9 contracts reviewed (44 percent), the Department failed to have information on subcontractors utilized by the selected vendor included in the contract. The Department estimated the value of these contracts to be approximately \$53 million.

Status: Implemented

During the current period, the procurement and award files for ten solicitations or contracts awarded in FY05, totaling a maximum award amount of approximately \$270 million, were selected for testing. During this review we noted subcontractor information, if applicable, was included in the contract as required by the Procurement Code.

4. Finding: Reports of reorganization not filed as required  
Finding Code No.: 04-16

Synopsis: During the prior period, the Department did not submit reports as required by the Executive Reorganization Implementation Act (the Act). Section 11 of the Act (15 ILCS 15/11) requires "Every agency created or assigned new functions pursuant to a reorganization shall report to the General Assembly not later than 6 months after the reorganization takes effect and annually thereafter for 3 years. This report shall include data on the economies effected by the reorganization and an analysis of the effect of the reorganization on State government. The report shall also include the agency's recommendations for further legislation relating to reorganization."

Status: Implemented

During the current period, the Department filed the first reports on the reorganizations with the General Assembly, which were due 6 months after the reorganizations took effect. The initial reports were filed as follows:

- Executive Order 2003-7 – May 3, 2005
- Executive Order 2003-10 (Legal) – May 3, 2005
- Executive Order 2003-10 (Internal Audit) – May 11, 2005
- Executive Order 2003-10 (Facilities Management) – May 13, 2005
- Executive Order 2004-2 – May 11, 2005

The first annual reports were filed June 22, 2005 for Executive Orders 2003-7 and 2003-10. The annual report for Executive Order 2004-2 is not due until October 1, 2005.

The second annual reports are due as follows:

- Executive Order 2003-7 – October 28, 2005
- Executive Order 2003-10 – November 30, 2005
- Executive Order 2004-2 – not due until October 1, 2006

5. Finding: Motor vehicle accident reports not submitted timely  
Finding Code No.: 04-19

Synopsis: During the prior period, the Department did not ensure motor vehicle accident reports were submitted timely by its employees.

Status: Implemented

During the current period, we performed a review of Department records and noted that there were 20 accidents involving Department employees during the period of July 1, 2004 through June 30, 2005. All of these accident reports were submitted timely.

6. Finding: Employees not removed from payroll during leave of absence  
Finding Code No.: 04-22

Synopsis: During the prior period, we tested 27 Department employees on leave of absence, and noted that 4 employees had not been removed from the payroll system in a timely manner.

Status:

Implemented

During the current audit period, 25 employees taking a leave of absence were tested. All 25 employees tested were properly removed from the payroll system in a timely manner.

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
SPECIAL EXAMINATION

**STATUS OF PRIOR FINDINGS  
PARTIALLY IMPLEMENTED**

7. Finding: Inadequate documentation to support the validation of savings  
Finding Code No.: 04-11

Synopsis: During the prior period, the Department did not maintain adequate documentation to support the validation of many of the savings which the Department attributes to its various efficiency initiatives. Furthermore, savings goals stated in the Request for Proposals (RFP), vendor proposals, and/or contracts were not always realized or documented.

Status: Partially Implemented

The Department awarded over \$69 million during FY04 to outside vendors for contracts intended to achieve savings as part of the efficiency initiatives. In some cases, contracts were awarded based on the vendors' ability to show they could meet savings goals stated in the RFP, vendor proposal and/or contract. Where savings are a specific goal, the Department should ensure it has in place a valid and reliable system to track savings achieved by the vendors.

As of September 14, 2005, the Department had not yet completed its validation of FY04 projected savings. Also, while the Department was unable to provide the amount of estimated savings that were attributable to the work conducted by the specific efficiency initiative contractors, the Department is in the process of identifying, on the savings template for each of the savings projects going through its validation process, the contractor's role and duration of project work as well as the contractor's key deliverables towards the savings.

After the April 2005 release of our FY04 Compliance Examination of CMS, the Department established the Initiative Savings Validation Project. According to the Project Charter for the Initiative Savings Validation Project, the purpose of the Project was "to identify and validate State of Illinois savings resulting from actions and/or activities attributable to CMS' consolidation and savings initiatives beginning in FY03." While the Project was comprised primarily of Department staff, in June 2005, the Department entered into a contract with Deloitte and Touche to provide assistance in the validation efforts. This contract is currently valued at an estimated \$995,000. An Executive Advisory Council, comprised of CMS management and Deloitte and Touche and Governor's Office representatives, was also created to monitor the validation effort.

In its formal response to the FY04 Compliance Examination, the Department noted that it had “reduced State government costs by more than \$600 million since Fiscal Year 2003 . . .” In other communications, the Department noted that more than \$600 million had been saved during the two-year period, including more than \$300 million in procurement, \$250 million in information technology and telecommunications, and \$44 million in facilities management.

As of September 14, 2005, the Department had reduced its fiscal year 2004 – 2005 estimated savings to \$545 million, down from the \$621 million it reported when the Auditor General’s FY04 compliance examination report was released in April 2005. The following adjustments were made:

<b>CMS Savings Validation Status<sup>1</sup></b> <b>(unaudited)</b> <b>Fiscal Years 2004 – 2005</b> <b>(in millions)</b>	
April 2005 estimate by CMS of FY04-05 savings	\$ 621
+ Additional estimated savings identified since April 2005	\$ 85
- Reductions in or erroneous savings identified since April 2005	(\$161)
September 2005 estimate of FY04-05 savings	\$545
Note: <sup>1</sup> As of September 14, 2005, the validation process was not completed. Department documents note that these numbers are estimates based on current status.	
Source: OAG analysis from CMS documents	

As of September 14, 2005, Department documentation showed 137 individual projects that were subject to its validation efforts. Of those 137 projects:

- 44 (32%), totaling \$392 million were through the validation process and were ready for peer review (a process where staff, not involved in the validation of the specific initiative, review various aspects of the projects, including the savings templates and documentation for thoroughness, accuracy of support, and evidence);
- 32 (23%), totaling \$153 million were still being reviewed as part of the validation process; and
- 61 (45%) did not result in specific savings because the Department determined that: (1) some projects’ savings amounts had already been counted in other projects and the Department did not want to double count these amounts, (2) there was limited documentation available for some projects, along with limited resources to complete the validation effort, resulting in the Department not pursuing some projects in the final validation efforts, or (3) there

was no savings associated with the project. The 61 projects included: 41 Procurement Initiative projects, 16 IT and Telecommunications Initiative projects, and 4 Facility Management Initiative projects. Some of the projects where no cost savings were realized were associated with the work performed by efficiency contractors. For example, under the Procurement Initiative, McKinsey employees were project team members for the "Mental Health Error Correction" project and on the "Medicare Recovery – Benefits Disability Leave" project, both of which had \$2.5 million in estimated savings. However, after the Department's validation process, these projects were determined to have no validated savings associated with them.

The Department is categorizing estimated savings into one of six cost savings categories:

- reduced baseline appropriation;
- reduction from budgeted spending;
- volume reductions;
- rate reductions;
- revenue increases (rebates, new revenue, fee increases, enhanced reimbursement); or
- cost avoidance.

Focusing on the Procurement Initiative savings, in January 2005, during our FY04 compliance examination, the Department reported \$108,249,175 in validated Procurement Initiative savings. As of September 14, 2005, Department validation reports show estimated FY04 savings for the Procurement Initiative had decreased to \$78,663,000. Furthermore, of the \$78,663,000, the Department was still in the process of validating \$66,970,000. Validation efforts were completed on the remaining \$11,693,000 and they were ready for the Department's peer review process.

Department Response:

The Department agrees and will continue to improve its processes for calculating savings and billings. The Department has made significant progress in calculating billings and documenting savings from fiscal year 2004, the first year of this process. The Department has developed a more rigorous savings validation approach that consistently documents actual savings achieved through its efficiency initiatives. Through actual experience and documentation of methods and approach, billings for forecasted savings will continue to become more precise with less deviation from actual validated savings. The Department contracted with Deloitte to provide assistance in the validation efforts. Deloitte will be issuing a report with its analysis.

Capturing savings is a collaborative effort between agency program staff, CMS and vendors. We collect information in our savings validation templates regarding roles and deliverables for the vendors associated with our efficiency initiatives. The documentation collected by the savings validation effort and by program staff working directly with the vendors verifies their contribution and level of effort towards the savings goals. The Department agrees that if savings are delineated in the contract as a specific deliverable, they will be tracked against that vendor.

8. Finding: Follow up to Management Audit of the Department's administration of the State's Space Utilization Program

Finding Code No.: 04-12

Synopsis: In February 2004, the Office of the Auditor General released a management audit of the Department's Administration of the State's Space Utilization Program. The audit contained nine recommendations to improve the performance and operation of the Department to effectively manage the State's real property. As part of the Department's Compliance Examination for the year ended June 30, 2004, we followed up on the status of the nine recommendations. As of September 2004, while the Department had addressed issues in the recommendations, we found that none of the nine recommendations had been fully implemented.

On December 29, 2003, the Department awarded a \$24.9 million contract to Illinois Property Asset Management (IPAM) for professional asset management services – which included activities to address the recommendations in the management audit. This contract was terminated on May 5, 2005.

Status: Partially Implemented

We reviewed Department actions towards full implementation of the nine recommendations up through August 24, 2005 and found that four of the nine recommendations (#4, 5, 6, 9) had been implemented. Status of the remaining five recommendations is detailed below:

Recommendation #1 (Agency Reporting of Real Property): While the Department revised the Annual Real Property Utilization Report (Form A) and took steps to require agencies to submit required information on the Form A – it has not resolved the discrepancy in the reporting date for that information. While in practice the Department holds agencies to the statutory reporting date of October 30<sup>th</sup> (30 ILCS 605/7.1), the Department's administrative rules still provide a contradictory reporting date of July 30<sup>th</sup> (44 Ill. Adm. Code 5000.720).



Recommendation #2 (Accuracy of the Master Record): The Department clarified reporting requirements for wetland and flood mitigation projects in an agency directive in August 2005. The Department has developed an accounting of land and buildings owned by the State. However, the master record needs additional verification through the Department's process of facility condition assessments for approximately 40 million square feet of State-owned space.

Recommendation #3 (Automation of the Master Record): The Department has automated the master record and it is maintained in a sequel server database at IPAM. However, as of August 2005, after the termination of the contract with IPAM, the Department does not have physical possession of the databases – they are still at IPAM.

Recommendation #7 (Use of Unoccupied Space in State-Owned Facilities): The Department, as of August 24, 2005, has not completed the facility condition assessments on State-owned facilities to be able to identify all excess space.

Recommendation #8 (Monitoring of Leased Space): The Department, as of August 24, 2005, has not performed a complete analysis of leased space and the potential for excess space in leased facilities.

Department  
Response:

The Department agrees and will continue its efforts to fully implement each of the recommendations from the February 2004 audit of the State's Space Utilization Program. The Department had outsourced much of the inventory and system development work to Illinois Property and Asset Management (IPAM) and has subsequently cancelled that contract. As a result, the Department is reevaluating its approach but commits to continue to make progress towards its goals.

Recommendation #1: The Department will enforce the administrative rules and require agencies to submit reports by July 30<sup>th</sup>.

Recommendation #2: The Department is developing a plan to complete the facility condition assessments for all State-owned space in order to verify the master record.

Recommendation #3: The Department is continuing its efforts to secure deliverables from IPAM, including the databases containing the master record.

Recommendation #7: The Department is developing a plan to complete the facility condition assessments for all State-owned space in order to identify all excess space.

Recommendation #8: The Department is completing its analysis of leased space and the potential for excess space in leased facilities.

9. Finding: Surplus Property management process weaknesses  
Finding Code No.: 04-15

Synopsis: During the prior period, the Departments' State Surplus Warehouse did not maintain an adequate inventory control system. The lack of an adequate inventory control system hindered the ability of the warehouse to offer equipment to State agencies. A comprehensive list of available items was not maintained or disseminated to agencies. However, agencies were permitted to send "want lists" and be notified of requested transferable equipment as it became available. Additionally, the lack of effective controls regarding the receipt and inventory of equipment increased the potential for theft of the State's surplused property. Compensation for sale of computer equipment was also found to be inadequate and the Department did not ensure computer equipment was adequately cleared of all data prior to being surplused.

Status: Partially Implemented

Based on testing performed during the current period, data on computers transferred to Surplus Property was found to have been properly removed. However, it was further noted that the Department's implementation of an adequate inventory control system has not been completed. The Department has taken steps to address this finding, such as establishing the Council on Inventory Control; although many conditions that led to the prior year finding still exist.

Department Response:

The Department agrees and continues to look for ways to improve controls over the receipt and tracking of inventory. To that end, it has created the Inter-agency Council on Inventory Control (Council). The Council is comprised of property control liaisons representing agencies, boards, commissions, and universities with a goal to develop, recommend and propose uniform requirements and, potentially, technology to be used by all State agencies. The Council continues to meet monthly and has conducted a survey of inventory control rules and practices in other states. The survey data is being used to determine legislative or rules changes that may be appropriate.

10. Finding: Travel Control Board not meeting or submitting reports as required  
Finding Code No.: 04-20

Synopsis: During the prior period, the Governor's Travel Control Board, chaired by the Director of the Department, did not meet quarterly as required. In addition, quarterly travel reimbursement claim reports were not submitted by the Board to the Legislative Audit Commission as required.

Status: Partially Implemented

During the current period, meetings of the Governor's Travel Control Board were held on a quarterly basis. However, individuals present at the meetings may not have been properly appointed to serve. In addition, consent of the appointing official was not obtained in writing as required for an individual designated to serve in the absence of an appointed member. The Governor's Travel Control Board submitted quarterly travel reimbursement claim reports to the Legislative Audit Commission at least quarterly during the current period.

Department Response:

The Department agrees and will ensure that designees are properly appointed to serve and that the appointments are in writing.

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
SPECIAL EXAMINATION

**STATUS OF PRIOR FINDINGS  
NOT IMPLEMENTED**

In May and June 2005, the Department issued a series of Chief Procurement Officer (CPO) Notices designed to address many of the contract deficiencies noted in the prior examination. Additionally, training of State Procurement Officers was conducted in July 2005. Testing of the adequacy of the specific corrective action measures adopted could not be performed for FY05 procurements due to the timing of adoption and implementation of the CPO Notices. Testing will be performed in conjunction with the next examination of the Department for the one year ended June 30, 2006.

11. Finding: Lack of documentation in contract files  
Finding Code No.: 04-2

Synopsis: During the prior period, the procurement and award files for nine contracts awarded in FY04 related to the Department's major initiatives, totaling a maximum award amount of \$69 million, were selected for testing. While the Department's contract files contained summary scoring sheets for each procurement tested, 6 of 9 contract files (67 percent) did not contain the individual evaluators' scoring sheets. Further, some summary sheets did not identify who the evaluators were and some summary scoring sheets did not show a breakdown of the scoring by evaluation category. Lacking this detailed information, the accuracy of the summary sheet, and the integrity of the scoring process, could not be verified.

Additionally, 8 of the 9 FY04 contract files tested (89 percent) lacked evidence of a decision memorandum to the Director recommending the award of a contract to a specific vendor.

Status: Not Implemented

During the current period, the procurement and award files for ten solicitations or contracts awarded in FY05, totaling a maximum award amount of approximately \$270 million, were selected for testing.

Six of the 10 tested contract files (60 percent) awarded in FY05 lacked documentation in the contract files in one or more areas. Concerns were raised about the availability and completeness of information provided to the auditors. Numerous documents expected to be retained centrally in contract files were missing upon initial review. Many of the requested documents were subsequently provided, however, the omission of these documents from the contract files demonstrates the Department's inability to provide sufficient support for procurement decisions in a timely and complete manner.

Specific documentation not contained in contract files included the following:

- No written recommendation or decision memorandum for a procurement outlining reasons for selecting the winning vendor.
- A written recommendation did not provide sufficient justification for selecting the winning vendor.
- A technical point evaluation was done collectively for all persons performing the proposal evaluation rather than individually by each person, as required by a document titled "Evaluation Procedures for Bids (IFB) and/or Proposals (RFP)" maintained on the State Purchasing Officer's (SPO) web page.
- A contract was executed that included an hourly rate for the vendor different than the rate proposed, and the contract file lacked documentation regarding the change. In this instance the rate was lower than proposed; however, there was no documentation of a best and final offer process.
- For one solicitation only the successful vendor was deemed responsive. The contract file lacked documentation of the reasons all other vendors were deemed unresponsive.

In addition, the Department was unable to provide a procurement file for a sole source procurement awarded during FY05. Significant documents relating to the procurement process were not retained and the Department did not execute a contract. No services were provided to the Department under this procurement and no payments were made to the vendor.

Department  
Response:

The Department agrees and will continue its efforts to fully implement the recommendations. In May 2005, the Department issued Chief Procurement Officer (CPO) Notice #37 reinforcing existing guidelines that all appropriate documentation needs to be maintained in the file. The Department conducted further training for CMS and the State Purchasing Officers (SPOs) in May and July 2005. The Department made additional improvements to the existing Procurement Business Case and as of June 2005 requires the award justification to be added to ensure a complete record of the procurement activity. The Procurement Business Case (PBC) serves as a decision memo to capture procurement data, justification, vendor information and necessary approvals from inception to completion for procurements that meet the requirements for a PBC.

12. Finding: Use of contractor work in developing RFP specifications  
Finding Code No.: 04-3

Synopsis: During the prior period, the Department used vendors to develop specifications in Requests for Proposals (RFP) – including some vendors that eventually received awards for the procurement opportunities. In 67 percent (6 of 9) of the contracts reviewed, the winning vendor participated in the development of information for the RFP and/or was granted a waiver by the Department to propose on the procurement. Three of the six winning vendors had information attributed to them in the RFP.

Status: Not Implemented

During the current period, the procurement and award files for ten solicitations or contracts awarded in FY05, totaling a maximum award amount of approximately \$270 million, were selected for testing.

In 1 of the 10 FY05 contracts tested (10 percent), the Department used vendors to develop specifications in the RFP, including the vendor that eventually received the award. The winning vendor was granted a waiver by the Department to propose on the procurement. Prior to the issuance of the solicitation, this vendor provided extensive “pro bono” work to the Department. Certain information developed as a result of the pro bono work was provided to prospective proposers.

In another instance, the Department had contact with the winning vendor, outside the normal solicitation process. Two Department officials met with this vendor prior to the issuance of the RFP. No other vendors were contacted regarding the issuance of the RFP. This vendor was subsequently determined to be the only responsive bidder on this contract.

Department Response:

The Department agrees and will continue its efforts to fully implement the recommendations. There is significant value to State procurement staff meeting with potential suppliers in order to develop a complete understanding of a particular industry or product set including industry trends, best practices, new innovations and costs; however, the Department understands that this value needs to be balanced with the necessity for a fair procurement process to all vendors.

In May 2005, the Department issued Chief Procurement Officer (CPO) Notice #38 establishing guidelines for using a vendor to develop specifications or to conduct a study or data collection effort. The Department conducted further training for CMS and the State Purchasing Officers (SPOs) in May and July 2005.

The Department issued a memo on June 30, 2005 to all SPOs providing further guidance on communicating with suppliers. Additional training was conducted with all SPOs to facilitate understanding and discuss any questions or issues.

The procedures, guidelines and training were implemented to ensure that when agencies utilize vendors' services that full transparency is provided.

13. Finding: Changes in award evaluation criteria not communicated to proposers  
Finding Code No.: 04-4

Synopsis: During the prior period, the Department evaluated vendor proposals using evaluation criteria that were not stated in the RFP. Changes in scoring methodology were not communicated to proposing vendors or reflected in an addendum to the RFPs. Additionally, in one of these instances, the Department awarded a contract to a vendor that had not received the highest scoring total based on evaluation criteria set out in the RFP.

Status: Not Implemented

During the current period, the procurement and award files for ten solicitations or contracts awarded in FY05, totaling a maximum award amount of approximately \$270 million, were selected for testing.

In one of the tested awards, a \$162 million contract for pharmaceuticals, the Department used an evaluation process that conflicted with the process specified in the RFP. After technically scoring the proposals and determining that 3 of the 4 vendors met the minimum responsiveness point scale, CMS failed to proceed to price evaluation as stated in the RFP. The evaluation committee instead determined that no vendor met all of the Mandatory Requirements from the RFP and sent all 4 vendors a revised document on the Mandatory Requirements from the RFP as a stated Best and Final Offer. Within this correspondence is no mention that the evaluation criteria had been changed from what was outlined in the RFP. After reviewing the second responses, the evaluation committee determined that only the winning vendor was evaluated as being able to meet the State's requirements. The evaluation committee, through a consultant, reviewed pricing submitted by all vendors, even though only the winning vendor was deemed able to meet all the requirements, and the pricing structure of the winning vendor was identified as being at the "upper end of the market".

Department

Response:

The Department agrees and will continue its efforts to fully implement the recommendations. The Department understands the importance of maintaining the proper documentation in the files to support procurement decisions. The Department continues to update procedures and conduct training to emphasize the importance of documentation in the procurement files.

Also, in May 2005, the Department issued Chief Procurement Officer (CPO) Notice #40 reinforcing that the evaluation criteria and sourcing methodology need to be accurately reflected in the Request for Proposal (RFP) and any change to the evaluation criteria requires an addendum to be published on the Illinois Procurement Bulletin.

14. Finding: Extensive vendor revisions to proposal during best and final process  
Finding Code No.: 04-5

Synopsis:

During the prior period, the Department allowed a vendor to extensively revise its proposal during the best and final process after initial scoring evaluations were completed. Several items deleted by the vendor during the best and final process eventually were added back into the agreement, in the form of contract amendments. The amendments, potentially costing the State \$5.75 million, were entered into after the award of the contract.

Status:

Not Implemented

During the current period, the procurement and award files for ten solicitations or contracts awarded in FY05, totaling a maximum award amount of approximately \$270 million, were selected for testing.

Of the 10 FY05 contracts tested, we noted the Department allowed a vendor to extensively revise its proposal during the best and final process. Of 4 vendors submitting proposals for performing various types of pressure washing services, the vendor awarded the contract was the only vendor determined to be responsive to the RFP. The original proposal submitted by the vendor quoted statewide rates. The best and final offer revised the rate structure based on regions. For many of the pressure washing services to be provided, the final pricing by region was double or triple the original statewide rate quoted in the winning vendors' initial proposal.

Department

Response:

The Department agrees and will continue its efforts to fully implement the recommendations. The Department understands the importance of maintaining the proper documentation in the files to support procurement decisions. The Department continues to update procedures and conduct training to emphasize the importance of documentation in the procurement files.



The Department also issued Chief Procurement Officer Notice #36 reinforcing that Best And Final Offer (BAFOs) requests need to clearly state which areas of the proposal the vendor is being asked to address and provide greater guidance on when and how BAFOs should be requested. The Department conducted further training for CMS and the State Purchasing Officers (SPOs) in May and July 2005. As of September 2005 all CMS BAFOs need the approval of the SPO.

15. Finding: Not timely in executing contracts  
Finding Code No.: 04-8

Synopsis: During the prior period, the Department was not timely in executing contracts with vendors for contracts awarded and was not timely in filing the contracts with the Office of the Comptroller. Additionally, the Department allowed vendors to initiate work on these projects without a written contract in place. In all 9 of the contracts reviewed (100 percent), the Department allowed vendors to initiate work on the project without a formal written agreement in place. These contracts were estimated by the Department to have a maximum contract value of \$69 million with an FY04 financial commitment of \$32 million.

Status: Not Implemented

During the current period, the procurement and award files for ten solicitations or contracts awarded in FY05, totaling a maximum award amount of approximately \$270 million, were selected for testing.

Of the 10 FY05 awards tested, only 8 resulted in contracts. Six of the 8 FY05 contracts tested (75 percent) were not filed timely. On average, the length of time between announcement of the award and the filing of a contract with the Comptroller, for the late filed contracts, was 125 days (with a range of 64 days to 190 days). Two of the contracts were not filed within 30 days of contract execution as required. In 1 of the contracts reviewed, the Department allowed the vendor to work on the project for approximately 6 months without a formal written agreement in place.

Department Response:

The Department agrees and will continue its efforts to fully implement the recommendations. The six contracts not filed timely are largely due to the complex nature of the procurements and other factors such as outside reviews by the Procurement Policy Board and the Government Forecasting & Accountability Commission. The Department will continue to implement improvements to this process.

The Department issued late filing affidavits for the two contracts not filed within 30 days and for the one where the vendor started work prior to a formal written agreement. The Department continues to work on improving timely submission of contracts to decrease the need for late filing affidavits. Additional internal procedures have been implemented as of July 1, 2005, which requires the fiscal coordinator's review before a Procurement Business Case is approved.

16. Finding: Contract monitoring deficiencies  
Finding Code No.: 04-9

Synopsis: During the prior period, 7 of the 9 FY04 contracts selected for review allowed the vendor to be reimbursed for expenses. During FY04, the Department paid the seven contractors \$708,715 in reimbursable expenses. Expense reimbursements to 5 of the contractors totaling \$546,650 of the \$708,715 in expenses paid (77 percent) during FY04 were questioned due to lack of supporting documentation submitted by contractors and the Department's lack of adequate review.

Status: Not Implemented

During the current period, the procurement and award files for ten solicitations or contracts awarded in FY05, totaling a maximum award amount of approximately \$270 million, were selected for testing.

On June 10, 2005, the Department created interim procedures for review and approval of reimbursable vendor expenses. These interim procedures were codified in Fiscal Operations Policy Number 02.04.00 effective September 19, 2005.

During our current review, we noted the following items on two FY05 contracts tested:

- The vendor awarded the truck fleet management contract billed the Department a per-invoice fee in excess of the fee stipulated in the contract. In addition, the Department is not pre-authorizing all repair work as stipulated in the contract. Further, invoices for fleet repairs were processed, paid and charged to the current contract, prior to the execution of the current contract.
- For a legal services contract, the Department did not obtain documentation supporting claimed expenses on a timely basis, certain documentation received was not sufficient to support the expenses claimed, and certain parking costs did not relate directly to the project.

In April and May 2005, the Department requested that the Illinois Office of Internal Audits (IOIA) review the expenses paid to four of the contractors with FY04 questioned expenses – Illinois Property Asset Management, BearingPoint, Accenture, and Electronic Knowledge Interchange. The IOIA review was to be for both FY04 and FY05. The IOIA worked in conjunction with the Executive Office of the Inspector General on this review. This process, review by IOIA and subsequent follow up by the Department to recover any applicable funds, has not yet been completed.

We are continuing to review contracts from the FY04 audit and the results of our testing will be included in the FY05 compliance examination of the Department. Specifically, we will be reviewing contract monitoring deficiencies in the asset management contract which was terminated May 5, 2005. According to CMS officials and documentation provided to us by CMS fiscal personnel, the Department questions \$5.2 million in payments to the vendor. However, due to the intervening cancellation of this contract in May 2005, the Department has been unable to obtain necessary documentation from the vendor concerning these charges. Additionally, CMS documentation delineates \$7.4 million in “additional service plans” that were submitted by the vendor for work outside the contract with the vendor. Some of these additional service plans were developed prior to the execution of the formal agreement for the asset management services to be provided by this vendor.

Department  
Response:

The Department agrees and will continue its efforts to fully implement the recommendations. A revised procedure for review and approval of vendor expenses was implemented shortly after the issuance of the initial audit report. This interim procedure, which has been formalized through the issuance of Fiscal Operations Policy 02.04.00 effective September 19, 2005, requires the approval of the appropriate Deputy Director as well as the Agency Chief Financial Officer in order to verify that the expenses are warranted under the contract. This new Fiscal Operation Policy was discussed with the Fiscal Coordinators at the quarterly meeting on September 30, 2005.

In addition, the Department has implemented new standard contract Terms and Conditions that do not allow for reimbursement of any expense incurred by the vendor unless specifically negotiated by the vendor.

The Department is working with Internal Audit on their reviews of the expenses for Bearing Point, Accenture and EKI and will seek additional documentation from the vendor where deficient. In addition, the Department will take steps to obtain reimbursement for any items found to have been paid in error. With respect to the IPAM contract, the Department is in litigation with the vendor and will seek reimbursement for any inappropriate expenses through the legal process.

17. Finding: Methodology for calculating savings amounts to bill agencies for savings initiatives  
Finding Code No.: 04-10

Synopsis: During the prior period, the Department failed to adequately determine the amount of savings it expected State agencies to realize when billing for savings initiatives. This resulted in a majority of State agencies being over billed – i.e., they were billed more for savings initiatives than Department documentation showed the agencies had realized in savings. During FY04, the Department billed State agencies \$137 million for efficiency initiatives for: procurement, information technology, vehicle fleet management, facilities management consolidation, internal audit consolidation, and legal research consolidation.

Status: Not Implemented

During FY05, the Department billed State agencies \$41 million for efficiency initiatives relating to procurement, information technology, communication manager consolidation, and legal research consolidation. The Department has collected only \$21 million of the amount billed (51 percent). The remaining balance was written off by the Department through the issuance of credits to 20 agencies totaling \$20 million. Department representatives stated the credits were issued for a variety of reasons which included agencies claiming there was a lack of supporting documentation for the savings and billing amounts, agencies disagreed with the savings or believed the savings would not be realized, or agencies were federally funded and the billings were unallowable expenses.

Not all agencies were billed for the procurement and information technology initiatives for some or all of the various categories of estimated savings. For instance, the Department of Corrections, Department of Human Services, Department of Children and Family Services, Department of Health and Family Services were billed for some information technology categories but not all categories determined by the Department to expect savings. The Department of Central Management Services, Historic Preservation Agency and the Illinois Student Assistance Commission were billed for procurement efficiency, but not for any of the information technology efficiency initiative. The Governor's Office was billed for both initiatives in FY04 but was not billed for either initiative in FY05.

The procurement efficiency initiative billings included a component for savings in various commodity categories. However, the Department failed to consider commodity quantities on hand in estimating FY05 purchases.

Department  
Response:

The Department agrees and will continue to improve its processes for calculating savings and billings as we gain actual experience and data. The Department has made significant progress in calculating billings and documenting savings from fiscal year 2004, the first year of this process. In 2004, the initial savings calculations were largely based on diagnostic data collected through various methods and gauged against industry standards and best practices. Through actual experience and documentation of methods and approach, forecasted savings will continue to become more precise with less deviation from actual validated savings. The Department contracted with Deloitte to provide assistance in the validation efforts. Deloitte will be issuing a report with its analysis.

The Department has developed an improved savings validation approach that consistently documents actual savings achieved through its efficiency initiatives. In fiscal year 2005, the methodology for calculating the savings billings for agencies was greatly improved. Using actual experience from fiscal year 2004, the annualized savings were projected into FY2005, and the specific agency billings were based on actual data summarizing their historical usage patterns for purchases of goods and services through the Bureau of Strategic Sourcing and Procurement and the Bureau of Communications and Computer Services. The methodology and accuracy of the resulting bills was significantly improved over fiscal year 2004.

The Department will continue to work with stakeholders to improve its methodology and coordination around billings and accounts receivable credits.

18. Finding: Inadequate control over property and equipment  
Finding Code No.: 04-18

Synopsis: During the prior period, the Department did not provide adequate control over property and equipment. The physical inventory and location of equipment, equipment purchases, and equipment transfers and deletions were tested, and deficiencies were noted in each area.

Status: Not Implemented

During the current period, we tested 60 equipment expenditures, and noted that in 10 cases (17 percent) the equipment value was not recorded correctly in the property control records. While looking at existing property, 3 of 60 property items tested (5 percent) were found in locations other than where the property control records indicated, and 2 of 60 items tested (3 percent) could not be located.

Department

Response: The Department agrees and has corrected the exceptions found by the auditors. The Department will continue to identify and implement policies and procedures to safeguard State property and equipment.

19. Finding: Late approval and payment of vouchers  
Finding Code No.: 04-21

Synopsis: During the prior period, the Department did not approve 17 of 60 invoice vouchers (28 percent) within 30 days of receipt and 15 of the 17 vouchers not approved timely (88 percent) were also not paid within 60 days of receipt.

Status: Not Implemented

During the current period, we tested 60 vouchers, and noted that 43 vouchers (72 percent) were not approved within 30 days of receipt, ranging from 1 to 89 days late. We also noted that 32 of the 43 vouchers (74 percent) were also not paid within 60 days of receipt, ranging from 2 to 60 days late.

Department

Response: The Department agrees and fiscal staff will continue to process vendor invoices to the CMS Accounting Division in a timely fashion. Cash shortfalls in the State Garage Revolving Fund (SGRF) and the Facilities Management Revolving Fund (FMRF), however, have precluded the delivery of payment vouchers to the Comptroller until sufficient cash is in the funds. Revolving Funds are established to finance and account for intra-governmental services. Appropriation of resources of these funds is dependent upon intra-governmental service requirements and appropriations of other State agencies. Revolving Fund resources are provided by expenditures of State agencies financed by the fund.

We will continue to pursue dialogue with the Illinois Office of the Comptroller regarding changes to the Prompt Payment Rules to address the cash flow issues.

20. Finding: Time sheets not maintained in compliance with the State Officials and Employees Ethics Act  
Finding Code No.: 04-23

Synopsis: During the prior period, the Department did not maintain time sheets for its employees in compliance with the State Officials and Employees Ethics Act (Act). The Act (5 ILCS 430/5-5(c)) states, "The policies shall require State employees to periodically submit time sheets documenting the time spent each day on official State business to the nearest quarter hour."

Based on testing performed, it was determined most of the Department's employees did not maintain time sheets in compliance with the Act. Employees' time is generally tracked using the Central Management Services payroll system, which is a "negative" timekeeping system whereby the employee is assumed to be working unless noted otherwise. No time sheets documenting the time spent each day on official State business to the nearest quarter hour were maintained for the majority of Department employees.

Status: Not Implemented

During the current period, the Department obtained an opinion from the Executive Ethics Commission that its revised timekeeping policy is consistent with the requirements of the Act. The policy stipulates, "...each employee will receive a timesheet for review on a periodic basis. Employees are to promptly review the timesheets to determine: (a) time spent on official State business, and (b) authorized leave, to the nearest quarter hour". However, the Department has not made any modifications to the methods used to track employee time. Forty-four of 50 employees tested (88 percent) did not maintain timesheets documenting the time spent each day on official State business to the nearest quarter hour.

Department Response:

The Department agrees. The Department is currently exploring potential modifications to the monthly employee certification that would provide more detail on time spent on official State business.

21. Finding: Travel Headquarters Reports (Form TA-2) not properly completed  
Finding Code No.: 04-24

Synopsis: During the prior period, the Department did not properly complete the TA-2 reports filed with the Legislative Audit Commission (LAC).

Status: Not Implemented

During the current period, we reviewed the TA-2 reports due to the LAC on January 15, 2005 and July 15, 2005. We noted that one employee, who was headquartered in Chicago, spent 59 percent of her working time in Springfield, during the period of July 1, 2004 through December 31, 2004, and was not listed on the TA-2 form filed January 15, 2005. This person was listed in an addendum filed late on July 20, 2005.

Department Response:

The Department agrees and will take all necessary steps to properly complete the TA-2 reports filed with the Legislative Audit Commission (LAC).

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
SPECIAL EXAMINATION

**STATUS OF PRIOR FINDINGS  
PENDING**

22. Finding: Weaknesses in internal control over financial reporting  
Finding Code No.: 04-13

Synopsis: During the prior period, the Department's year-end financial reporting, in accordance with generally accepted accounting principles (GAAP), to the Office of the State Comptroller, contained significant errors in the determination of year-end liabilities.

Status: Pending

Due to the timing of GAAP submissions to the Office of the Comptroller, the status of the prior year finding has yet to be determined. The finding will be addressed once the GAAP submissions to the Office of the Comptroller are complete and appropriate testing can be performed. The results of this testing will be reported in the Department's Compliance Examination for the period ended June 30, 2005.

23. Finding: Noncompliance with the Fiscal Control and Internal Auditing Act  
Finding Code No.: 04-14

Synopsis: During the prior period, the Department's Illinois Office of Internal Audit (IOIA) did not complete audits of all agencies' major systems of internal accounting and administrative control. Further, an effective process to identify new major computer systems or major modification of existing computer systems was not in place.

Status: Pending

Beginning in FY05, IOIA has adopted a Statewide risk-based approach in the development of its two-year internal audit plan. Additionally, IOIA has continued to enhance communications with other State agencies to identify new major computer systems or major modification of existing computer systems. IOIA is monitoring the status of reported projects and performing tests of certain systems. Compliance with the Fiscal Control and Internal Auditing Act cannot be fully assessed until this initial two-year period has lapsed and IOIA audit efforts can be appropriately tested.



24. **Finding:** Preparation of year-end Department financial statements not timely  
**Finding Code No.:** 04-17

**Synopsis:** During the prior period, the Department's financial statements were not prepared timely, impeding the audit process and potentially impacting the statewide financial statements prepared by the Office of the Comptroller.

**Status:** Pending

Due to the timing of GAAP submissions to the Office of the Comptroller, the status of the prior year finding has yet to be determined. The finding will be addressed once the GAAP submissions to the Office of the Comptroller are complete and appropriate testing can be performed. The results of this testing will be reported in the Department's Compliance Examination for the period ended June 30, 2005.

APPENDIX A

Legislative Audit Commission

RESOLUTION NO. 134

Presented by Senator Lauzen and Representative Mautino

WHEREAS, in April 2005, the Auditor General released a financial audit and compliance examination of the Department of Central Management Services;

WHEREAS, those reports presented a total of twenty-four findings identifying significant deficiencies;

WHEREAS, since the reports were released, the Department has accepted 23 of the 24 recommendations;

WHEREAS, follow-up is necessary to determine whether and to what extent the Auditor General's recommendations have been implemented; therefore, be it

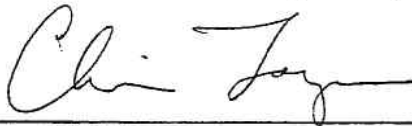
RESOLVED, BY THE LEGISLATIVE AUDIT COMMISSION that the Auditor General is directed to follow-up on its 2004 financial and compliance audit of the Department of Central Management Services; and be it further

RESOLVED, that the follow-up include, but need not be limited to, determining the status of the Department's implementation of the recommendations contained in the 2004 reports; and be it further

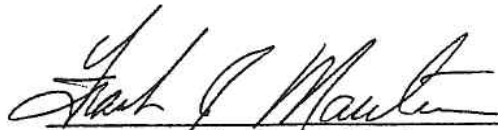
RESOLVED, that the Department of Central Management Services and any other entity or person that may have information relevant cooperate fully and promptly with the Auditor General's Office in the conduct of the follow-up; and be it further

RESOLVED, that the Auditor General commence this follow-up as soon as necessary and report his findings back to the Audit Commission by October 17, 2005, or as soon thereafter as possible, in accordance with the Illinois State Auditing Act.

Adopted this 23<sup>rd</sup> day of May, 2005.



Senator Chris Lauzen  
Co-chair



Representative Frank Mautino  
Co-chair

**REPORT DIGEST****DEPARTMENT OF  
CENTRAL MANAGEMENT  
SERVICES****FINANCIAL AUDIT**

For the Year Ended:

June 30, 2004

and

**COMPLIANCE  
EXAMINATION**

For the Two Years Ended:

June 30, 2004

**Summary of Findings:**

Total this audit	24
Total last audit	6
Repeated from last audit	2

Release Date:  
April 26, 2005

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

To obtain a copy of the Report contact:  
Office of the Auditor General  
740 E. Ash Street  
Springfield, IL 62703  
(217) 782-6046 or TTY (217) 888-2887

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the worldwide web at  
<http://www.state.il.us/auditor>

**SYNOPSIS**

- CMS paid efficiency initiative billings from improper line item appropriations. During FY04, CMS paid eight billings totaling \$24.8 million for efficiency initiatives.
- CMS' contract files lacked individual scoring sheets for 6 of 9 efficiency initiative contracts we tested. Eight of 9 contract files we tested lacked evidence of a written determination for contract award. The 9 contracts totaled \$69 million.
- In 6 of 9 efficiency initiative procurements we reviewed, the winning vendor participated in the development of information for the RFP and/or was granted a waiver by CMS to propose on the procurement. CMS did not post notices in the Procurement Bulletin stating that it was in the State's best interest to accept proposals from these vendors.
- CMS evaluated vendor proposals using evaluation criteria that were not stated in the RFP.
- CMS allowed the Asset Management vendor (IPAM, LLC) to extensively revise its proposal during the best and final process after initial scoring evaluations were completed. The Asset Management contract is valued at \$24.9 million.
- CMS failed to post notices in the Procurement Bulletin when awarding contracts to other than the lowest priced vendor, as required by law and administrative rules.
- CMS failed to include information about subcontractors utilized by the vendor in 4 of 9 contracts we reviewed.
- In 9 of 9 efficiency initiative contracts we reviewed, CMS allowed vendors to initiate work on the project without a formal written agreement in place.
- We questioned 77% (\$546,650 of \$708,715) of vendor expenses reimbursed by CMS in FY04:
  - For 4 of the 7 contracts, there was no documentation attached to the billing invoices to substantiate that the expenses actually occurred.
  - For 2 of the 7 contracts, reimbursement rates exceeded the amounts set forth in the contract.
  - We questioned \$43,615 of \$177,501 in expenses paid to the Asset Management vendor (IPAM, LLC). A list of questioned costs is included in this Report Digest.
- CMS billed \$137 million for efficiency initiatives to State agencies during FY04 without adequate determination of anticipated savings.
- CMS did not maintain adequate documentation to support the amount of savings it attributes to efficiency initiatives. Also, savings goals stated in RFPs, vendor proposals and/or contracts were not always realized or documented.
- CMS' Illinois Office of Internal Audit did not complete audits of major systems as required by the Fiscal Control and Internal Auditing Act.
- CMS' Surplus Warehouse did not maintain an adequate inventory control system.
- CMS did not file reports on reorganizations with the General Assembly as required by law.
- CMS did not maintain time sheets for its employees as required by the State Officials and Employees Ethics Act.

(Expenditures and Activity Measures are summarized on the next page.)

**STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION  
For The Year(s) Ended June 30, 2004**

STATEMENT OF ACTIVITIES INFORMATION (in thousands)	Governmental Activities	Business-Type Activities	
<b>PROGRAM REVENUES</b>			
Charges for Services.....	\$618,591	\$360,530	
<b>EXPENSES</b>			
General Government.....	\$1,812,107	\$0	
Health and Social Services.....	550	0	
Interest.....	1,341	0	
Other.....	0	335,476	
Total Expenses.....	\$1,813,998	\$335,476	
<b>NET (EXPENSE) REVENUES.....</b>	<b>\$(1,195,407)</b>	<b>\$25,054</b>	
Total General Revenues and transfers.....	\$1,221,219	\$(4,166)	
<b>CHANGE IN NET ASSETS.....</b>			
Net Assets July 1, 2003.....	\$25,812	\$20,888	
<b>NET ASSETS, JUNE 30, 2004.....</b>	<b>\$205,374</b>	<b>\$55,007</b>	
STATEMENT OF NET ASSETS INFORMATION (in thousands)	Governmental Activities	Business-Type Activities	
Cash and cash equivalents.....	\$176,747	\$91,201	
Investments.....	\$4,366	\$0	
Capital Assets, net.....	\$258,002	\$0	
Other Assets.....	\$135,467	\$9,628	
<b>Total Assets.....</b>	<b>\$574,582</b>	<b>\$100,829</b>	
Accounts Payable.....	\$251,047	\$45,706	
Long Term Obligations.....	\$101,362	\$116	
Other Liabilities.....	\$16,799	\$0	
<b>Total Liabilities.....</b>	<b>\$369,208</b>	<b>\$45,822</b>	
Net Assets, invested in capital assets, net of debt.....	\$231,462	\$0	
Net Assets, restricted.....	\$16,102	\$0	
Net Assets, unrestricted.....	\$(42,190)	\$55,007	
<b>Total Net Assets.....</b>	<b>\$205,374</b>	<b>\$55,007</b>	
SELECTED ACTIVITY MEASURES (unaudited)	FY2004	FY2003	FY 2002
Number of flexible spending account participants.....	6,839	8,075	7,568
Number of network data circuits managed.....	4,876	5,001	5,972
Number of equipment items transferred out of state surplus .....	3,638	2,460	4,278
Number of Deferred Compensation Plan participants.....	51,679	51,836	52,005
Number of facilities participating in I-cycle program.....	251	248	240
Number of daily motor pool rentals.....	5,727	6,306	8,171
<b>EXECUTIVE DIRECTOR</b>			
During Audit Period: Mr. Michael M. Rumman (beginning in January 2003)			
Currently: Mr. Michael M. Rumman			

## INTRODUCTION

Our audit of the Department of Central Management Services is issued in four documents: 1) the Financial Audit, 2) the Compliance Examination, 3) CMS Responses, Auditor General Comments and Auditors' Comments on the Compliance Examination, and 4) CMS Attachments to CMS Responses to the Compliance Examination. The Financial Audit Report contains the Department's financial statements and opinion on these statements. The Compliance Examination document contains the audit findings and recommendations, as well as the supplementary financial information. The Department's responses to the findings, along with the Auditor General's Comments and Auditors' Comments, are contained in a third document titled as such. Finally, attachments to the Department's responses, which were provided by CMS to the Office of the Auditor General, are contained in a fourth document titled as such.

## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

### **PAYMENTS WERE MADE FOR EFFICIENCY INITIATIVE BILLINGS FROM IMPROPER LINE ITEMS; CMS DID NOT FULFILL ITS STATUTORY RESPONSIBILITY TO DETERMINE COST SAVINGS FOR EFFICIENCY INITIATIVE BILLINGS TO OTHER STATE AGENCIES**

The Department made payments for efficiency initiative billings from improper line item appropriations. Further, the Department appears to have transferred responsibility for determining cost savings for efficiency initiatives to another agency when the responsibility is granted to the Department by State law.

Public Act 93-0025, in part, outlines a program for efficiency initiatives to reorganize, restructure and reengineer the business processes of the State. The State Finance Act details that the amount designated as savings from efficiency initiatives implemented by the Department of Central Management Services shall be paid into the Efficiency Initiatives Revolving Fund. The Act further requires State agencies to pay these amounts from line item appropriations where cost savings are anticipated to occur.

During FY04, the Department paid eight billings totaling \$24,843,842 for savings from efficiency initiatives. We found that the Department made payments for these billings **not** from line item appropriations where the cost savings were anticipated to have occurred, as provided for in the State Finance Act. Rather, the Department made payments for the billings generally where it had flexibility in funding levels.

Further, although Public Act 93-0025 gave the Department the duty to "establish the amount of cost savings to be realized by State agencies from implementing the efficiency initiatives," Department officials noted that the Governor's Office of Management and Budget (GOMB), in fact, established the amounts that were billed to all State agencies - including the Department - in September 2003. Department staff printed the amounts received from GOMB onto Department invoices. These invoices were then returned to GOMB - which then decided which invoices would be sent to agencies for payment. (Finding Code No. 04-1, page 12)

We recommended that the Department only make payments for efficiency initiative billings from line item appropriations

**During FY 04, the Department paid eight billings totaling \$24,843,842 for savings from efficiency initiatives**

**Department officials noted that the Governor's Office of Management and Budget (GOMB) established the amounts that were billed to all State agencies in September 2003**

where savings would be anticipated to occur. Further, we recommended the Department seek an explanation from the Governor's Office of Management and Budget as to how savings levels were calculated, or otherwise arrived at, and how savings achieved or anticipated impact the Department's budget. Finally, we recommended the Department, as required by State statute, establish the amount of cost savings to be realized by State agencies from implementing efficiency initiatives or seek legislative changes to the law to assign that responsibility to the Governor's Office of Management and Budget.

The Department disagreed with most of the finding and recommendation.

**6 of 9 contract files did not have the individual evaluators' scoring sheets**

**LACK OF DOCUMENTATION IN CONTRACT FILES**

We selected nine contracts related to the Department's major initiatives awarded in FY04, totaling a maximum award amount of \$69 million, for which we reviewed the procurement and award files at the Department. While the Department's contract files contained summary scoring sheets for each procurement tested, 6 of 9 contract files (67 percent) did not have the individual evaluators' scoring sheets. Further, some summary sheets did not identify who the evaluators were and some summary scoring sheets did not show a breakdown of the scoring by evaluation category. Lacking this detailed information, the accuracy of the summary sheet, and the integrity of the scoring process, could not be verified.

**Eight of 9 of the contract files we tested lacked evidence of a decision memorandum to the Director recommending the award of a contract to a specific vendor**

Eight of 9 of the contract files we tested (89 percent) lacked evidence of a decision memorandum to the Director recommending the award of a contract to a specific vendor. The Illinois Administrative Code requires written determinations to be filed in the solicitation or contract file to which it applies. (Finding Code No. 04-2, page 16)

We recommended that the Department develop a recommendation decision memorandum for director approval prior to allowing vendors to begin work on State projects. We also recommended that the Department maintain individual scoring sheets completed by evaluators to properly support the award of taxpayer monies to contractors.

The Department disagreed with the finding.

**In 6 of 9 of the contracts we reviewed, the winning vendor participated in the development of information for the RFP and/or was granted a waiver by the Department to propose on the procurement**

**USE OF CONTRACTOR WORK IN DEVELOPING RFP SPECIFICATIONS**

The Department used vendors to develop specifications in Requests for Proposals (RFP) – including some vendors that eventually received awards for the procurement opportunities. In 67 percent (6 of 9) of the contracts we reviewed, the winning vendor participated in the development of information for the RFP and/or was granted a waiver by the Department to propose on the procurement. Three of the six winning vendors had information attributed to them in the RFP, as follows:

CONTRACT PURPOSE	WINNING VENDOR	VENDOR DEVELOPED INFORMATION IN RFP	WAIVER GRANTED BY THE DEPARTMENT
Procurement Assessment	McKinsey and Company, Inc.	Yes	Yes
IT Rationalization	BearingPoint, Inc./Accenture, LLP	Yes	Yes
Strategic Marketing	Team Services, LLC	Yes	Yes
Fleet Management	Maximus, Inc.	No	Yes
Server Consolidation	BearingPoint, Inc.	No	Yes
Software Review	BearingPoint, Inc.	No	Yes

Our review of procurement files and interviews with Department staff found that:

- The Department utilized McKinsey and Company, Inc. (McKinsey) to gather information on procurement spending by State agencies. According to a Department official, this work was performed on a pro bono basis for the State. McKinsey was listed as the source for much of the factual information in the Procurement Assessment RFP.
- The Department utilized Accenture to perform a strategy study in the IT area. Expenditure information in the IT Rationalization RFP was attributed to Accenture, LLP.
- The Department utilized Team Services, LLC (Team Services), under a non-competitively bid contract, to provide contractual assistance to the Department in an extremely similar project to what was eventually awarded to Team Services as the Strategic Marketing Initiative. The work performed on this no-bid contract overlapped with the issuance of the RFP for the Strategic Marketing Initiative.

The Department has adopted general guidelines that prohibit a person who prepared the specifications from submitting a bid or proposal unless the agency head determines in writing that accepting such a bid or proposal would be in the State's best interest (44 Ill. Adm. Code 1.2050 (i)). A notice to that effect must be published in the Procurement Bulletin.

From our review of the procurement files for these contracts, we could not find evidence the Department determined in writing that there would be no substantial conflict of interest by allowing vendors to assist in specification development and bid on the procurement opportunity and that it was in the best interest of the State to accept bids from these vendors. Notices also were not posted in the Procurement Bulletin – as required by the Illinois Administrative Code.

We also noted that the Department had a non-State employee review the RFP for the Procurement Assessment prior to the release of the RFP. This individual subsequently was named as partnering with the winning vendor, McKinsey, in its proposal. (Finding Code No. 04-3, page 19)

We recommended that the Department review its process for utilizing vendors to provide assistance in developing specifications and information to be included in Requests for Proposals so as to not prejudice the rights of other prospective bidders or offerors and the public.

The Department disagreed with the auditor's findings.

#### **CHANGES IN AWARD EVALUATION CRITERIA NOT COMMUNICATED TO PROPOSERS**

The Department evaluated vendor proposals using

The Department evaluated vendor proposals using

**evaluation criteria that was not stated in the Request for Proposals (RFP)**

evaluation criteria that was not stated in the Request for Proposals (RFP). Changes in scoring methodology were not communicated to proposing vendors or reflected in an addendum to the RFPs. Additionally, in one of these instances, the Department awarded a contract to a vendor that had not received the highest scoring total based on evaluation criteria set out in the RFP.

The Illinois Administrative Code states that proposals shall be evaluated only on the basis of evaluation factors set forth in the RFP. (44 Ill. Adm. Code 1.2035 (h)(2)). However, we found in 44 percent (4 of 9) of the contracts we reviewed, the Department used different criteria when evaluating the price component of the proposals. For instance, in the Risk Assessment, Server Consolidation, and Software Review contracts, the RFP's identified a single formula for evaluating pricing while, in practice, the Department used two pricing categories - one for fixed price and another for a blended rate. However, we noted that this change in evaluation methodology - while not communicated to proposers - did not appear to affect the contract award. A similar problem was noted with the Fleet Management contract.

In the Telecom Rationalization Contract, we could not tell whether vendor proposals were evaluated based on RFP criteria due to a lack of individual scoring sheets and a scoring algorithm. Additionally, we found that the Software Review contract was awarded to a vendor that did not receive the highest total points for technical merit and cost as outlined in the RFP. After proposals were submitted, evaluated and scored, the Department made the decision to use a single vendor for both the Server Consolidation and Software Review contracts. However, the desire to award both projects to a single vendor was not part of the RFP evaluation criteria and, according to Department staff, was not communicated to potential vendors. (Finding Code No. 04-4, page 23)

We recommended that the Department follow evaluation criteria stated in Requests for Proposals when evaluating and awarding State contracts. Additionally, the Department should develop addendum to Request for Proposals when it determines there needs to be a change to the evaluation criteria so that all vendors are assured of a fair and open contracting process.

The Department disagreed with the finding.

**EXTENSIVE VENDOR REVISIONS TO PROPOSAL DURING BEST AND FINAL PROCESS**

The Department allowed a vendor to extensively revise its proposal during the best and final process after initial scoring evaluations were completed. Several items deleted by the vendor during the best and final process eventually were added back into the agreement, in the form of contract amendments. The amendments, potentially costing the State \$5.75 million, were entered into after the award of the contract.

Documentation contained in the procurement files for the Asset Management professional services procurement opportunity showed that only one proposing vendor, Illinois Property Asset Management, LLC (IPAM), was provided the opportunity to submit a best and final offer (BAFO). The Department's correspondence to IPAM states, "The purpose of this BAFO is to provide you with an opportunity to enhance the pricing and to improve any of the services offered within your original proposal." While the price decreased from \$35.9 million to \$24.9 million as a result of the best and final process, IPAM's technical proposal also significantly changed. Our

**The Department allowed a vendor to extensively revise its proposal during the best and final process after initial scoring evaluations were completed**



review of the original proposal and BAFO submitted by IPAM noted the following:

**Revision of Joint Venture Composition:** IPAM did not exist as an entity at the time proposals were submitted, evaluations were conducted, or an award was made. In its original proposal, IPAM was to be a joint venture of two established firms, Mesirow Stein Development Services and New Frontier Companies, and a "To be determined M/WBE (minority/women's business enterprise)" that would represent 20 percent of the ownership. Background and staffing qualifications were valued at 475 of 800 (59 percent) of the total evaluation points. After the initial proposals had been scored for background and staffing, IPAM dropped New Frontier Companies as one of the joint venture partners. Further, according to Department staff, no M/WBE firm had been named by IPAM as of December 14, 2004.

**Revision of Performance Guarantee:** The performance guarantee was valued at 50 of 800 (6 percent) total evaluation points. In its BAFO, IPAM revised the performance guarantee from 5 items in the original proposal down to 2 in the BAFO. A Department official noted that IPAM did not hit its \$14 million savings goal in FY04 but that the IPAM fee was not adjusted downward because the guarantee clauses in IPAM's BAFO did not get incorporated into the final contract.

**Facility Condition Assessments:** In the original IPAM proposal, IPAM would perform all facility condition assessments on 50 million sq. ft. of State-owned buildings. Within its BAFO, IPAM decreased its price but also proposed that facility managers (to be hired for the facility management consolidation process) and not IPAM would perform the condition assessments on the last 40 million square feet. However, on February 4, 2005, the Department published in the Procurement Bulletin a sole source \$2.25 million contract for IPAM to perform facility condition assessments.

**Lease Administration Services:** In the original IPAM proposal, IPAM proposed "...while not specifically requested by the State in the RFP, IPAM will offer to provide future lease administration services to the State on an ongoing basis once the new system is operational." The BAFO submitted by IPAM contained the exact language as the original proposal with the inclusion of "for an additional fee" at the end of the sentence quoted above. When questioned on whether this "additional fee" was outside the purpose of the best and final process, Department officials indicated that the additional fee was not outside the process because the services were not part of the original RFP anyway. On January 20, 2005, the Department amended the contract with IPAM to increase the contract amount by \$3.5 million for lease transaction services. (Finding Code No. 04-5, page 25)

We recommended that the Department allow vendors to only revise sections of proposals as stated within the purpose for requesting a best and final offer.

The Department disagreed with the finding and recommendation.

#### **FAILURE TO PUBLISH THAT CONTRACT WAS AWARDED TO OTHER THAN THE LOWEST PRICED VENDOR**

The Department failed to provide notification, in the Illinois Procurement Bulletin, that contracts were awarded to other than the lowest priced vendor.

In 4 of 9 of the contracts we reviewed, the Department awarded the contract to a vendor that was not the lowest priced proposer and did not publish this in the Procurement Bulletin

Procurement Code provisions applicable to professional and artistic contracts provide that "when the contract exceeds the \$25,000 threshold and the lowest bidder is not selected, the chief procurement officer or the State purchasing officer shall forward together with the contract notice of who the low bidder was and a written decision as to why another was selected... [CMS] shall publish...notice of the chief procurement officer's or State purchasing officer's written decision." (30 ILCS 500/35-30 (f)) The Department's administrative rules similarly require, "If the price of the best qualified vendor exceeds \$25,000, the Procurement Officer, but not a designee, must state why a vendor other than the low priced vendor was selected and that determination shall be published in the Bulletin." (44 Ill. Adm. Code 1.2035 (m)(3))

In 4 of 9 of the contracts we reviewed, the Department failed to have information on subcontractors utilized by the selected vendor included in the contract

In 44 percent (4 of 9) of the contracts we reviewed, the Department awarded the contract to a vendor that was not the lowest priced proposer and did not publish this in the Procurement Bulletin. (Finding Code No. 04-6, page 28)

We recommended that the Department follow the requirements set forth in the Illinois Procurement Code and administrative rules and publish instances where a vendor with the lowest price was not selected for the award of a contract.

The Department disagreed with the finding.

#### **FAILURE TO INCLUDE SUBCONTRACTOR INFORMATION IN CONTRACTS**

The Department failed to ensure that subcontractor information required under the Procurement Code was included in contracts awarded by the Department. In 44 percent (4 of 9) of the contracts we reviewed, the Department failed to have information on subcontractors utilized by the selected vendor included in the contract. The Department estimated the value of these contracts to be approximately \$53 million.

For professional and artistic contracts only, the contracts must state, "whether the services of a subcontractor will be used. The contract shall include the names and addresses of all subcontractors and the expected amount of money each will receive under the contract." If a contractor adds or changes any subcontractors, CMS must receive the foregoing information in writing in a prompt manner. (30 ILCS 500/35-40)

For instance:

- **Asset Management Contract:** The IPAM contract does not identify any of the subcontractors utilized by IPAM. Four subcontractors were identified in the IPAM proposal submitted to the Department. However, the amount to be paid to these subcontractors was not disclosed. Furthermore, during our review of expenses reimbursed by the State to IPAM, we found evidence that one of the IPAM subcontractors was utilizing subcontractors of their own to perform work.
- **IT Rationalization Contract:** The BearingPoint and Accenture contracts do not identify any of the subcontractors to be utilized during the IT Rationalization project. The proposals do identify some subcontractors but not the amounts each would receive under the contract. In the Accenture proposal, three subcontractors are identified. However, after we inquired about the use of subcontractors and how much each received in compensation, a Department official collected information that shows Accenture used six subcontractors on this project and paid them a total of \$2.6 million. In the BearingPoint proposal,

two subcontractors are identified. A Department official collected information that shows BearingPoint subcontracted with eight firms on this project and paid them a total of \$3.2 million for hourly fees plus expenses.

- **Telecom Rationalization:** The EKI contract did not contain information on the use of any subcontractors. The proposal submitted by EKI did identify four subcontractors but with no expected value for compensation. After we inquired about the use of subcontractors and how much each received in compensation, a Department official collected information that showed EKI used four subcontractors on this project – including three different subcontractors that had never been identified in any document we examined. In documentation supplied by the Department in February 2005, one of these three subcontractors that had not been listed in either the contract or the proposal had received \$3.2 million from EKI for subcontracting work. The same documentation showed that EKI had made \$1.3 million – or less than half of what the subcontractor had received.
- **Software Review:** In the contract between BearingPoint and the Department (in the section that allows subcontracting) BearingPoint does assert that it “is proposing to use an independent consultant to complete a portion of the required consulting services.” The subcontractor is not identified in the contract. Department officials did not provide us with information on a subcontractor or any amount paid by the primary contractor to a subcontractor. (Finding Code No. 04-7, page 31)

**In 9 of 9 of the contracts we reviewed, the Department allowed vendors to initiate work on the project without a formal contract in place**

We recommended that the Department follow the direction of the Illinois Procurement Code and include information on subcontractors and the amounts to be paid to the subcontractors under the contracts.

The Department disagreed with the finding.

#### **NOT TIMELY IN EXECUTING CONTRACTS**

The Department was not timely in executing contracts with vendors for contracts awarded. Additionally, the Department allowed vendors to initiate work on these projects without a written contract in place.

In 100 percent (9 of 9) of the contracts we reviewed, the Department allowed vendors to initiate work on the project without a formal written agreement in place. These contracts were estimated by the Department to have a maximum contract value of \$69 million with an FY04 financial commitment of \$32 million. On average, the length of time between the **announcement of the award** and the **filing of a contract** with the Comptroller was **149 days** (with a range of 87 days to 248 days). The average length of time between **beginning work** on the contract and the **filing of the contract** with the Comptroller was **125 days** (with a range of 75 days to 234 days). The table below provides a breakdown for all nine contracts reviewed:

CONTRACT PURPOSE	AWARD DATE <sup>(1)</sup>	START DATE <sup>(2)</sup>	FILING DATE <sup>(3)</sup>	TIME BETWEEN AWARD AND FILING (DAYS)	TIME BETWEEN START AND FILING (DAYS)
Procurement Assessment	07/18/03	08/01/03	03/22/04	248	234
Risk Assessment	11/10/03	11/15/03	06/15/04	218	213
Asset Management	12/29/03	01/05/04	06/14/04	168	161
Strategic Marketing	01/23/04	02/13/04	06/25/04	154	133
Server Consolidation	07/25/03	10/03/03	12/17/03	145	75
Software Review	07/25/03	10/03/03	12/17/03	145	75
Fleet Management	02/09/04	02/17/04	05/06/04	87	79
IT Rationalization	02/20/04	03/01/04	05/17/04	87	77
Telecom Rationalization	02/20/04	03/01/04	05/17/04	87	77
<b>AVERAGE:</b>				<b>149</b>	<b>125</b>

<sup>(1)</sup> Date listed in the Procurement Bulletin announcing award.  
<sup>(2)</sup> Date listed in the contract as the beginning date of the contract.  
<sup>(3)</sup> Date provided by the Illinois Office of the Comptroller.

The Department did file Late Filing Affidavits for Professional and Artistic contracts for 7 of 9 contracts we reviewed.

**Oversight and public accountability is compromised when large amounts of work are performed and costs incurred before the public is made aware of the specifics of a contract**

While the Department states that vendors who initiate work prior to a written agreement do so at their own risk, allowing vendors to perform work without a written agreement has several adverse implications/effects for the State, for instance: oversight and public accountability is compromised when large amounts of work are performed and costs incurred before the public is made aware of the specifics of a contract; vendors represent themselves as working for the State without a signed contract; state resources are utilized by vendors before a written agreement is reached; delays may increase the likelihood that proposed elements do not make it into the final agreement; and delays may limit the Department's ability to negotiate with the vendor. (Finding Code No. 04-8, page 34)

We recommended that the Department take the necessary steps to increase timeliness in reducing a contract to writing. Additionally, we recommended the Department should review its practice of allowing vendors to initiate work on projects without a written agreement in place so as to protect State resources.

The Department disagreed with the finding.

**CONTRACT MONITORING DEFICIENCIES**

Seven of 9 FY04 contracts we selected for review allowed the vendor to be reimbursed for expenses. During FY04, the Department paid the seven contractors \$708,715 in reimbursable expenses.

**We questioned 77 percent (\$546,650 of \$708,715) of the total expenses paid to these contractors during FY 04**

A lack of supporting documentation submitted by contractors and the Department's lack of adequate review led us to question 77 percent (\$546,650 of \$708,715) of the total expenses paid to these contractors during FY04. See the table below for a summary of the questioned payments.

CONTRACT PURPOSE	AWARD DATE <sup>(1)</sup>	START DATE <sup>(2)</sup>	FILING DATE <sup>(3)</sup>	EXPENSES REIMBURSED IN FY04	EXPENSES QUESTIONED OR NOT SUPPORTED BY DETAILED DOCUMENTATION
IT Rationalization	02/20/04	03/01/04	05/17/04	\$ 341,959	\$ 341,959
Asset Management	12/29/03	01/05/04	06/14/04	177,501	43,615
Telecom Rationalization	02/20/04	03/01/04	05/17/04	106,987	106,987
Server Consolidation	07/25/03	10/03/03	12/17/03	32,265	32,265
Software Review	07/25/03	10/03/03	12/17/03	21,824	21,824
Fleet Management	02/09/04	02/17/04	05/06/04	17,922	0
Strategic Marketing	01/23/04	02/13/04	06/25/04	10,257	0
<b>TOTAL:</b>				<b>\$ 708,715</b>	<b>\$ 546,650</b>
<p><sup>(1)</sup> Date listed in the Procurement Bulletin announcing award.  <sup>(2)</sup> Date listed in the contract as the beginning date of the contract.  <sup>(3)</sup> Date provided by the Illinois Office of the Comptroller.</p>					

**No documentation attached to the billing invoices from the vendors to substantiate that the expenses actually occurred**

For the IT Rationalization, Telecom Rationalization, Server Consolidation and Software Review contracts, there was no documentation attached to the billing invoices from the vendors to substantiate that the expenses actually occurred.

Contracts with vendors for the Fleet Management and Strategic Marketing contracts restricted expenses to those amounts delineated in the State travel regulations. Our review of expenses submitted for reimbursement under these contracts, and the detailed supporting documentation, showed instances of vendors being reimbursed over the travel regulation rates. The Governor's Office monitored the billings submitted by the Strategic Marketing vendor. After approval by the Governor's Office, the FY04 billings were paid by the Department of Revenue under an interagency agreement with the Department of Central Management Services. On January 11, 2005, the Governor's Office asked for reimbursement of \$1,707.33 for payments that were made to the vendor for expenses that exceeded State travel regulations.

**Our review of the supporting detail for the expense reports submitted by IPAM found no evidence of Department review**

For the Asset Management contract, in addition to the \$25 million in service fees for the vendor under the contract, the Department reimbursed the vendor \$177,501 for expenses incurred from January through June 2004 – even though the executed contract was not filed with the Comptroller until June 14, 2004. All six months of expenses were submitted to the Department in early August 2004. The payments were made to the vendor for these expenses on August 30, 2004. Our review of the supporting detail for the expense reports found no evidence of Department review. The vendor was reimbursed for all of the expenses submitted. In our review we found:

- A \$495.05 reimbursement for a “**Celebration Dinner**” for six vendor staff on January 19, 2004 – 22 days after the contract award was announced by the Department;
- Business meals where supporting documentation showed the reimbursement included Department officials who were on travel status. These Department officials also claimed, and were paid, full per diem rates on travel vouchers for the days when the vendor paid for meals. The Department officials were staff that monitor the work performed under the Asset Management contract;
- Parking reimbursed for the United Center on February 17, 2004. The Chicago Bulls had a home basketball game on that date. The detailed support indicated two names on the parking receipt, a vendor employee and the Department official responsible for monitoring the contract;
- A March 2004 reimbursement for a cellular telephone bill for a vendor employee in the amount of \$114.68. The

statement shows the telephone is billed for the City of Chicago Department of Procurement Services.

While not submitted for reimbursement, documentation showed a \$103 business meal between a vendor official and a Department official on December 15, 2003 – 2 weeks prior to the Department announcing the award for the Asset Management project. This Department official was a member of the selection committee for this procurement and is responsible for reviewing and approving payments to the vendor.

Additional questioned uses of State funds to reimburse for expenses under the Asset Management contract are detailed in the following exhibit.

QUESTIONED EXPENDITURES REIMBURSED UNDER THE ASSET MANAGEMENT CONTRACT						
#	DATE	PURPOSE	AMOUNT	MEALS / BUSINESS ENTERTAINMENT	TRAVEL	EQUIPMENT OTHER
1.	12/18/03	Subcontractor staff charged travel 10 days prior to award of contract to IPAM	\$ 1,769.56		✓	
<b>12/29/03 IPAM AWARDED ENGAGEMENT</b>						
2.	12/30/03	2 subcontractor staff charged travel to Springfield for MAPPS (Magellan Assessment and Project Planning System) presentation to GOMB – the day after award of contract but prior to start date of 1/5/04	1,102.01		✓	
3.	01/07/04	Messenger service for package to company that was dropped from IPAM joint venture (also 1/9/04)	12.80			✓
<b>01/05/04 IPAM BEGINS WORK (NO CONTRACT SIGNED)</b>						
4.	01/12/04	In-house orientation session meals in January for subcontractor staff (also 1/13/04)	2,306.00	✓		
5.	01/12/04	Team building games	17.00			✓
<b>01/15/04 IPAM ARTICLES OF ORGANIZATION FILED WITH SECRETARY OF STATE</b>						
6.	01/19/04	"Celebration Dinner" for 6 IPAM staff	495.05	✓		
7.	01/22/04	12 Executive Elite 3 hands-free telephone headsets	1,992.24			✓
8.	01/28/04	Business letterhead with no IPAM indication on the invoice	851.65			✓
9.	01/30/04	Airfare for subcontractor to fly guest to Chicago for the weekend	278.30		✓	
10.	FEB. 04	Parking in downtown Chicago garages for Chicago-based staff (also March, April, May and June)	1,420.00		✓	
11.	FEB. 04	Cab fare for Chicago-based IPAM staff to home or IPAM offices (also March, April, May and June)	225.00		✓	
12.	FEB. 04	Cell phones for subcontractor billed to the subcontractor address, with names removed and "IPAM" written in (also March and April)	2,516.83			✓
13.	FEB. 04	Computer equipment, software, and color printing that was paid for by IPAM but shipped to one of its subcontractors' offices and not IPAM, even though located in the same building in Chicago (also March)	1,313.41			✓
14.	FEB. 04	Subcontractor rental of 7 sport utility vehicles for staff to drive during all of February and March 2004; total miles driven for 7 vehicles during the 2 months was 1,923	8,573.83			✓
15.	FEB. 04	Other leased vehicles for IPAM subcontractor during February and March 2004 – generally sport utility vehicles – including subcontractors of the subcontractor	3,048.83			✓
16.	02/03/04	Dinner in Springfield between 1 IPAM employee and 2 CMS staff; CMS staff claimed full per diem on travel vouchers	192.34	✓		
17.	02/04/04	Business lunch that included CMS, GOMB and CDB	100.38	✓		
18.	02/04/04	Food receipts and hotel room service charges for a subcontractor employee in 1 day	138.33		✓	
19.	02/06/04	Cell phone charges for subcontractor where bill had 1 Illinois number on the detail	244.30			✓
20.	02/08/04	Alcohol charged to the State not part of any meal	54.98	✓		
21.	02/19/04	Parking at United Center for Chicago Bulls game; receipt shows names of IPAM employee and CMS employee	13.00		✓	
22.	02/17/04	Maps of Illinois purchased by IPAM subcontractor on 2/17/04	27.26			✓

QUESTIONED EXPENDITURES REIMBURSED UNDER THE ASSET MANAGEMENT CONTRACT							
#	DATE	PURPOSE	AMOUNT	MEALS / BUSINESS ENTERTAINMENT	TRAVEL	EQUIPMENT	OTHER
23.	02/19/04	Business meals for IPAM to meet with its attorneys on contract negotiation (also 2/24/04 and 4/8/04) which was over 3 months <b>after</b> contract work began	\$ 90.16	✓			
24.	02/26/04	Mounting boards <b>shipped to Mesirov Stein Real Estate but billed to IPAM</b> (also 2/27/04)	1,000.50			✓	
25.	02/27/04	Business meals with one of the losing proposers from the RFP (also 3/2/04)	103.97	✓			
26.	03/06/04	Ice bucket and tongs	32.01				✓
27.	03/09/04	Business meal in Springfield for contract discussions between 1 IPAM employee and 2 CMS staff; CMS staff claimed full per diem on travel vouchers	209.29	✓			
28.	03/14/04	Cell phone charges for IPAM employee, yet statement shows bill is for City of Chicago Department of Procurement Services (also 4/13/04 and 5/13/04)	344.04			✓	
29.	03/18/04	Research article from Harvard Business School Publishing	18.01				✓
30.	03/19/04	Gas for out-of-state subcontractor to meet at Maximus headquarters in Columbia, MD	24.56		✓		
31.	03/23/04	Business meal in Springfield for review for audit meeting for an IPAM employee and a CMS employee; CMS employee claimed full per diem on travel voucher	138.63	✓			
32.	03/23/04	Business meal in Springfield for agency review meeting for 4 IPAM staff and 1 CMS employee; CMS employee claimed full per diem on travel voucher	202.15	✓			
33.	03/30/04	Business meal in Springfield to review agency concerns for 4 IPAM staff and 3 CMS staff; CMS staff claimed full per diem on travel voucher	187.21	✓			
34.	03/30/04	Business meal in Springfield with no indication of the purpose for 2 IPAM staff and 1 CMS employee; CMS employee claimed full per diem on travel voucher	39.96	✓			
35.	April 04	Messenger service <b>from Mesirov Stein Real Estate to IPAM offices</b> (also May)	99.74				✓
36.	04/06/04	Business meal in Springfield for an agency meeting for 2 IPAM staff and 2 CMS staff; CMS employees claimed full per diem on travel voucher	225.69	✓			
37.	04/06/04	Business entertainment at Springfield bar for an agency meeting for 4 IPAM staff and 2 CMS staff	52.50	✓			
38.	04/06/04	No-show charge at Springfield hotel for IPAM employee on 4/6/04	98.99		✓		
39.	04/13/04	Business meal in Springfield for procurement presentation review for 3 IPAM staff and 1 CMS employee; CMS employee claimed full per diem on travel voucher	169.00	✓			
40.	04/23/04	Personal use of rental car, billed by subcontractor, even though it was disclosed on the supporting documentation that the usage was personal	100.00		✓		
41.	04/27/04	Breakfast and lunch for team meetings and consolidation workshop with clients at IPAM offices (also 4/28/04)	609.09	✓			
42.	May 04	Meals in Chicago during May for Chicago-based staff and subcontractors and CMS personnel for various reasons	201.32	✓			
43.	05/04/04	Lease of automobiles for 2 Chicago-based staff of an IPAM subcontractor billed in June 2004 (also 5/7/04)	192.88				✓
44.	05/13/04	Food charged to hotel bill when subcontractor was already reimbursed for the State's per diem rate (also 5/20/04)	12.48	✓			
45.	05/20/04	Food for lunch meeting for IPAM employees in Chicago to discuss energy management	99.14	✓			
46.	05/20/04	Tip for delivery associated with lunch on 5/20/04	5.00	✓			

QUESTIONED EXPENDITURES REIMBURSED UNDER THE ASSET MANAGEMENT CONTRACT							
#	DATE	PURPOSE	AMOUNT	MEALS / BUSINESS ENTERTAINMENT	TRAVEL	EQUIPMENT	OTHER
47.	05/27/04	Breakfast refreshments for Chicago-based IPAM staff for meeting with subcontractors	\$ 45.00	✓			
48.	05/27/04	Bulk candy for meeting with 2 CMS employees in Chicago	11.24	✓			
49.	06/01/04	Dinner for Chicago-based IPAM staff in Chicago due to working late because of budget work; receipt shows dinner was at 7:23 p.m.	50.94	✓			
50.	06/02/04	Parking for IPAM employee in downtown Chicago on same day he drove to Springfield to deliver IPAM budget to CMS	25.00		✓		
51.	06/08/04	Business meal in Springfield between IPAM employee and CMS employee to discuss legal issues; IPAM employee already claimed and was reimbursed for the State per diem rate	61.18	✓			
52.	06/10/04	Lunch in Chicago for 3 IPAM staff and 1 CMS employee	53.38	✓			
<b>06/14/04 IPAM CONTRACT FILED WITH COMPTROLLER</b>							
53.	06/16/04	Early departure charge for hotel for subcontractor on travel status	25.00		✓		
<b>8/30/04 PAYMENT DATE FOR IPAM EXPENSES</b>							
<b>TOTAL QUESTIONED:</b>			<b>\$31,221.16</b>				

We recommended that the Department require contractors to submit supporting documentation for expenses that will be reimbursed with State taxpayer dollars. Additionally, we recommended the Department take the necessary steps to increase monitoring of the expenses submitted by the contractors and request refunds in instances when the contractor is reimbursed over the allowable amounts stated in contracts. Finally, we recommended that the Department not enter into contracts where the State is responsible for expenses that would be in the normal course of doing business. (Finding Code No. 04-9, page 38)

With one minor exception, the Department concurred with the finding.

**INADEQUATE METHODOLOGY FOR CALCULATING SAVINGS AMOUNTS TO BILL AGENCIES FOR SAVINGS INITIATIVES**

The Department failed to adequately determine the amount of savings it expected State agencies to realize when billing for savings initiatives. This resulted in a majority of State agencies being over billed – i.e., they were billed more for savings initiatives than Department documentation showed the agencies had realized in savings.

**During FY 04 the Department billed State agencies \$137 million for efficiency initiatives**

During FY04 the Department billed State agencies \$137 million for efficiency initiatives for: procurement, information technology, vehicle fleet management, facilities management consolidation, internal audit consolidation, and legal research consolidation. The table below indicates, by initiative, the number of agencies billed and the total billed:

INITIATIVE	# AGENCIES BILLED	TOTAL AMOUNT BILLED
Procurement Efficiency	38	\$ 88,613,520.00
Information Technology Consolidation	37	32,347,055.00
Facilities Management Consolidation	11	8,697,686.00
Vehicle Fleet Management	28	3,896,153.00
Internal Audit Consolidation	3	3,083,254.69
Legal Research Consolidation	6	327,154.44
	<b>TOTAL:</b>	<b>\$ 136,964,823.13</b>

Not all agencies were billed for all initiatives. According to Department officials, the Governor's Office of Management and Budget (GOMB) was very involved in the billing process and GOMB made the decision as to what agencies were billed and what agencies were not billed.

**Department documentation showed that there were 4 "Winners" and 35 "Losers" from the efforts of the procurement efficiency initiative**

In November 2004, the Department provided documentation on the "Winners and Losers" from the procurement efficiency initiative. For instance, CMS billed the Department of Transportation (IDOT) \$17,061,200 during FY04 but CMS documentation showed that IDOT only saved \$1,232,179 from the procurement efficiency initiative. Likewise, the Department of Revenue (DOR) was billed \$4,321,900 during FY04 but only saved \$238,302 from the procurement efficiency initiative. In total, Department documentation showed that there were 4 "Winners" and 35 "Losers" from the efforts of the procurement efficiency initiative. (Finding Code No. 04-10, page 46)

We recommended that the Department take the necessary steps to ensure that amounts billed to State agencies for savings



initiatives are supported by sound methodologies so that agencies are not paying for savings that are not realized.

The Department disagreed with the finding.

#### **INADEQUATE DOCUMENTATION TO SUPPORT THE VALIDATION OF SAVINGS**

**The Department did not maintain adequate documentation to support the validation of many of the savings which the Department attributes to its various efficiency initiatives**

The Department did not maintain adequate documentation to support the validation of many of the savings which the Department attributes to its various efficiency initiatives. Furthermore, savings goals stated in the Request for Proposals (RFP), vendor proposals, and/or contract were not always realized or documented.

The Department awarded over \$69 million during FY04 to outside vendors for contracts intended to achieve savings as part of the efficiency initiatives. In some cases contracts were awarded based on the vendors' ability to show they could meet savings goals stated in the RFP, vendor proposal and/or contract. Where savings are a specific goal, the Department should ensure it has in place a valid and reliable system to track savings achieved by the vendors.

##### **Procurement Efficiency Initiatives**

The documentation used by the Department to support the validation in savings captured by McKinsey for procurement in FY04 raised concerns. Agencies were billed \$88.6 million in September 2003 for Procurement Efficiency Initiatives. A goal stated in the Procurement Assessment RFP issued in May 2003 was that savings of approximately \$109 million could be achieved during FY04 and \$200 million in FY05. The Performance Guarantee in the McKinsey contract states "McKinsey and CMS agree that CMS may, in the sole and absolute discretion of the Director, exercise the performance guarantee as provided herein. CMS may withhold full or partial payment from an unapproved invoice if CMS determines that McKinsey has not satisfactorily completed services at least equal to the ratio that the percentage of payment bears to the percentage of services required for the successful completion of the contract as determined by CMS in its sole and absolute discretion...."

**The Department provided two different summary spreadsheets showing amounts of validated savings for the procurement initiative**

The Department provided two summary spreadsheets showing amounts of validated savings. The first summary spreadsheet was provided in August 2004 with \$101,129,585 in FY04 savings validated. In January 2005, the Department provided a second summary spreadsheet that listed \$108,249,175 in FY04 validated savings.

**When savings previously validated are subsequently not considered as savings, it raises questions regarding other savings that were reportedly validated by the Department**

There were several differences between the first and second summary spreadsheets that raised questions concerning the claimed FY04 "validated" savings. For instance, "validated" savings dollar amounts for several of the individual initiatives changed significantly between the first and second summaries. Both spreadsheets were provided after the end of FY04, yet major changes were still being made. When savings previously validated are subsequently not considered as savings, it raises questions regarding other savings that were reportedly validated by the Department.

Over 50 percent of the procurement initiatives savings, or \$58.8 million, were related to six fee-for-service billings at DHS (such as submitting back claims, correcting and resubmitting rejected Medicaid claims, etc.). According to DHS personnel, many of these activities had been initiated by DHS years ago; however, more intense efforts began in

February of 2004 with the help of McKinsey consultants. Based on information provided by DHS, a \$2.5 million in "validated" FY04 savings for one of the six DHS initiatives ("Mental Health Error Correction") was a future years' savings and not savings collected in FY04. Furthermore, on two of the other five DHS initiatives, over \$2.8 million in "validated" FY04 savings were not actually collected in FY04.

The table below illustrates the contracts we sampled that specified savings goals, by fiscal year, along with the dollar amounts.

CONTRACT PURPOSE	VENDOR	MAXIMUM CONTRACT AMOUNT <sup>(1)</sup>	SAVINGS GOAL (in millions \$)			SAVINGS GOAL STATED IN:					
			FY 04	FY 05	FY 06	PROCUREMENT BUSINESS CASE SOLICITATION OVERVIEW	RFI	VENDOR PROPOSAL	CONTRACT		
Procurement Assessment	McKinsey	\$ 14,720,000	109.0	200.0				✓	✓	✓ <sup>(2)</sup>	
Server Consolidation	BearingPoint	195,000	7.0	7.0	7.0	✓ <sup>(3)</sup>					
Software Review	BearingPoint	198,000	1.5	1.5	1.5	✓ <sup>(3)</sup>					
IT Rationalization	BearingPoint Accenture	21,500,000	25.0	100.0	100.0	✓	✓	✓	✓		
Telecom Rationalization	EKI	6,500,000	5.0		30.0	✓		✓	✓		
Asset Management	IPAM	24,943,750	14.0	30.0		✓		✓	✓		
Fleet Management	Maximus	214,000	1.0	2.6				✓	✓	✓	
<b>TOTAL:</b>		<b>\$ 68,270,750</b>	<b>162.5</b>	<b>341.1</b>	<b>138.5</b>						

<sup>(1)</sup> Amounts taken from CMS postings in the Illinois Procurement Bulletin.  
<sup>(2)</sup> If McKinsey has not satisfactorily completed services, the CMS Director may elect not to pay vendor.  
<sup>(3)</sup> Projection made by Accenture.

#### Information Technology Consolidation

The Department also lacked documentation to support savings from the IT initiative. Agencies were billed \$32.3 million in September 2003 for Information Technology Consolidation initiatives. The Department entered into four contracts with IT vendors totaling \$28.4 million.

**Department personnel could not provide documentation and could not attribute savings to the Server Consolidation contract in FY 04**

-- Department documentation on Server Consolidation showed that Accenture estimated up to \$7 million recurring savings. However, on January 20, 2005, Department personnel could not provide documentation and could not attribute savings to this contract in FY04.

**Department personnel could not provide documentation and could not attribute savings to the Software Review contract in FY 04**

-- Documentation on the Software Review project showed that Accenture estimated up to \$1.5 million recurring savings. Again on January 20, 2005, Department personnel could not provide documentation and could not attribute savings to this contract in FY04.

**Department personnel stated savings could not be attributable to the IT Rationalization contract**

-- IT Rationalization was to save \$25 million in FY04. Department personnel stated on February 2, 2005, savings could not be attributable to this contract.  
 -- Telecommunications Services Rationalization was to save \$5 million in FY04, with annualized savings of \$30 million being attained by the third year. Department personnel stated on February 2, 2005, savings could not be attributable to this contract.

**Department personnel stated savings could not be attributable to the Telecommunications Services Rationalization contract**

On April 6, 2005, after our exit conference, the Department provided a one-page document on information technology savings. However, the information was not attributable to any individual contract and the information was noted as being subject to change.

#### Facilities Management Consolidation

The Department also failed to maintain adequate documentation to support that the savings goal was reached on the Facilities Management initiative. Agencies were billed \$8.7 million in May 2004 for Facilities Management Consolidation Initiatives. A goal stated in the Asset Management RFP issued in September 2003 was to achieve a minimum of \$14 million in budgetary savings during FY04 with an additional \$30 million in FY05 through the consolidation effort.

In December 2004, Department personnel stated that IPAM (the vendor selected for this contract) had not met the \$14 million savings goal, but instead, had achieved approximately \$7 million in savings. According to the Department, these savings can be attributed to:

- \$6,000,000 – Funded vacant headcount **billed** to agencies in May 2004. However, the positions identified as vacant were the result of a survey of State agencies, in Spring 2003, not IPAM work on organizational structure. All of these funded positions were vacant prior to IPAM receiving the Asset Management contract announced December 29, 2003;
- \$500,000 – resulting from an energy audit. However, the energy audit was conducted by the University of Illinois at Chicago at the request of CMS and McKinsey, not IPAM; and
- \$500,000 – resulting from the cancellation of leases. The Department provided a report of leases terminated between January 1, 2004 and June 30, 2004 totaling \$401,397. We could not determine from the information provided that CMS considered the offsetting costs of placing agencies in another location. In February 2005, the Department provided documentation to show that only \$185,159 had been saved in FY04 from terminated leases.

**Department personnel stated that IPAM had not met the \$14 million savings goal, but instead, had achieved approximately \$7 million in savings**

**\$6,000,000 in funded vacant headcount billed to agencies was the result of a survey of State agencies, in Spring 2003, not IPAM work on organizational structure**

**The Department was unable to provide any information or documentation to support the savings goal of \$1 million in FY 04 for the Fleet Management Initiative**

#### Fleet Management Initiative

The Department was unable to provide any information or documentation to support the savings goal of \$1 million in FY04 and \$2.6 million in FY05.

#### Conclusion

In FY04, agencies paid \$129.7 million into the Efficiency Initiatives Revolving Fund for cost savings to be realized from the procurement, facilities management, fleet management, information technology and other initiatives. While the Department reports this amount as "savings," \$96.2 million was paid out of or transferred from the Fund in FY04 (see below). Since the \$96.2 million in disbursements made from the Efficiency Initiatives Revolving Fund in FY04 were actually spent to pay contractors and disbursements, or transferred to the General Revenue Fund where they were used to pay other expenses of the State, it is not clear how much of the saving claimed by the Department represents actual savings for the State. Additionally, we could not find evidence to support that any of the vendor's fees were affected by its failure to achieve and/or document its achievement of stated savings goals. (Finding Code No. 04-11 - page 51)

**\$96.2 million was paid out of or transferred from the Efficiency Initiative Revolving Fund in FY 04**

We recommended that the Department develop and maintain adequate supporting documentation to support the validation of savings billed to agencies and captured by vendors.

The Department disagreed with the finding and recommendation.

#### **NONCOMPLIANCE WITH THE FISCAL CONTROL AND INTERNAL AUDITING ACT**

**The Department's Illinois Office of Internal Audit (IOIA) did not complete audits of all agencies' major systems of internal accounting and administrative control**

The Department's Illinois Office of Internal Audit (IOIA) did not complete audits of all agencies' major systems of internal accounting and administrative control. Further, an effective process to identify new major computer systems or major modification of existing computer systems was not in place.

The Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/2003) requires the internal auditing program include audits of major systems of internal accounting and administrative control be conducted on a periodic basis so that all major systems are reviewed at least once every two years. Major systems, which were included in the two year audit plan but which were not audited, included:

- Capital Development Board – Grants
- Department of Corrections – Grants
- Environmental Protection Agency – Property, Equipment, and Inventories, Agency Operations and Management, Administrative Support Services, and Purchasing Contracting and Leasing.
- Department of Public Health – Revenues and Receivables, Property, Equipment and Inventories

**IOIA did not have an effective process in place to identify and monitor agency computer system projects**

Additionally, IOIA did not have an effective process in place to identify and monitor agency computer system projects resulting in development activities not being reviewed at State agencies during the audit period. By late in fiscal year 2004, IOIA began implementing a more comprehensive program to gather information from other State agencies regarding computer system development projects that are in progress or planned.

Department officials acknowledged they did not comply fully with the Act. (Finding Code No. 04-14 page 64)

We recommended the Department comply with the Fiscal Control and Internal Auditing Act by ensuring that audits of all major systems of internal accounting and administrative control be conducted at least once every two years and that independent reviews of major new computer systems and major modifications to those computer systems are performed.

**The Surplus Warehouse did not maintain an adequate**

The Department and the Illinois Office of Internal Audit disagreed with the auditor's conclusion.

inventory control system. A comprehensive list of available items was not maintained or disseminated to agencies

Lack of effective controls regarding the receipt and inventory of equipment increased the potential for theft of the State's surplus property

We also found compensation for sale of computer equipment was inadequate

## **SURPLUS PROPERTY MANAGEMENT PROCESS WEAKNESSES**

The Surplus Warehouse did not maintain an adequate inventory control system. The lack of an adequate inventory control system hindered the ability of Surplus to offer equipment to State agencies. A comprehensive list of available items was not maintained or disseminated to agencies. However, agencies were permitted to send "want lists" and be notified of requested transferable equipment as it became available.

Additionally, the lack of effective controls regarding the receipt and inventory of equipment increased the potential for theft of the State's surplus property. Property would arrive at the Surplus Warehouse, often in large volumes, and Surplus personnel would do a spot check, comparing inventory listed on the delivery form with the inventory delivered, and then sign the form indicating property was received. However, we identified instances where an agency would inadvertently not include equipment in a delivery to Surplus, the spot check by Surplus did not detect the missing equipment, and the form would be signed indicating property had been received by Surplus.

We also found compensation for sale of computer equipment was inadequate. Desktop computer equipment was sold at live auctions in bulk for as little as \$5 to \$10 per computer, compared to being sold individually on the Illinois' I-Bid Internet auction for \$60 to \$100 per computer. Laptop computers generally sold for an average of \$100 to \$150 at the live auction, as compared to \$350 to \$390 on I-Bid.

Additionally, the *Data Security on State Computers Act* (20 ILCS 450) (Act) requires computer equipment be cleared of all data by overwriting previously stored data at least 10 times prior to being surplus. We tested equipment onsite at the Surplus Warehouse and determined some equipment was allowed into Surplus that was not accompanied by confirmation of wiping; in these instances, such equipment tended to contain readable information. (Finding Code No. 15, page 66)

We recommended the State's Surplus Warehouse implement an effective inventory control system. An effective inventory control system would improve controls over the receipt and tracking of inventory, reduce the potential for theft, and enable Surplus to better serve the needs of State agencies. We also recommended the Department should evaluate options to increase the compensation received for the sale of the State's surplus property. Further, we recommended the Department's Surplus Warehouse should increase efforts to ensure compliance with the *Data Security on State Computers Act*.

The Department disagreed with both the finding and recommendation.

## **REPORTS OF REORGANIZATION NOT FILED AS REQUIRED**

The Executive Reorganization Implementation Act (15 ILCS 15/11) requires "Every agency created or assigned new functions pursuant to a reorganization shall report to the General Assembly not later than 6 months after the reorganization takes effect and annually thereafter for 3 years. This report shall include data on the economies effected by the reorganization and an analysis of the effect of the reorganization on State government. The report shall also

include the agency's recommendations for further legislation relating to reorganization."

During the audit period the Governor signed three Executive Orders that provided for the transfer of functions to the Department as follows:

- Executive Order 2003-7, "Executive Order to Reorganize Agencies by the Abolishment of Certain Entities of the Executive Branch" abolished 12 entities and transferred functions to the Department of Central Management Services. This Executive Order was generally effective April 28, 2003. The initial report to the General Assembly was due by October 28, 2003.
- Executive Order 2003-10, "Executive Order to Consolidate Facilities Management, Internal Auditing and Staff Legal Functions" provided that "The functions of facilities management, internal auditing, and staff legal functions for each agency, office, division, department, bureau, board and commission directly responsible to the Governor shall be consolidated under the jurisdiction of the Department of Central Management Services". This Executive Order was effective May 31, 2003. The initial report to the General Assembly was due by November 30, 2003.
- Executive Order 2004-2, "Executive Order to Reorganize Agencies by the Transfer of Certain Media Relations Functions to the Department of Central Management Services" provided that "Media relations functions for each agency, office, division, department, bureau, board and commission directly responsible to the Governor shall be consolidated under the jurisdiction of the Department of Central Management Services". This Executive Order was effective April 1, 2004. The initial report to the General Assembly was due by October 1, 2004.

**The Department has not submitted reports as required by the Executive Reorganization Implementation Act for any of its reorganizations**

The Department has not submitted reports as required by the Executive Reorganization Implementation Act for any of its reorganizations noted above. Department officials have represented that the reports have not been prepared and submitted as the reorganizations established by the Executive Orders have not been fully implemented. (Finding Code No. 04-16 - page 68)

**The Department is not maintaining time sheets for its employees in compliance with the State Officials and Employees Ethics Act (Act)**

We recommended the Department file the reports with the General Assembly within six months of a reorganization taking effect pursuant to the requirements of the Executive Reorganization Implementation Act.

The Department disagreed with the finding.

#### **TIMESHEETS NOT MAINTAINED IN COMPLIANCE WITH THE STATE OFFICIALS AND EMPLOYEES ETHICS ACT**

The Department is not maintaining time sheets for its employees in compliance with the State Officials and Employees Ethics Act (Act). The Act (5 ILCS 430/5-5(c)) states, "The policies shall require State employees to periodically submit time sheets documenting the time spent each day on official State business to the nearest quarter hour."

We noted most of the Department's employees did not maintain time sheets in compliance with the Act. Employees' time is generally tracked using the Central Management

Services payroll system, which is a "negative" timekeeping system whereby the employee is assumed to be working unless noted otherwise. No time sheets documenting the time spent each day on official State business to the nearest quarter hour are maintained for the majority of Department employees.

Department management stated they relied on advice from the Governor's Office staff which initially stated that agencies using the Central Management Services payroll system would be in compliance with the Act. (Finding Code No. 04-23, page 80)

We recommended the Department amend its policies to require all employees to maintain time sheets in compliance with the Act.

The Department disagreed with the finding.

#### **OTHER FINDINGS AND RECOMMENDATIONS REPEATED FROM THE PRIOR ENGAGEMENT**

##### **INADEQUATE CONTROL OVER PROPERTY AND EQUIPMENT**

The Department did not provide adequate control over property and equipment. We tested the physical inventory and location of equipment, equipment purchases, and equipment transfers and deletions, and noted deficiencies in each area. (Finding Code No. 04-18, page 71) **This finding was first reported in 2002.**

We recommended the Department implement adequate controls and procedures to ensure property and equipment is properly safeguarded and property records are complete and accurate.

Department officials agreed with our recommendation and stated that all deficiencies noted in the finding had already been corrected. (For previous department response, see Digest Footnote #1.)

##### **MOTOR VEHICLE ACCIDENT REPORTS NOT SUBMITTED TIMELY**

The Department did not ensure motor vehicle accident reports were submitted timely by its employees. (Finding Code No. 04-19, page 74) **This finding was first reported in 2002.**

We recommended the Department implement procedures to make all State employees aware of the State of Illinois Vehicle Guide and all rules and regulations related to the use of a State or personal vehicle for business purposes. We further recommended the Department establish procedures to ensure timely submission of motor vehicle accident reports.

The Department agreed in part with the finding and recommendation. (For previous agency response, see Digest Footnote #2.)

#### **AUDITORS' OPINION**

Our auditors stated the financial statements of the

Department's financial statements as of and for the year ended June 30, 2004 are fairly presented in all material respects.

\_\_\_\_\_  
WILLIAM G. HOLLAND, Auditor General

WGH:KAL:pp

#### **SPECIAL ASSISTANT AUDITORS**

Sikich Gardner & Co. LLP were our special assistant auditors for this audit.

#### **DIGEST FOOTNOTES**

##### **#1 - INADEQUATE CONTROL OVER PROPERTY AND EQUIPMENT - Previous Department Response**

2002: The Department made all necessary adjustments to the FY 2002 fixed asset records. The fixed asset records include all property and equipment transferred from CDB and all real property titled in CMS' name. Procedures have been implemented to ensure that copies of all property transfer reports are forwarded to the Accounting Division to ensure that fixed asset information is properly recorded.

##### **#2 - MOTOR VEHICLE ACCIDENT REPORTS NOT SUBMITTED TIMELY - Previous Department Response**

2002: The Department issued a memo to all managers enforcing the requirement for prompt reporting of vehicle accidents. Managers are to convey the procedures to all employees under their jurisdiction to make all employees more fully aware of the State of Illinois Vehicle Guide and all rules and regulations related to use of a State vehicle. The Department is also enforcing the practice of ensuring the Vehicle Guide along with the SR-1 form is contained in all state owned vehicles. The Agency Auto Liability Coordinator is required to track and monitor all accident reports, to work with Risk Management to ensure reporting compliance and to be involved in the notification and reporting process.



**STATE OF ILLINOIS  
DEPARTMENT OF  
CENTRAL MANAGEMENT SERVICES  
COMPLIANCE EXAMINATION**

For the Two Years Ended June 30, 2004

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

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

COMPLIANCE EXAMINATION  
For the Two Years Ended June 30, 2004

TABLE OF CONTENTS

	<u>Page</u>
Agency Officials .....	1
Management Assertion Letter.....	2
Compliance Report	
Summary.....	4
Auditors' Reports	
Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes .....	7
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	10
Schedule of Findings	
Current Findings – <i>Government Auditing Standards</i> and State Compliance.....	12
Prior Findings Not Repeated – State.....	83
Supplementary Information for State Compliance Purposes	
Summary .....	84
Fiscal Schedules and Analysis	
Schedule of Appropriations, Expenditures and Lapsed Balances	
Fiscal Year 2004 (Schedule 1) .....	85
Fiscal Year 2003 (Schedule 2) .....	86
Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances (Schedule 3).....	87
Schedule of Efficiency Initiative Payments (Schedule 4).....	95
Schedule of Changes in State Property (Schedule 5).....	98
Comparative Schedule of Cash Receipts (Schedule 6).....	99
Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller (Schedule 7) .....	102
Analysis of Significant Variations in Expenditures.....	105
Analysis of Significant Variations in Receipts .....	108
Analysis of Significant Lapse Period Spending .....	110
Analysis of Accounts Receivable .....	112
Illinois Century Network – Summary of Activities .....	113
Analysis of Operations	
Agency Functions and Planning Program.....	114
Average Number of Employees.....	117
Emergency Purchases and Illinois First Projects .....	118
Service Efforts and Accomplishments (Unaudited) .....	119

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

AGENCY OFFICIALS

Director	Mr. Michael M. Rumman (Effective January 17, 2003)
	Nancy White (Acting, effective December 27, 2002 through January 16, 2003)
	Stephen Schnorf (Effective October 1, 2002 through December 26, 2002)
	Michael S. Schwartz (Effective through September 30, 2002)
Assistant Director	Mr. Paul Campbell
Assistant Director	Mr. N. Keith Chambers
Chief Operating Officer	Mr. Brian Chapman
Chief Fiscal Officer	Mr. Ronald Banks
Chief Administrative Officer / General Counsel	Mr. H. Edward Wynn
Chief Internal Auditor (Illinois Office of Internal Audit)	Mr. John Cressman

The Director's office is located at:

Stratton Office Building  
401 South Spring Street  
Springfield, IL 62706



MANAGEMENT ASSERTION LETTER

February 16, 2005

Sikich Gardner & Co, LLP  
Certified Public Accountants  
1000 Churchill Road  
Springfield, IL 62702

Ladies and Gentlemen:

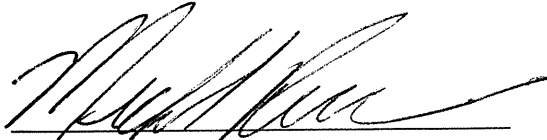
We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grants that could have a material effect on the operations of the Department. We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Department's compliance with the following assertions during the two-year period ended June 30, 2004. Based on this evaluation, we assert that during the years ended June 30, 2003 and June 30, 2004, the Department has materially complied with the assertions below.

- A. The Department 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 Department 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 Department has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the Department 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. The money or negotiable securities or similar assets handled by the Department on behalf of the State or held in trust by the agency have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

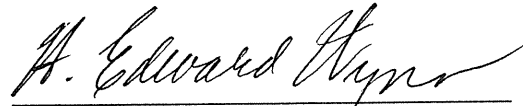
Department of Central Management Services



Michael M. Rumman, Director



Ronald Banks, Fiscal Officer



H. Edward Wynn, Chief Administrative Officer / General Counsel

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

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 AUDIT FINDINGS**

<u>Number of</u>	<u>This Audit</u>	<u>Prior Audit</u>
Findings – <i>Government Auditing Standards</i>	2	0
Findings – State	22	6
Repeated Findings – State	2	0
Prior Recommendations Implemented or Not Repeated	4	3

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

**SUMMARY OF FINDINGS**

<u>Item</u>	<u>Page</u>	<u>Description</u>
-------------	-------------	--------------------

**FINDINGS (GOVERNMENT AUDITING STANDARDS)**

04-1	12	Efficiency initiative payments
04-13	61	Weaknesses in internal control over financial reporting

**FINDINGS (STATE COMPLIANCE)**

04-2	16	Lack of documentation in contract files
04-3	19	Use of contractor work in developing RFP specifications
04-4	23	Changes in award evaluation criteria not communicated to proposers
04-5	25	Extensive vendor revisions to proposal during best and final process

<u>Item Number</u>	<u>Page</u>	<u>Description</u>
<b>FINDINGS (STATE COMPLIANCE) – (CONTINUED)</b>		
04-6	28	Failure to publish that contract was awarded to other than the lowest priced vendor
04-7	31	Failure to include subcontractor information in contracts
04-8	34	Not timely in executing contracts
04-9	38	Contract monitoring deficiencies
04-10	46	Methodology for calculating savings amounts to bill agencies for savings initiatives
04-11	51	Inadequate documentation to support the validation of savings
04-12	56	Follow up to Management Audit of the Department's administration of the State's Space Utilization Program
04-14	64	Noncompliance with the Fiscal Control and Internal Auditing Act
04-15	66	Surplus Property management process weaknesses
04-16	68	Reports of reorganization not filed as required
04-17	70	Preparation of year-end Department financial statements not timely
04-18	71	Inadequate control over property and equipment
04-19	74	Motor vehicle accident reports not submitted timely
04-20	75	Travel Control Board not meeting or submitting reports as required
04-21	77	Late approval and payment of vouchers
04-22	78	Employees not removed from payroll during leave of absence
04-23	80	Time sheets not maintained in compliance with the State Officials and Employees Ethics Act
04-24	81	Travel Headquarters Reports (Form TA-2) not properly completed

### PRIOR FINDINGS NOT REPEATED

<u>Item Number</u>	<u>Page</u>	<u>Description</u>	<u>Prior Finding Code</u>
04-25	83	Excess vacation carried forward	02-2
04-26	83	Unreported and unrecorded locally held fund	02-3
04-27	83	Debt service payment made late and controls inadequate	02-4
04-28	83	Administrative costs of WETSA program not properly accounted for	02-6

### EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on April 6, 2005. Attending were:

#### DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Michael Rumman	Director
Paul Campbell	Assistant Director
Brian Chapman	Chief Operating Officer
Shelly Martin	Chief Knowledge Officer
Marcia Armstrong	Deputy Chief Operating Officer
Ron Banks	Chief Fiscal Officer
Jim Kulavic	Manager, Accounting Division
Ed Wynn	Chief Administrative Officer/General Counsel
John Cressman	Chief Internal Auditor
Steve Kirk	Internal Audit
Bill Van Huis	Administrative Counsel
Letitia Dominici	Senior Deputy General Counsel
Terry Larkin	Deputy Chief Administrative Officer
Shirley Webb	Contract Executive (by phone)

#### OFFICE OF THE AUDITOR GENERAL

Kimberly Labonte, Audit Manager  
Mike Maziarz, Audit Manager  
Leighann Brown, Audit Supervisor  
Jana Peters, Audit Supervisor  
Bill Helton, Audit Supervisor, Chicago

#### SIKICH GARDNER & CO, LLP

Gary Neubauer, Partner  
Todd Leistner, Manager  
Richard Taylor, Supervisor

Reponses to the recommendations were provided by Michael Rumman, in a letter dated April 14, 2005.



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**

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois, Department of Central Management Services' 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 years ended June 30, 2004. The management of the State of Illinois, Department of Central Management Services is responsible for compliance with these requirements. Our responsibility is to express an opinion on the State of Illinois, Department of Central Management Services' compliance based on our examination.

- A. The State of Illinois, Department of Central Management Services 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 State of Illinois, Department of Central Management Services 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 State of Illinois, Department of Central Management Services has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the State of Illinois, Department of Central Management Services 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. Money or negotiable securities or similar assets handled by the State of Illinois, Department of Central Management Services on behalf of the State or held in trust by the State of Illinois, Department of Central Management Services 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 State of Illinois, Department of Central Management Services' 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 State of Illinois, Department of Central Management Services' compliance with specified requirements.

In our opinion, the State of Illinois, Department of Central Management Services complied, in all material respects, with the aforementioned requirements during the years ended June 30, 2003 and 2004. 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 required by the Audit Guide, immaterial findings relating to instances of noncompliance excluded from this report have been reported in a separate letter to your office.

### **Internal Control**

The management of the State of Illinois, Department of Central Management Services 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 State of Illinois, Department of Central Management Services' 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 reportable 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 findings.

As required by the Audit Guide, immaterial findings relating to internal control deficiencies excluded from this report have been reported in a separate letter to your office.

### **Supplementary Information for State Compliance Purposes**

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Central Management Services as of and for the year ended June 30, 2004, which collectively comprise the State of Illinois, Department of Central Management Services' basic financial statements, and have issued our report thereon dated December 15, 2004 (Except for Note 12(c) as to which the date is February 22, 2005). 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 and is not a required part of the basic financial statements of the State of Illinois, Department of Central Management Services. The 2004 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2004 taken as a whole. We have also previously audited, in accordance with auditing standards generally accepted in the United States, the State of Illinois, Department of Central Management Services' financial statements for the years ended June 30, 2003 and 2002. In our report dated December 10, 2003 and December 20, 2002, we expressed unqualified opinions on the respective financial statements. In our opinion, the 2003 and 2002 Supplementary Information for State Compliance Purposes, except for the portion marked "unaudited" is fairly stated in all material respects in relation to the basic financial statements for the years ended June 30, 2003 and 2002 taken as a whole.

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

*Silich Hardner & Co, LLP*

Springfield, Illinois  
February 16, 2005

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 William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Central Management Services as of and for the year ended June 30, 2004, which collectively comprise the State of Illinois, Department of Central Management Services' basic financial statements, and have issued our report thereon dated December 15, 2004 (Except for Note 12(c) as to which the date is February 22, 2005). We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Illinois, Department of Central Management Services' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Illinois, Department of Central Management Services' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 04-1 and 04-13.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the

internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

In addition, we noted certain deficiencies in the design or operation of internal control over financial reporting which do not meet the criteria for reporting herein and which are reported as State compliance findings in the schedule of findings. We also noted certain immaterial instances of internal control deficiencies, which we have reported to management of the State of Illinois, Department of Central Management Services in a separate letter.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Department of Central Management Services' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 04-1 and 04-13.

In addition, we noted certain matters which are reported as State compliance findings in the schedule of findings. We also noted certain other matters which we have reported to management of the State of Illinois, Department of Central Management Services in a separate letter.

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

*Silich Hardner & Co, LLP*

Springfield, Illinois  
December 15, 2004

**STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

**CURRENT FINDINGS  
FOR THE TWO YEARS ENDED JUNE 30, 2004**

**04-1 FINDING:** (Efficiency Initiative Payments)

The Department of Central Management Services (Department) made payments for efficiency initiative billings from improper line item appropriations. Further, the Department appears to have transferred responsibility for determining cost savings for efficiency initiatives to another agency when the responsibility is granted to the Department by State law.

▪ **Efficiency Initiative Payments Billed to the Department**

Public Act 93-0025, in part, outlines a program for efficiency initiatives to reorganize, restructure and reengineer the business processes of the State. The State Finance Act details that the amount designated as savings from efficiency initiatives implemented by the Department of Central Management Services shall be paid into the Efficiency Initiatives Revolving Fund. Amounts designated by the Director of Central Management Services and approved by the Governor as savings from the efficiency initiatives authorized by Section 405-292 of the Department of Central Management Services Law of Civil Administrative Code of Illinois 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.”** (30 ILCS 105/6p-5)

During FY04, the Department paid eight billings totaling \$24,843,842 for savings from efficiency initiatives. The initiatives and amounts billed to the Department were:

BILLING DATE	INITIATIVE	BILLED AMOUNT
09/19/03	Procurement Efficiency	\$ 11,018,800
09/19/03	Information Technology	47,763
09/19/03	Vehicle Fleet Management	34,993
05/14/04	Facilities Management Consolidation	1,323,230
06/17/04	Procurement Efficiency	550,000
06/28/04	Procurement Efficiency	9,014,243
08/04/04	Internal Audit Consolidation	2,700,000
08/13/04	Legal Consolidation	154,813
<b>TOTAL:</b>		<b>\$ 24,843,842</b>

With regard to billings paid by the Department, the only guidance the Department received from the Governor’s Office of Management and Budget (GOMB) on the September 2003 billings was the amount of payments that should be taken from General Revenue Funds (\$2,495,956) versus Other Funds (\$8,605,600). While this guidance from GOMB directed the Department to make payment for the Vehicle Fleet Management Initiative from General Revenue Funds, the Department used Communications Revolving

Funds and State Surplus Property Revolving Funds to make part of the payment. A Department official noted later billings (paid from May through August 2004) were generally driven by the Department and not GOMB.

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. A Department official noted that GOMB provided no direction for where savings associated with the September 2003 billings were to occur. We found that the Department made payments for these billings **not** from line item appropriations where the cost savings were anticipated to have occurred, as provided for in the State Finance Act. Rather, the Department made payments for the billings generally where it had flexibility in funding levels. For example, the Department used:

- \$5,000,000 from appropriations from the Communications Revolving Fund to the Bureau of Communication and Computer Services for telecommunications services to make part of the payment for the Procurement Efficiency billings. A Department official indicated they anticipated savings to occur in the telecommunications area. Documentation provided by the Department indicated less than \$3,000,000 in savings for FY04 involving projects related to telecommunications. A Department official indicated that there was no overall methodology and the Department had to take the money from where it knew there would be money remaining.
- \$5,000 from an appropriation to the Bureau of Personnel to make payment for the Information Technology Initiative. The funds were specifically appropriated “For the Veterans’ Job Assistance Program.” A Department official explained that at the time of payment the Department did not know exactly where the savings would come from and since this program’s headcount was down by one and this vacant position would have used a desktop computer – the Department took funds from this appropriation.
- \$5,000 from an appropriation to the Bureau of Support Services to make payment for the Information Technology Initiative. The funds were specifically appropriated for “Expenses Related to the Procurement Policy Board.” A Department official indicated the Board does spend some money on IT and did have extra capacity in this appropriation.

During the lapse period, the Department reviewed the internal audit and legal consolidations and used \$2,700,000 (internal audit) and \$154,813 (legal) that were remaining from agency transfers of funds to the Department for costs associated with the consolidations of internal auditors and legal staff at the Department. A Department official estimated that, in total, agencies transferred approximately \$8,000,000 to the Department for internal audit staff consolidation. According to the Department, the amount paid in savings could be afforded because the savings were due to funded vacant headcount. The Department developed billing invoices and moved the funds into the Efficiency Initiatives Revolving Fund, two weeks prior to the end of lapse period. Due to the processing of these payments during the lapse period, it was unclear whether the amounts taken were truly savings or were due to a lack of filling funded vacancies.

The table below provides an illustration of the specific funds and line items the Department used to make payments for the efficiency initiatives. Additionally, the table illustrates which efficiency initiatives were paid from the various line item appropriations.

FUND <sup>(1)</sup>	LINE ITEM APPROPRIATION	AMOUNT PAID	TOTAL APPROPRIATION FOR LINE ITEM <sup>(2)</sup>	EFFICIENCY INITIATIVE					
				FACILITIES MANAGEMENT	AUDIT	LEGAL SERVICES	PROCUREMENT	INFORMATION TECHNOLOGY	VEHICLE FLEET MANAGEMENT
0001	For Personal Services	\$ 2,525,786.00	\$ 10,198,100.00	✓	✓	✓			
0001	For Employer Paid Retirement	175,242.00	423,300.00	✓	✓	✓			
0001	For Contributions to SERS	446,857.00	1,370,600.00	✓	✓	✓			
0001	For Contributions to Social Security	131,204.00	217,400.00		✓	✓			
0001 0903	For Contractual Services	431,705.50	12,362,200.00	✓	✓	✓	✓		✓
0001	For Travel	54,268.00	55,900.00		✓	✓			
0001	For Commodities	21,295.00	18,000.00		✓	✓			
0001	For Printing	24,070.00	24,200.00		✓	✓			
0001	For Equipment	65,606.00	11,000.00		✓	✓			
0001 0304	For EDP	2,290,763.00	92,658,600.00		✓		✓	✓	
0001 0312	For Telecommunications	5,049,632.00	158,278,300.00		✓	✓	✓		
0001 0312 0903	For Operation of Auto	32,829.50	312,800.00		✓				✓
0001 0907	For Lump Sum and Other Purposes	13,489,283.00	2,502,436,754.00	✓	✓		✓	✓	
0001	For Lump Sum, Operations	10,000.00	519,300.00					✓	
0001	For Awards and Grants, Lump Sum and Other Purposes	95,301.00	252,204.00	✓					

(1) Legend:  
0001: General Revenue Fund; 0304: Statistical Services Revolving Fund; 0312: Communications Revolving Fund;  
0903: State Surplus Property Revolving Fund; 0907: Health Insurance Reserve Fund.  
(2) Appropriations taken from original appropriations bill – the Department had transfers of funds from other State agencies during FY04 for consolidation of services.

Use of appropriations unrelated to the cost savings initiatives results in non-compliance with the State Finance Act. Furthermore, use of appropriations for purposes other than those authorized by the General Assembly effectively negates a fundamental control established in State government. Finally, use of funds unrelated to the savings initiative may result in an adverse effect on services the Department provides.



- **Efficiency Initiative Payments Billed to Other State Agencies**

Public Act 93-0025 also created a new section in the Department's Law of the Civil Administrative Code. The new section, in part, states "the Department **shall have the power and duty to...**(3) Establish the amount of cost savings to be realized by State agencies from implementing the efficiency initiatives, which shall be paid to the Department for deposit into the Efficiency Initiatives Revolving Fund." (20 ILCS 405/405-292 (a)(3))

While the State Finance Act directs the Department to develop the amounts to be billed to State agencies, Department officials noted that GOMB, in fact, established the amounts that were billed to all State agencies in September 2003, including the Department. Department accounting staff printed the amounts received from GOMB onto Department invoices. These invoices were then returned to GOMB – which then decided which invoices would be sent to agencies for payment for the billings sent in September 2003.

According to staff from the Department, efficiency initiatives billings will continue into the next fiscal year. (Finding Code No. 04-1)

**RECOMMENDATION:**

We recommend that the Department only make payments for efficiency initiative billings from line item appropriations where savings would be anticipated to occur. Further, the Department should seek an explanation from the Governor's Office of Management and Budget as to how savings levels were calculated, or otherwise arrived at, and how savings achieved or anticipated impact the Department's budget. Finally, the Department, as provided in statute, should establish the amount of cost savings to be realized by State agencies from implementing efficiency initiatives or seek legislative changes to the law to assign that responsibility to the Governor's Office of Management and Budget.

**DEPARTMENT RESPONSE:**

The Department disagreed with most of the finding and recommendation.

The complete text of the Department's response, along with auditor comments on those responses, is presented in a separate document entitled "CMS Responses, Auditor General Comments and Auditors' Comments on the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004." Another supplemental volume entitled "CMS Attachments to CMS Responses to the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004" contains attachments referred to by CMS in the body of its responses.

**04-2 FINDING:** (Lack of Documentation in Contract Files)

The Department of Central Management Services (Department) contract files lacked basic information, such as individual scoring sheets and written determinations for contract award, to adequately document the evaluation and selection process. Documentation of the process used and decisions made in the evaluation and scoring of proposals is a critical control component to ensure a fair and open procurement process.

We selected nine contracts related to the Department’s major initiatives awarded in FY04, totaling a maximum award amount of \$69 million, for which we reviewed the procurement and award files at the Department. The listing of contracts is provided below along with the vendor awarded the contract and maximum contract dollar amount.

CONTRACT PURPOSE	VENDOR	AWARD DATE	MAXIMUM CONTRACT AMOUNT <sup>(1)</sup>	MISSING DOCUMENTATION		
				INDIVIDUAL EVALUATIONS	AWARD RECOMMENDATION	CONTRACT VALUE
Asset Management	IL Property Asset Management, LLC	12/29/03	\$ 24,943,750		✓	
IT Rationalization	BearingPoint, Inc./Accenture, LLP	02/20/04	21,500,000		✓	✓
Procurement Assessment	McKinsey and Company, Inc.	07/18/03	14,720,000	✓		
Telecom Rationalization	Electronic Knowledge Interchange, Inc.	02/20/04	6,500,000	✓	✓	
Risk Assessment	Deloitte and Touche, LLP	11/10/03	386,825		✓	
Strategic Marketing	Team Services, LLC	01/23/04	360,000 <sup>(2)</sup>	✓	✓	
Fleet Management	Maximus, Inc.	02/09/04	214,000	✓	✓	
Server Consolidation	BearingPoint, Inc.	07/25/03	195,000	✓	✓	
Software Review	BearingPoint, Inc.	07/25/03	198,000	✓	✓	
<b>TOTAL: \$ 69,017,575</b>						
<sup>(1)</sup> Amounts taken from CMS postings in the Illinois Procurement Bulletin.						
<sup>(2)</sup> Calculated from contract terms.						

▪ **Lack of Individual Evaluation Materials for Award**

In 67 percent (6 of 9) of the contract files reviewed, we found no evidence of individual scoring sheets to evaluate proposals submitted for the procurement.

On the State Purchasing Officer’s (SPO) web page, the Department maintains a “Bid File Checklist-Other Agencies” that requires “all evaluation material (individual and total scores-a blank set and completed sets by each evaluator)” to be sent to and maintained by the Contract Compliance Office of the Bureau of Strategic Sourcing and Procurement (BOSSAP) Knowledge Management Division. Further, another document on the SPO web page entitled “Evaluation Procedures for Bids (IFB) and/or Proposals (RFP)” states that “An evaluation form must be completed by each committee member for each proposal...Individual scores for elements should be totaled and divided by the number of evaluators to arrive at a team average...Evaluators should prepare a list of Pro’s (strengths) and Con’s (weaknesses) for future reference in the event of inquiries regarding ratings.”

While the Department's contract files contained **summary** scoring sheets for each procurement tested, 6 of 9 contract files did not have the **individual** evaluators' scoring sheets. Information presented on the summary scoring sheets varied among procurement opportunities. Some summary sheets did not identify who the evaluators were and some summary scoring sheets did not show a breakdown of the scoring by evaluation category. Lacking this detailed information, the accuracy of the summary sheet, and the integrity of the scoring process, could not be verified.

For example, the procurement file for the Telecom Rationalization award to Electronic Knowledge Interchange, Inc. (EKI) showed that EKI was the only proposer to achieve the required number of technical points to have pricing considered. However, there were **no individual scoring** sheets in the file completed by the evaluators. Additionally, the file **did not contain the pricing** submitted by EKI for the RFP. On March 31, 2005, at our pre-exit conference, the Department provided a copy of the pricing. The Department estimated, in the announcement on the Procurement Bulletin, that EKI would be paid a maximum of \$6.5 million under this contract.

▪ **Award Recommendation Documentation**

In 89 percent (8 of 9) of the contract files, we did not find evidence of a decision memorandum to the Director recommending the award of a contract to a specific vendor. The file for the Procurement Assessment did contain a decision memorandum to the Director that provided specific details on why the evaluation team recommended McKinsey and Company, Inc. (McKinsey) for the project. This included information on technical scoring categories and price evaluation.

The Illinois Administrative Code requires for contracts that "Each written determination shall be filed in the solicitation or contract file to which it applies, shall be retained as part of such file for so long as the file is required to be maintained, and, except as otherwise provided by statute or rule, shall be open to public inspection." (44 Ill. Adm. Code 1.7025(e))

Department officials indicated that contract approval sheets could be used for the same purpose as a decision memo. However, a review of the approval sheets showed that the Director signed these **after** work had already commenced by the vendor.

Good business practice would require the Department to document how taxpayer funds were to be utilized. Additionally, the State Records Act (5 ILCS 160/8) dictates that "The head of each agency shall cause to be made and preserved records containing adequate and proper documentation of the...decisions, procedures, and 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." Finally, the Department should be held to the same documentation retention standards and process that the Department holds other State agencies to. (Finding Code No. 04-2)

**RECOMMENDATION:**

We recommend that the Department should develop a recommendation decision memorandum for director approval prior to allowing vendors to begin work on State projects. Additionally, the Department should maintain individual scoring sheets completed by evaluators to properly support the award of taxpayer monies to contractors.

**DEPARTMENT RESPONSE:**

The Department disagreed with the finding.

The complete text of the Department's response, along with auditor comments on those responses, is presented in a separate document entitled "CMS Responses, Auditor General Comments and Auditors' Comments on the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004." Another supplemental volume entitled "CMS Attachments to CMS Responses to the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004" contains attachments referred to by CMS in the body of its responses.

**04-3 FINDING:** (Use of Contractor Work in Developing RFP Specifications)

The Department of Central Management Services (Department) used vendors to develop specifications in Requests for Proposals (RFP) – including some vendors that eventually received awards for the procurement opportunities. While allowable under Procurement Rules, the extensive nature of the vendors’ participation in the collection of data and/or the preparation of RFP materials and the frequency in which such vendors were ultimately awarded the contract creates, at minimum, the appearance that such vendors had an advantage over other proposers not involved in the preparation of RFP information or materials.

The National Association of State Procurement Officials (NASPO) recommends that State purchasing officials develop guidelines “for vendor input into the process of determining agencies’ needs or preparing initial specifications, so that the agencies and the central procurement office may obtain the benefits of vendor expertise without creating unfair bias or a conflict of interest.” (NASPO State and Local Government Purchasing Principles and Practices, 1997) The Department has adopted *general* guidelines that prohibit a person who prepared the specifications

*“Specifications may be prepared by other than State personnel, including, but not limited to, consultants, architects...and other drafters of specifications for public contracts when the Procurement Officer determines that there will be no substantial conflict of interest...The person who prepared the specifications shall not submit a bid or proposal to meet the procurement need unless the agency head, and not a designee, determines in writing that it would be in the best interest to accept such a bid or proposal from that person. A notice to that effect shall be provided to the CPO and, if approved by the CPO, published in the [Procurement] Bulletin.”*  
(44 Ill. Adm. Code 1.2050 (i))

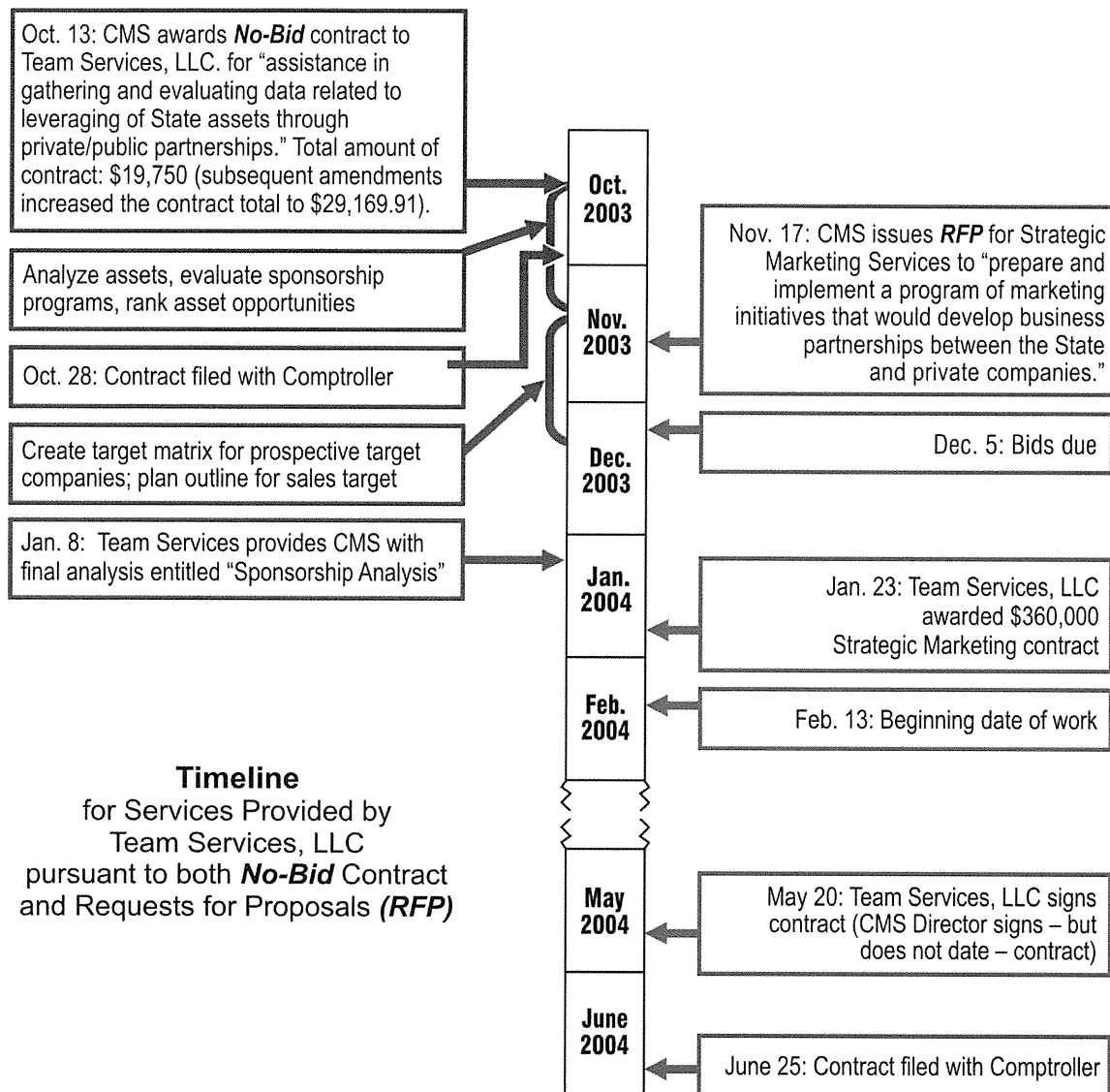
from submitting a bid or proposal for the procurement unless the agency head determines in writing that accepting such a bid or proposal would be in the State’s best interest (44 Ill. Adm. Code 1.2050 (i) – see inset). However, the Department does not have any *specific* guidelines to determine under what circumstances the State should use vendors to assist in preparing specifications and the Department lacks specific standards designed to ensure that State personnel evaluating bids and proposals are not biased toward awarding the engagement to a vendor who assisted in preparing the specifications.

In 67 percent (6 of 9) of the contracts we reviewed, the Department used vendors, that eventually received the award, to participate in the development of information for the RFP and/or were granted a waiver by the Department to propose on the procurement. Three of the six had information attributed to them in the RFP. The table below illustrates the contracts where this was applicable:

<b>CONTRACT PURPOSE</b>	<b>WINNING VENDOR</b>	<b>VENDOR DEVELOPED INFORMATION IN RFP</b>	<b>WAIVER GRANTED BY THE DEPARTMENT</b>
Procurement Assessment	McKinsey and Company, Inc.	Yes	Yes
IT Rationalization	BearingPoint, Inc./Accenture, LLP	Yes	Yes
Strategic Marketing	Team Services, LLC	Yes	Yes
Fleet Management	Maximus, Inc.	No	Yes
Server Consolidation	BearingPoint, Inc.	No	Yes
Software Review	BearingPoint, Inc.	No	Yes

Our review of procurement files and interviews with Department staff found that:

- The Department utilized McKinsey and Company, Inc. (McKinsey) to gather information on procurement spending by State agencies. According to a Department official, this work was performed on a pro bono basis for the State. A Department official indicated that McKinsey actually projected \$100 million savings figure for FY04 if the procurement project was started on July 1 and twice as much the next year. Due to time constraints, McKinsey did a “deep dive” into 2-3 spending areas to come up with these numbers. McKinsey was listed as the source for much of the factual information in the RFP.
- The Department utilized Accenture to perform a strategy study in the IT area. Expenditure information in the IT Rationalization RFP was attributed to Accenture, LLP.
- The Department utilized Team Services, LLC (Team Services), under a non-competitively bid contract, to provide contractual assistance to the Department in an extremely similar project to what was eventually awarded to Team Services as the Strategic Marketing Initiative. The work performed on this no-bid contract overlapped with the issuance of the RFP for the Strategic Marketing Initiative. The exhibit below highlights the similarities and overlap in services performed by Team Services:



From our review of the procurement files for these contracts, we could not find evidence, in writing, that there would be no substantial conflict of interest by allowing vendors to assist in specification development and bid on the procurement opportunity, why it was in the best interest of the State to accept bids from these vendors, and there was not a notice posted in the Procurement Bulletin – as required by the Illinois Administrative Code.

In other instances:

- The Department had a non-State employee review the RFP for the Procurement Assessment prior to the release of the RFP. This individual subsequently was named as partnering with the winning vendor, McKinsey, in its proposal. During our review of the file for the Procurement Assessment, we discovered a memo to a Department official from this individual suggesting that benchmarking be included in the goals section of the RFP to quantify the current status of procurement efficiency. Benchmarking was included as goal number seven in the RFP.

- The Department utilized a consultant to develop the RFPs for the IT and Telecom Rationalization projects that were paid under a contract exempt from the bidding process. The consultant was to: (1) Draft the supplies and services section of the RFP; (2) Provide assistance with development of evaluation criteria and a scoring system for the bids; and (3) Provide ongoing advice during the bid evaluation and vendor selection phase. This consultant was retired from one of the vendors selected for the award.

The purpose of the Standard Procurement Rules is to “make policies, procedures and guidelines for procurement of necessary supplies and services by State agencies uniform and consistent among and within State agencies in order to facilitate participation in State procurements, encourage competition, and ensure that procurements are conducted in a fair and open manner” (44 Ill. Adm. Code 1.08 (c)). Department officials indicated that outside assistance was needed to either develop RFP specifications or to provide consultation and data gathering due to a lack of internal resources. However, the use of vendors to provide assistance in preparing RFPs, and the subsequent award of these contracts to these vendors, can create the appearance that the procurement was not conducted in a fair and open manner. (Finding Code No. 04-3)

**RECOMMENDATION:**

We recommend that the Department review its process for utilizing vendors to provide assistance in developing specifications and information to be included in Requests for Proposals so as to not prejudice the rights of other prospective bidders or offerors and the public.

**DEPARTMENT RESPONSE:**

The Department disagreed with the finding.

The complete text of the Department's response, along with auditor comments on those responses, is presented in a separate document entitled "CMS Responses, Auditor General Comments and Auditors' Comments on the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004." Another supplemental volume entitled "CMS Attachments to CMS Responses to the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004" contains attachments referred to by CMS in the body of its responses.



**04-4 FINDING:** (Changes in Award Evaluation Criteria not Communicated to Proposers)

The Department of Central Management Services (Department) used evaluation criteria to evaluate vendor proposals that were not stated in the Request for Proposals (RFP). Changes in scoring methodology were not communicated to proposing vendors or reflected in an addendum to the RFPs. Additionally, in one of these instances, the Department awarded a contract to a vendor that had not received the highest scoring total based on evaluation criteria set out in the RFP.

The Illinois Administrative Code states that proposals shall be evaluated only on the basis of evaluation factors set forth in the RFP. Price will not be evaluated until ranking of all proposals and identification of the most qualified vendors (44 Ill. Adm. Code 1.2035 (h)(2)).

In 44 percent (4 of 9) of the contracts we reviewed, the Department used different criteria when evaluating the price component of the proposals. The results are summarized below:

- **Risk Assessment, Server Consolidation, and Software Review Contracts** – Department RFPs defined single formulas to use in evaluating pricing submitted by vendors to the procurement opportunity. However, in practice, the Department broke the pricing out into two scoring categories – generally, one for fixed price and another for a blended rate. According to Department staff, while this evaluation methodology was slightly different than presented in the RFP, there was no notification to proposers of the change. During our review of the procurement files, it did not appear that this change in methodology changed the award of the contract.
- **Fleet Management Contract** – Again the RFP defined a single formula driven evaluation of pricing for this project. However, a Department official noted there was no way to apply a single formula as stated in the RFP to the pricing information submitted by the vendors – assumptions had to be made because two vendors did not submit amounts for travel and another vendor did not submit a rate for blended work. The Department should have gone back to the individual vendors for clarification of pricing so that a valid evaluation and comparison could have been made. The Illinois Administrative Code allows corrections to bids, proposals or other procurement processes, but only to the extent not contrary to the best interest of the State or the fair treatment of other bidders. (44 Ill. Adm. Code 1.2038 (a)) The Department did go back to a vendor for clarification of pricing during the bid process. The vendor refused to commit a single figure for travel and expenses as well as a blended hourly rate for subsequent work. However, the contract was ultimately awarded to this vendor.

In another contract, we could not tell whether vendor proposals were evaluated based on RFP criteria due to a lack of individual scoring sheets and a scoring algorithm. In the **Telecom Rationalization Contract** we found a summary-scoring sheet for this project showed that only one vendor was scored with enough technical points to have price considered. However, we were unable to determine whether RFP criteria was used in the evaluation of this project due to a lack of individual scoring sheets or a description of evaluation categories being maintained in the procurement file.

Additionally, we found that the **Software Review** project was awarded to a vendor that did not receive the highest total points for technical merit and cost as outlined in the RFP. After proposals were submitted, evaluated and scored, the Department made the decision to use a single vendor for both the Server Consolidation and Software Review contracts. However, the desire to award both projects to a single vendor was not part of the RFP evaluation criteria and, according to Department staff, was not communicated to potential vendors. Department documentation appears to show this solicitation and the Server Consolidation solicitation were designed and intended to be separate projects with independent awards based on merits of the proposals within each separate solicitation.

Failure to notify vendors of changes in evaluation criteria not only violates administrative rule, it increases the likelihood that vendors and the public will not view the contract award process as being conducted in a fair and open manner. (Finding Code No. 04-4)

#### **RECOMMENDATION:**

We recommend that the Department follow evaluation criteria stated in Requests for Proposals when evaluating and awarding State contracts. Additionally, the Department should develop addendum to Request for Proposals when it determines there needs to be a change to the evaluation criteria so that all vendors are assured of a fair and open contracting process.

#### **DEPARTMENT RESPONSE:**

The Department disagreed with the finding.

The complete text of the Department's response, along with auditor comments on those responses, is presented in a separate document entitled "CMS Responses, Auditor General Comments and Auditors' Comments on the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004." Another supplemental volume entitled "CMS Attachments to CMS Responses to the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004" contains attachments referred to by CMS in the body of its responses.

**04-5 FINDING:** (Extensive Vendor Revisions to Proposal During Best and Final Process)

The Department of Central Management Services (Department) allowed a vendor to extensively revise its proposal during the best and final process after initial scoring evaluations were completed. Several items deleted by the vendor during the best and final process eventually were added back into the agreement, in the form of contract amendments, subsequent to the awarding of the contract, potentially costing the State \$5.75 million.

Documentation contained in the procurement files for the Asset Management professional services procurement opportunity showed that the Department evaluated proposals and summarized the information on November 4, 2003. The table below shows the Department’s evaluation summary for the Asset Management procurement.

VENDOR	INITIAL PRICE	AVERAGE TECHNICAL POINTS	PRICE POINTS	TOTAL POINTS
IPAM	\$ 35,940,500 <sup>(1)</sup>	677	63	740
Vendor A	\$ 23,070,000 <sup>(2)</sup>	629	102	731
Vendor B	\$ 21,974,480 <sup>(2)</sup>	508	200	708
Vendor C	\$ 22,354,400 <sup>(2)</sup>	534	98	632
Vendor D	\$ 29,975,125 <sup>(2)</sup>	433	71	504

(1) Provided by CMS staff.  
(2) Taken from State of Illinois Large Transaction Report.

The Request for Proposals (RFP) for the Asset Management professional services procurement opportunity informed proposers that the Department “...may request best & final offers if deemed necessary, and will determine the scope and subject of any best & final request.” On December 8, 2003, only one proposing vendor, Illinois Property Asset Management, LLC (IPAM) was provided the opportunity to submit a best and final offer. There was no documentation in the procurement file addressing why other responsive proposers were not provided a best and final opportunity.

The Department’s December 8, 2003 correspondence to IPAM states, “The purpose of this BAFO is to provide you with an opportunity to enhance the pricing and to improve any of the services offered within your original proposal.” While the price decreased from \$35.9 million to \$24.9 million as a result of the best and final process, IPAM’s technical proposal also significantly changed. Our review of the original proposal and BAFO submitted by IPAM noted:

- **Revision of Joint Venture Composition:** Background and staffing qualifications in the vendor proposals to this RFP were valued at 475 of 800 (59 percent) total evaluation points. IPAM did not exist as an entity at the time proposals were submitted, evaluations were conducted, or an award was made.

In its original proposal, a joint venture was to be developed and be known as IPAM if the vendor received the contract from the State. The award was announced on December 29, 2003 and IPAM filed articles of organization with the Secretary of State on January 15, 2004. However the make-up of the proposed joint venture changed from the original proposal to the BAFO.

In the original proposal, IPAM was to be a joint venture of two established firms, Mesirow Stein Development Services and New Frontier Companies, and a "To be determined M/WBE (minority/women's business enterprise)" that would represent 20 percent of the ownership.

In the BAFO, **after** the initial proposals had been scored for background and staffing, New Frontier Companies was dropped as one of the joint venture partners and, according to Department staff, no M/WBE firm had been named as of December 14, 2004.

- **Revision of Performance Guarantee:** The performance guarantee in the vendor proposals to this RFP was valued at 50 of 800 (6 percent) total evaluation points. IPAM proposed putting portions of its fees at risk in the event that it did not meet the State's objectives. IPAM revised the performance guarantee from five items in the original proposal down to two in the BAFO.

The two remaining performance guarantees related to either a rebate of fees by IPAM or an increase in fees to IPAM based on how well the savings goal of \$14 million in FY04 was realized. Department officials indicated the Governor's Office of Management and Budget (GOMB) provided the \$14 million savings goal in FY04 (and the \$30 million goal in FY05), but the Department officials were not sure how GOMB arrived at those dollar figures. A Department official noted that IPAM did not hit the \$14 million savings goal in FY04 but that the IPAM fee was not adjusted downward because the guarantee clauses in IPAM's BAFO did not get incorporated into the final contract. A Department official stated that the performance guarantee was not included in the final contract because the Department determined it was not in the best interests of the State.

- **Facility Condition Assessments:** In the original IPAM proposal, IPAM would perform all facility condition assessments on 50 million sq. ft. of State-owned buildings. Within its BAFO, IPAM decreased its price but also proposed that facility managers (to be hired for the facility management consolidation process) **and not IPAM** would perform the condition assessments on the last 40 million sq. ft.

While a Department official indicated that less work would result in a lower price in the BAFO, it is not clear whether this was the case in the end. On February 4, 2005, the Department published in the Procurement Bulletin a sole source \$2.25 million contract for IPAM to perform facility condition assessments. According

to a Department official, the Department made an internal decision not to contract out the facility management function. Therefore, someone was needed to perform the facility condition assessments for the remaining 40 million sq. ft. of State-owned space.

- **Lease Administration Services:** In the original IPAM proposal, IPAM proposed "...while not specifically requested by the State in the RFP, IPAM will offer to provide future lease administration services to the State on an ongoing basis once the new system is operational. Such an arrangement may be more cost-effective and would allow the State to be more efficient in engaging in its governmental and related legislative and regulatory responsibilities."

The BAFO submitted by IPAM contained the exact language as the original proposal with the inclusion of "for an additional fee" at the end of the first sentence quoted above. When questioned on whether this "additional fee" was outside the purpose of the best and final process, Department officials indicated that the additional fee was not outside the process because the services were not part of the original RFP anyway. On January 20, 2005, the Department amended the contract with IPAM to reflect a change in compensation methodology to lease transaction support services. The original contract was increased by \$3.5 million for lease transaction services.

These significant changes made to IPAM's proposal during the best and final process could alter the quality of the original proposal and subsequent evaluation. We found no Department documentation in the procurement file to show that, after the significant changes were made in IPAM's technical proposal, IPAM's proposal remained superior to other proposers who were not afforded the opportunity to go through the best and final process. Such documentation would help ensure that the procurement process is fair and equitable for all responsive vendors. (Finding Code No. 04-5)

#### **RECOMMENDATION:**

We recommend that the Department allow vendors to only revise sections of proposals as stated within the purpose for requesting a best and final offer.

#### **DEPARTMENT RESPONSE:**

The Department disagreed with the finding and recommendation.

The complete text of the Department's response, along with auditor comments on those responses, is presented in a separate document entitled "CMS Responses, Auditor General Comments and Auditors' Comments on the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004." Another supplemental volume entitled "CMS Attachments to CMS Responses to the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004" contains attachments referred to by CMS in the body of its responses.

**04-6 FINDING:** (Failure to Publish that Contract was Awarded to Other than the Lowest Priced Vendor)

The Department of Central Management Services (Department) failed to provide notification, in the Illinois Procurement Bulletin, that contracts were awarded to other than the lowest priced vendor.

The Procurement Code requires evaluation and ranking by price for all professional and artistic contracts with annualized value that exceeds \$25,000. “Any chief procurement officer or State purchasing officer, but not their designees, may select an offeror other than the lowest bidder by price. In any case, when the contract exceeds the \$25,000 threshold and the lowest bidder is not selected, the chief procurement officer or the State purchasing officer shall forward together with the contract notice of who the low bidder was and a written decision as to why another was selected...[CMS] shall publish...notice of the chief procurement officer’s or State purchasing officer’s written decision.” (30 ILCS 500/35-30 (f))

Also, procurement rules state, “If the price of the best qualified vendor exceeds \$25,000, the Procurement Officer, but not a designee, must state why a vendor other than the low priced vendor was selected and that determination shall be published in the Bulletin.” (44 Ill. Adm. Code 1.2035 (m)(3))

In 44 percent (4 of 9) of the contracts we reviewed, the Department awarded the contract to a vendor that was not the lowest priced proposer and did not publish this in the Procurement Bulletin. Those contracts, vendor and maximum contract amounts are provided in the table below:

CONTRACT PURPOSE	VENDOR	AWARD DATE	MAXIMUM CONTRACT AMOUNT <sup>(1)</sup>
Asset Management	IL Property Asset Management, LLC	12/29/03	\$ 24,943,750
Procurement Assessment	McKinsey and Company, Inc.	07/18/03	14,720,000
Risk Assessment	Deloitte and Touche, LLP	11/10/03	386,825
Strategic Marketing	Team Services, LLC	01/23/04	360,000 <sup>(2)</sup>
<b>TOTAL:</b>			<b>\$ 40,410,575</b>
<sup>(1)</sup> Amounts taken from CMS postings in the Illinois Procurement Bulletin.			
<sup>(2)</sup> Calculated from contract terms.			

Department responses to our inquiries on why the low priced bidder was not published in the Procurement Bulletin were:

- **Asset Management Contract:** A Bureau of Property Management official indicated that internal policy has never dictated the release of information regarding losing bidders.

- **Strategic Marketing Contract:** A Department official who participated in the evaluation process did not know why it was not published.
- **Procurement Assessment Contract:** A Department official that was part of the evaluation team indicated that he thought there were only two vendors with enough technical points to be deemed responsive. He stated the other cost bids should not have been opened. Our review of the procurement files noted a lack of individual scoring sheets to determine which vendors were responsive and that price information for other bidders was included in the files. The Department official stated he had not seen the pricing document previously.
- **Risk Assessment:** A Department official provided auditors two administrative rule citations that were followed for the procurement process. Neither was applicable to this procurement, which was for professional and artistic services.

“Professional and artistic services means those services provided under contract to a State agency by a person or business, acting as an independent contractor, qualified by education, experience, and technical ability.” (30 ILCS 500/1-15.60) Additionally, in a joint correspondence from the Department and the Governor’s Office to agencies it states “CMS is applying the Comptroller’s definition of professional and artistic services. Professional and artistic services are defined as services rendered by an individual or firm contractually hired by an agency because of their expertise in a given field. An essential element is trust in the ability and talent of the person performing the services. Examples of professional or artistic services are set forth in SAMS Procedure 15.20.70 type code 21.”

Consultants and accountants, those services contracted for under these contracts, fit the definition of professional and artistic services. Additionally, the Department filed Professional and Artistic Late Filing Affidavits on three of the four contracts, an acknowledgment that the services rendered are Professional and Artistic in nature and should follow statutes and rules applicable to Professional and Artistic procurements. (Finding Code No. 04-6)

**RECOMMENDATION:**

We recommend that the Department follow the requirements set forth in the Illinois Procurement Code and administrative rules and publish instances where a vendor with the lowest price was not selected for the award of a contract.

**DEPARTMENT RESPONSE:**

The Department disagreed with the finding.

The complete text of the Department's response, along with auditor comments on those responses, is presented in a separate document entitled "CMS Responses, Auditor General Comments and Auditors' Comments on the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004." Another supplemental volume entitled "CMS Attachments to CMS Responses to the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004" contains attachments referred to by CMS in the body of its responses.



**04-7 FINDING:** (Failure to Include Subcontractor Information in Contracts)

The Department of Central Management Services (Department) failed to ensure that subcontractor information required under the Procurement Code was included in contracts awarded by the Department.

For professional and artistic contracts only, the contracts must state, “whether the services of a subcontractor will be used. The contract shall include the names and addresses of all subcontractors and the expected amount of money each will receive under the contract.” If a contractor adds or changes any subcontractors, CMS must receive the foregoing information in writing in a prompt manner. (30 ILCS 500/35-40)

In 44 percent (4 of 9) of the contracts we reviewed, the Department failed to have information on subcontractors utilized by the selected vendor included in the contract. The Department estimated the value of these contracts to be approximately \$53 million. Those contracts, vendor and maximum contract amounts are provided in the table below:

CONTRACT PURPOSE	VENDOR	AWARD DATE	MAXIMUM CONTRACT AMOUNT <sup>(1)</sup>
Asset Management	IL Property Asset Management, LLC	12/29/03	\$ 24,943,750
IT Rationalization	BearingPoint, Inc./Accenture, LLP	02/20/04	21,500,000
Telecom Rationalization	Electronic Knowledge Interchange, Inc.	02/20/04	6,500,000
Software Review	BearingPoint, Inc.	07/25/03	198,000
<b>TOTAL:</b>			<b>\$ 53,141,750</b>
<sup>(1)</sup> Amounts taken from CMS postings in the Illinois Procurement Bulletin.			

Specifics on the lack of subcontractor information for the contracts questioned are summarized below:

- **Asset Management Contract:** The contract between IPAM, LLC (IPAM) and the Department filed with the Comptroller does not identify any of the subcontractors utilized by IPAM. Four subcontractors were identified in the IPAM proposal submitted to the Department. However, the amount to be paid to these subcontractors was not disclosed. Furthermore, during our review of expenses reimbursed by the State to IPAM, we found evidence that one of the IPAM subcontractors was utilizing subcontractors of their own to perform work.
- **IT Rationalization Contract:** The contracts between BearingPoint, Inc. (BearingPoint), Accenture, LLP (Accenture) and the Department do not identify any of the subcontractors to be utilized during the IT Rationalization project. The proposals do identify some subcontractors but not the amounts each would receive under the contract. In the Accenture proposal, three subcontractors are identified without any indication of how much each would receive under the contract. However, after we inquired about the use of subcontractors and how much each received in compensation, a Department official collected information that shows Accenture used six subcontractors on this project and paid them a total of \$2.6 million (according to documentation received from a Department official on

February 10, 2005). In the BearingPoint proposal, two subcontractors are identified again without amounts to be compensated. A Department official collected information that shows BearingPoint subcontracted with eight firms on this project and paid them a total of \$3.2 million for hourly fees plus expenses. The highest paid subcontractor (total fees) was paid at a rate of \$215/hour for approximately 34 weeks, or \$293,618.

- **Telecom Rationalization:** The contract between Electronic Knowledge Interchange, Inc. (EKI) and the Department did not contain information on the use of any subcontractors. The proposal submitted by EKI did identify four subcontractors but with no expected value for compensation. After we inquired about the use of subcontractors and how much each received in compensation, a Department official collected information that showed EKI used four subcontractors on this project – including three different subcontractors that had never been identified in any document we examined. In documentation supplied by the Department in February 2005, one of these three subcontractors **that had not been listed** in either the contract or the proposal had received \$3.2 million from EKI for subcontracting work. The same documentation showed that EKI had made \$1.3 million – or less than half of what the subcontractor had received.
- **Software Review:** In the contract between BearingPoint and the Department (in the section that allows subcontracting) BearingPoint does assert that it “is proposing to use an independent consultant to complete a portion of the required consulting services.” The subcontractor is not identified in the contract. Department officials did not provide us with information on a subcontractor or any amount paid by the primary contractor to a subcontractor.

While the named vendors awarded the contracts were ultimately responsible for the successful completion of the projects, failure to have information on subcontractors included in contracts is not only a violation of the Procurement Code, but leaves it unclear as to which entity is performing the majority of the work. (Finding Code No. 04-7)

**RECOMMENDATION:**

We recommend that the Department follow the direction of the Illinois Procurement Code and include information on subcontractors and the amounts to be paid to the subcontractors under the contracts.

**DEPARTMENT RESPONSE:**

The Department disagreed with the finding.

The complete text of the Department's response, along with auditor comments on those responses, is presented in a separate document entitled "CMS Responses, Auditor General Comments and Auditors' Comments on the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004." Another supplemental volume entitled "CMS Attachments to CMS Responses to the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004" contains attachments referred to by CMS in the body of its responses.

**04-8 FINDING:** (Not Timely in Executing Contracts)

The Department of Central Management Services (Department) was not timely in executing contracts with vendors for contracts awarded. Additionally, the Department allowed vendors to initiate work on these projects without a written contract in place. This compromises the Department’s accountability to the public, and increases the likelihood that the State’s interests are not protected and that State resources are wasted or misused.

The Procurement Code dictates that “Whenever...a contract liability...exceeding \$10,000 is incurred by any State agency, a copy of the contract...shall be filed with the Comptroller within 15 days thereafter.” (30 ILCS 500/20-80 (b)) Further, for professional and artistic contracts, if the contract was not reduced to writing and filed with the Comptroller before the services were performed, the agency must file a written contract with the Comptroller along with an affidavit stating that “the services for which payment is being made were agreed to before commencement of the services and setting forth an explanation of why the contract was not reduced to writing before the services commenced.” (30 ILCS 500/20-80 (d))

The Department, in a document titled “Changes to the CMS Procurement Organization & Processes FAQs”, provides guidance to agencies on when negotiations are most effective.

*“It would probably be best for most negotiations to take place prior to award. The State has more leverage and the vendor has more incentive to negotiate prior to knowing they’ve been selected.”  
(Department of Central Management Services)*

See inset for guidance provided by the Department. Additionally, a correspondence from the Department and the Governor’s Office to agencies dated August 27, 2004 presents a flow chart of the procurement processes implemented at the Department indicating the time frame between “approve award” and “prepare final contract” to be **seven days**.

While the Department proposes to hold agencies to set time frames for negotiating and executing contracts, the Department did not follow these same guidelines. In 100 percent (9 of 9) of the contracts we reviewed, the Department allowed vendors to initiate work on the project without a formal written agreement in place. These contracts were estimated by the Department to have a maximum contract value of \$69 million with an FY04 financial commitment of \$32 million. On average, the length of time between the **announcement of the award** and the **filing of a contract** with the Comptroller was **149 days** (with a range of 87 days to 248 days). The average length of time between **beginning work** on the contract and the **filing of the contract** with the Comptroller was **125 days** (with a range of 75 days to 234 days). The table below provides a breakdown for all nine contracts reviewed:

CONTRACT PURPOSE	AWARD DATE <sup>(1)</sup>	START DATE <sup>(2)</sup>	FILING DATE <sup>(3)</sup>	TIME BETWEEN AWARD AND FILING (DAYS)	TIME BETWEEN START AND FILING (DAYS)
Procurement Assessment	07/18/03	08/01/03	03/22/04	248	234
Risk Assessment	11/10/03	11/15/03	06/15/04	218	213
Asset Management	12/29/03	01/05/04	06/14/04	168	161
Strategic Marketing	01/23/04	02/13/04	06/25/04	154	133
Server Consolidation	07/25/03	10/03/03	12/17/03	145	75
Software Review	07/25/03	10/03/03	12/17/03	145	75
Fleet Management	02/09/04	02/17/04	05/06/04	87	79
IT Rationalization	02/20/04	03/01/04	05/17/04	87	77
Telecom Rationalization	02/20/04	03/01/04	05/17/04	87	77
<b>AVERAGE:</b>				<b>149</b>	<b>125</b>
<p>(1) Date listed in the Procurement Bulletin announcing award.  (2) Date listed in the contract as the beginning date of the contract.  (3) Date provided by the Illinois Office of the Comptroller.</p>					

The Department did file Late Filing Affidavits for Professional and Artistic contracts for 7 of 9 contracts we reviewed. In the contract with Team Services, LLC (Team Services) for strategic marketing assistance, the vendor signed the contract on May 20, 2004 but the signature of the Department's Director was undated (this was one of three contracts we reviewed that was signed by the Director but not dated). The contract was filed with the Comptroller on June 25, 2004.

The affidavits asserted that services were "agreed to prior to commencement of services" but the long delays in reducing the agreements to writing indicates that services may not, in fact, be agreed to prior to commencement. While the Department states that vendors who initiate work prior to a written agreement do so at their own risk, allowing vendors to perform work without a written agreement has several adverse implications/effects for the State. For instance:

- **Compromises Oversight and Public Accountability** – A contract containing information, such as scope and nature of services to be provided, method and rate of compensation, and identifying the individuals that will be performing the work, is important to the General Assembly, unsuccessful proposers, and the general public. By not filing these contracts in a timely manner, large amounts of work can be performed and costs incurred before the public is made aware of the specifics of the contract.
- **Vendors Represent Themselves as Working for the State** – Team Services met with and contacted private business enterprises on behalf of the State for 3 months before signing an agreement with the State. It took the Department and Team Services 133 days to come to a written agreement and file that agreement with the Comptroller after work commenced. A Department official stated, in response to

why it took so long to execute a contract, that the Department was eager to get started on the project, but the lawyers were still working out contract language. The Department official stated that there would be more risk to Team Services than to the State. Allowing a vendor to represent the State's interest without a signed contract may expose the State to liabilities.

- **Utilization of State Resources** – Documentation in the Risk Assessment procurement files showed Deloitte & Touche, LLP (Deloitte & Touche) proposed using 4,100 hours of Illinois Office of Internal Audit manpower in addition to the 2,300 vendor hours to complete the Risk Assessment. It took the Department and Deloitte & Touche 213 days to come to a written agreement and file that agreement with the Comptroller after work commenced. A Department official stated, in response to why it took so long to execute a contract, that the delay was due to legal teams from both the Department and the vendor working through the contract details. Allowing a vendor to utilize State resources without a signed contract could result in costs never recouped by the State in the eventuality that the negotiations never result in a written agreement.
- **Delays May Increase the Likelihood that Proposed Elements do Not Make it Into the Final Agreement** – IPAM, LLC (IPAM) proposed a Performance Guarantee in both its original and best and final offer where “10% of the following fees...will be rebated should the IPAM team not meet the savings goals of \$14 million in FY'04 and \$30 million in FY'05...” This proposed guarantee ultimately was not included in the final contract. In fact, IPAM did not hit the FY04 saving goal and thus professional fees paid in FY04 of \$8,758,370 were not reduced. It took the Department and IPAM 161 days to come to a written agreement and file that agreement with the Comptroller after work commenced. Department officials stated, in response to why it took so long to execute a contract, that this was a large contract with several different aspects that the Department wanted to make sure it was not rushed. They added that while negotiations initially were with IPAM themselves, IPAM eventually brought in outside counsel.
- **May Limit the Department's Ability to Negotiate** – As stated in the Department's “Changes to the CMS Procurement Organization & Processes FAQs”, awarding a contract before the terms of the contract are established reduces the Department's negotiating leverage. If the Department cannot come to agreement with the vendor on contract terms, the Department must either restart the procurement process which could be a costly and impractical option from a time perspective in many cases, or enter into a contract with the winning vendor with less than desirable terms and conditions for the State. (Finding Code No. 04-8)

**RECOMMENDATION:**

We recommend that the Department take the necessary steps to increase timeliness in reducing a contract to writing. Additionally, the Department should review its practice of allowing vendors to initiate work on projects without a written agreement in place so as to protect State resources.

**DEPARTMENT RESPONSE:**

The Department disagreed with the finding.

The complete text of the Department's response, along with auditor comments on those responses, is presented in a separate document entitled "CMS Responses, Auditor General Comments and Auditors' Comments on the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004." Another supplemental volume entitled "CMS Attachments to CMS Responses to the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004" contains attachments referred to by CMS in the body of its responses.

**04-9 FINDING:** (Contract Monitoring Deficiencies)

The Department of Central Management Services' (Department) process to monitor vendor expenses was inadequate. For most contracts reviewed, expenses were paid with little or no review by the Department. In four contracts the Department received no detailed documentation to support reimbursement of expenses. For these contracts, we were unable to substantiate any expenditures. In one contract where detailed support for expenses billed was provided by the vendor, the Department paid numerous questionable expenses. One of the contracts allowed for reimbursement of routine business expenses incurred by the contractor. The Department's weak controls over the payment of vendor expenses increases the likelihood that State resources are wasted or misused.

The State Finance Act requires the Department to ensure that services specified on a voucher presented for payment are correct, authorized, and lawfully incurred. (30 ILCS 105/9.04) Additionally, sound business practice requires the effective monitoring of contractor activities and payments.

**Monitoring of Reimbursable Expenses to Contractors:**

During our testing of nine selected FY04 issued contracts, we examined Department efforts in reviewing expenses paid to contractors under these agreements. In 78 percent (7 of 9) of the contracts reviewed, the Department allowed for reimbursement of expenses in the contract agreements. During FY04, the Department paid the seven contractors \$708,715 in reimbursable expenses. The table below details the expenses reimbursed by contract.

We found that the Department does not adequately review the expenses submitted by contractors and paid by the Department. A lack of supporting documentation submitted by contractors and the Department's lack of adequate review led us to question 77 percent (\$546,650 of \$708,715) of the total expenses paid to these contractors during FY04. The lack of review included allowing reimbursement over the State travel regulations for hotel rates in over 40 instances and over the per diem rate in over 23 instances. See the table below for a summary of the questioned payments.



CONTRACT PURPOSE	AWARD DATE <sup>(1)</sup>	START DATE <sup>(2)</sup>	FILING DATE <sup>(3)</sup>	EXPENSES REIMBURSED IN FY04	EXPENSES QUESTIONED OR NOT SUPPORTED BY DETAILED DOCUMENTATION
IT Rationalization	02/20/04	03/01/04	05/17/04	\$ 341,959	\$ 341,959
Asset Management	12/29/03	01/05/04	06/14/04	177,501	43,615
Telecom Rationalization	02/20/04	03/01/04	05/17/04	106,987	106,987
Server Consolidation	07/25/03	10/03/03	12/17/03	32,265	32,265
Software Review	07/25/03	10/03/03	12/17/03	21,824	21,824
Fleet Management	02/09/04	02/17/04	05/06/04	17,922	0
Strategic Marketing	01/23/04	02/13/04	06/25/04	10,257	0
<b>TOTAL:</b>				<b>\$ 708,715</b>	<b>\$ 546,650</b>
<p>(1) Date listed in the Procurement Bulletin announcing award.  (2) Date listed in the contract as the beginning date of the contract.  (3) Date provided by the Illinois Office of the Comptroller.</p>					

The various contracts delineate what expenses are to be reimbursed by the State to the contractors. Specifically, we found:

- **IT Rationalization, Telecom Rationalization, Server Consolidation, Software Review Contracts** – Contracts with vendors for these projects allowed for the reimbursement of expenses for travel. Travel expenses were to be reimbursed according to State travel regulations. During FY04, the Department reimbursed the vendors \$503,035 in expenses. However, there was **no** documentation attached to the billing invoices from the vendors to substantiate that the expenses actually occurred.

Invoiced expenses, totaling over \$54,000, for Server Consolidation and Software Review simply indicated an amount for “Expenses Incurred” without detailed support. Invoices submitted to the Department for expenses, totaling almost \$449,000, claimed under the IT and Telecom Rationalization contracts did have a summary categorical breakout (i.e., hotel, airfare, etc.) but again did not have detailed support. A Department official explained that the review process consisted of looking at the overall reasonableness of the expense amount to the overall price of the billing invoice. However, absent supporting documentation, the Department would not be able to ascertain whether State travel regulations had been complied with for the amounts billed.

- **Fleet Management and Strategic Marketing Contracts** – Contracts with vendors for these projects also restrict expenses to those amounts delineated in the State travel regulations. Our review of expenses submitted for reimbursement under these contracts, and the detailed supporting documentation, showed instances of vendors being reimbursed **over** the travel regulation rates.

Even though the Strategic Marketing contract was executed between the winning vendor and the Department, the Governor's Office monitored the billings submitted by the vendor. After approval by the Governor's Office, the FY04 billings were paid by the Department of Revenue under an interagency agreement with the Department of Central Management Services (the Department of Agriculture was to make payment to this vendor in FY05). Revenue paid the May 2004 invoice on July 13, 2004, and Agriculture paid the July 2004 invoice on September 27, 2004. However, on January 11, 2005, almost four months *after* the September 2004 payment was made, but two days *before* meeting with auditors on this contract, the Governor's Office asked for reimbursement of \$1,707.33 for payments that were made to the vendor for expenses that exceeded State travel regulations.

▪ **Asset Management Contract –**

The Department awarded this contract in December 2003 to an entity that had not legally existed as a limited liability corporation prior to January 2004. In this contract the Department, in addition to the \$25 million in service fees for the vendor, agreed to pay the vendor "reimbursable amounts identified as fixed monthly amounts and set forth...in its reimbursable expense reports." See inset for examples of reimbursable expenses under the Asset Management contract. Necessary travel, meals and lodging expenses were to be reimbursed according to State travel regulations, and the Department was not obligated to reimburse amounts in excess thereof.

*"Examples of reimbursable expenses include business meals, airfare, lodging, mileage, auto rental and transportation, phone usage, cell phones, teleconferencing, training, office supplies, postage, messengering and shipping, photography, reproduction and binding, A/V presentations and subscriptions and publications."*  
*(Asset Management Services contract)*

During FY04, the Department reimbursed the vendor \$177,501 for expenses incurred from January through June 2004 – even though the executed contract was not filed with the Comptroller until June 14, 2004. All six months of expenses were submitted to the Department in early August 2004. The payments were made to the vendor for these expenses by the State on August 30, 2004.

A Department official explained that the contract says that the State "can" request backup for expenses but that the vendor is not required to submit it. The official, who is responsible for monitoring the contract with this vendor, stated that the Department can check randomly to see if the vendor is following the State's travel guidelines, and that they do not need to check and look at all expense reports. However, our review of the supporting detail for the expense reports found no evidence of Department review. The vendor was reimbursed for **all** of the expenses submitted. In our review we found:

- A \$495.05 reimbursement for a "**Celebration Dinner**" for six vendor staff on January 19, 2004 – 22 days after the contract award was announced by the Department.

- Business meals where supporting documentation showed the reimbursement included Department officials who were on travel status. These Department officials also claimed, and were paid, full per diem rates on travel vouchers for the days when the vendor paid for meals. The Department officials were staff that monitor the work performed under the Asset Management contract.
- Parking reimbursed for the United Center on February 17, 2004. The Chicago Bulls had a home basketball game on that date. The detailed support indicated two names on the parking receipt, a vendor employee and the Department official responsible for monitoring the contract.
- A March 2004 reimbursement for a cellular telephone bill for a vendor employee in the amount of \$114.68. The statement shows the telephone is billed for the City of Chicago Department of Procurement Services.

While not submitted for reimbursement, documentation showed a \$103 business meal between a vendor official and a Department official on December 15, 2003 – 2 weeks **prior** to the Department announcing the award for the Asset Management project. This Department official was a member of the selection committee for this procurement, and is responsible for reviewing and approving payments to the vendor.

While the contract allows for business expenses to be reimbursed, the Department should ensure that State monies do not go for this vendor to operate a business venture. Additional questioned uses of State funds to reimburse for expenses under the Asset Management contract are detailed in the following exhibit.

QUESTIONED EXPENDITURES REIMBURSED UNDER THE ASSET MANAGEMENT CONTRACT							
#	DATE	PURPOSE	AMOUNT	MEALS / BUSINESS ENTERTAINMENT	TRAVEL	EQUIPMENT	OTHER
1.	12/18/03	Subcontractor staff charged travel 10 days <i>prior to award</i> of contract to IPAM	\$ 1,769.56		✓		
<b>12/29/03 IPAM AWARDED ENGAGEMENT</b>							
2.	12/30/03	2 subcontractor staff charged travel to Springfield for MAPPs (Magellan Assessment and Project Planning System) presentation to GOMB – the day after award of contract but <i>prior to start date</i> of 1/5/04	1,102.01		✓		
3.	01/07/04	Messenger service for package to company that was dropped from IPAM joint venture (also 1/9/04)	12.80				✓
<b>01/05/04 IPAM BEGINS WORK (NO CONTRACT SIGNED)</b>							
4.	01/12/04	In-house orientation session meals in January for subcontractor staff (also 1/13/04)	2,306.00	✓			
5.	01/12/04	Team building games	17.00				✓
<b>01/15/04 IPAM ARTICLES OF ORGANIZATION FILED WITH SECRETARY OF STATE</b>							
6.	01/19/04	" <i>Celebration Dinner</i> " for 6 IPAM staff	495.05	✓			
7.	01/22/04	12 Executive Elite 3 hands-free telephone headsets	1,992.24			✓	
8.	01/28/04	Business letterhead with no IPAM indication on the invoice	851.65			✓	
9.	01/30/04	Airfare for subcontractor to fly guest to Chicago for the weekend	278.30		✓		
10.	FEB. 04	Parking in downtown Chicago garages for Chicago-based staff (also March, April, May and June)	1,420.00		✓		
11.	FEB. 04	Cab fare for Chicago-based IPAM staff to home or IPAM offices (also March, April, May and June)	225.00		✓		
12.	FEB. 04	Cell phones for subcontractor billed to the subcontractor address, with names removed and "IPAM" written in (also March and April)	2,516.83			✓	
13.	FEB. 04	Computer equipment, software, and color printing that was paid for by IPAM but shipped to one of its subcontractors' offices and not IPAM, even though located in the same building in Chicago (also March)	1,313.41			✓	
14.	FEB. 04	Subcontractor rental of 7 sport utility vehicles for staff to drive during all of February and March 2004; total miles driven for 7 vehicles during the 2 months was 1,923	8,573.83				✓
15.	FEB. 04	Other leased vehicles for IPAM subcontractor during February and March 2004 – generally sport utility vehicles – including subcontractors of the subcontractor	3,048.83				✓
16.	02/03/04	Dinner in Springfield between 1 IPAM employee and 2 CMS staff; CMS staff claimed full per diem on travel vouchers	192.34	✓			
17.	02/04/04	Business lunch that included CMS, GOMB and CDB	100.38	✓			
18.	02/04/04	Food receipts and hotel room service charges for a subcontractor employee in 1 day	138.33		✓		
19.	02/06/04	Cell phone charges for subcontractor where bill had 1 Illinois number on the detail	244.30			✓	
20.	02/08/04	Alcohol charged to the State not part of any meal	54.98	✓			
21.	02/19/04	Parking at United Center for Chicago Bulls game; receipt shows names of IPAM employee and CMS employee	13.00		✓		
22.	02/17/04	Maps of Illinois purchased by IPAM subcontractor on 2/17/04	27.26				✓

QUESTIONED EXPENDITURES REIMBURSED UNDER THE ASSET MANAGEMENT CONTRACT							
#	DATE	PURPOSE	AMOUNT	MEALS / BUSINESS ENTERTAINMENT	TRAVEL	EQUIPMENT	OTHER
23.	02/19/04	Business meals for IPAM to meet with its attorneys on contract negotiation (also 2/24/04 and 4/8/04) which was over 3 months <b>after</b> contract work began	\$ 90.16	✓			
24.	02/26/04	Mounting boards <b>shipped to</b> Mesirow Stein Real Estate but <b>billed to</b> IPAM (also 2/27/04)	1,000.50			✓	
25.	02/27/04	Business meals with one of the losing proposers from the RFP (also 3/2/04)	103.97	✓			
26.	03/06/04	Ice bucket and tongs	32.01				✓
27.	03/09/04	Business meal in Springfield for contract discussions between 1 IPAM employee and 2 CMS staff; CMS staff claimed full per diem on travel vouchers	209.29	✓			
28.	03/14/04	Cell phone charges for IPAM employee, yet statement shows bill is for City of Chicago Department of Procurement Services (also 4/13/04 and 5/13/04)	344.04			✓	
29.	03/18/04	Research article from Harvard Business School Publishing	18.01				✓
30.	03/19/04	Gas for out-of-state subcontractor to meet at Maximus headquarters in Columbia, MD	24.56		✓		
31.	03/23/04	Business meal in Springfield for review for audit meeting for an IPAM employee and a CMS employee; CMS employee claimed full per diem on travel voucher	138.63	✓			
32.	03/23/04	Business meal in Springfield for agency review meeting for 4 IPAM staff and 1 CMS employee; CMS employee claimed full per diem on travel voucher	202.15	✓			
33.	03/30/04	Business meal in Springfield to review agency concerns for 4 IPAM staff and 3 CMS staff; CMS staff claimed full per diem on travel voucher	187.21	✓			
34.	03/30/04	Business meal in Springfield with no indication of the purpose for 2 IPAM staff and 1 CMS employee; CMS employee claimed full per diem on travel voucher	39.96	✓			
35.	April 04	Messenger service <b>from</b> Mesirow Stein Real Estate <b>to</b> IPAM offices (also May)	99.74				✓
36.	04/06/04	Business meal in Springfield for an agency meeting for 2 IPAM staff and 2 CMS staff; CMS employees claimed full per diem on travel voucher	225.69	✓			
37.	04/06/04	Business entertainment at Springfield bar for an agency meeting for 4 IPAM staff and 2 CMS staff	52.50	✓			
38.	04/06/04	No-show charge at Springfield hotel for IPAM employee on 4/6/04	98.99		✓		
39.	04/13/04	Business meal in Springfield for procurement presentation review for 3 IPAM staff and 1 CMS employee; CMS employee claimed full per diem on travel voucher	169.00	✓			
40.	04/23/04	Personal use of rental car, billed by subcontractor, even though it was disclosed on the supporting documentation that the usage was personal	100.00		✓		
41.	04/27/04	Breakfast and lunch for team meetings and consolidation workshop with clients at IPAM offices (also 4/28/04)	609.09	✓			
42.	May 04	Meals in Chicago during May for Chicago-based staff and subcontractors and CMS personnel for various reasons	201.32	✓			
43.	05/04/04	Lease of automobiles for 2 Chicago-based staff of an IPAM subcontractor billed in June 2004 (also 5/7/04)	192.88				✓
44.	05/13/04	Food charged to hotel bill when subcontractor was already reimbursed for the State's per diem rate (also 5/20/04)	12.48	✓			
45.	05/20/04	Food for lunch meeting for IPAM employees in Chicago to discuss energy management	99.14	✓			
46.	05/20/04	Tip for delivery associated with lunch on 5/20/04	5.00	✓			

QUESTIONED EXPENDITURES REIMBURSED UNDER THE ASSET MANAGEMENT CONTRACT							
#	DATE	PURPOSE	AMOUNT	MEALS / BUSINESS ENTERTAINMENT	TRAVEL	EQUIPMENT	OTHER
47.	05/27/04	Breakfast refreshments for Chicago-based IPAM staff for meeting with subcontractors	\$ 45.00	✓			
48.	05/27/04	Bulk candy for meeting with 2 CMS employees in Chicago	11.24	✓			
49.	06/01/04	Dinner for Chicago-based IPAM staff in Chicago due to working late because of budget work; receipt shows dinner was at 7:23 p.m.	50.94	✓			
50.	06/02/04	Parking for IPAM employee in downtown Chicago on same day he drove to Springfield to deliver IPAM budget to CMS	25.00		✓		
51.	06/08/04	Business meal in Springfield between IPAM employee and CMS employee to discuss legal issues; IPAM employee already claimed and was reimbursed for the State per diem rate	61.18	✓			
52.	06/10/04	Lunch in Chicago for 3 IPAM staff and 1 CMS employee	53.38	✓			
<b>06/14/04 IPAM CONTRACT FILED WITH COMPTROLLER</b>							
53.	06/16/04	Early departure charge for hotel for subcontractor on travel status	25.00		✓		
<b>8/30/04 PAYMENT DATE FOR IPAM EXPENSES</b>							
<b>TOTAL QUESTIONED:</b>			<b>\$31,221.16</b>				

**Other Monitoring Deficiencies:** In other testing of 25 contractual agreements we noted the following deficiencies:

- Two payments on one contractual agreement selected for testing were not in accordance with the terms of the contract. Payments were made for services in excess of the contractually agreed rate by \$2,665.
- One billing on a contractual agreement for \$4,520 did not detail labor hours and hourly rates as required by the contract.
- One payment on a contractual agreement for \$17,086 did not agree with a rate schedule included in the contract. We were unable to determine the amounts that should have been billed based on the lack of detail provided with the billing.
- Two contractual agreements contained amendments that were not signed until after the intended effective date of the amendment.
- Two contractual agreements were not signed until after services began and the late filing affidavit was not prepared.
- Two contractual agreements were missing a form or certification required by SAMS Procedure 15.20.20 or 15.20.30. (Finding Code No. 04-9)

**RECOMMENDATION:**

We recommend that the Department require contractors to submit supporting documentation for expenses that will be reimbursed with State taxpayer dollars. Additionally, we recommend the Department take the necessary steps to increase monitoring of the expenses submitted by the contractors and request refunds in instances when the contractor is reimbursed over the allowable amounts stated in contracts.

Finally, we recommend that the Department not enter into contracts where the State is responsible for expenses that would be in the normal course of doing business.

**DEPARTMENT RESPONSE:**

With one minor exception, the Department agreed with the finding.

The complete text of the Department's response, along with auditor comments on those responses, is presented in a separate document entitled "CMS Responses, Auditor General Comments and Auditors' Comments on the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004." Another supplemental volume entitled "CMS Attachments to CMS Responses to the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004" contains attachments referred to by CMS in the body of its responses.

**04-10 FINDING:** (Methodology for Calculating Savings Amounts to Bill Agencies for Savings Initiatives)

The Department of Central Management Services (Department) failed to adequately determine the amount of savings it expected State agencies to realize when billing for savings initiatives. This resulted in a majority of State agencies being over billed – i.e., they were billed more for savings initiatives than Department documentation showed the agencies had realized in savings.

A change to the Department’s Civil Administrative Code, effective June 20, 2003, gave the Department the responsibility for recommending to the Governor efficiency initiatives to reorganize, restructure, and reengineer the business processes of the State. The Department was granted the power and duty to, in part, establish the amount of cost savings to be realized by State agencies from implementing the efficiency initiatives, which shall be paid to the Department for deposit into the Efficiency Initiatives Revolving Fund. (20 ILCS 405/405-292)

During FY04 the Department billed State agencies \$137 million for efficiency initiatives for: procurement, information technology, vehicle fleet management, facilities management consolidation, internal audit consolidation, and legal research consolidation. The table below indicates, by initiative, the number of agencies billed and the total billed:

INITIATIVE	# AGENCIES BILLED	TOTAL AMOUNT BILLED
Procurement Efficiency	38	\$ 88,613,520.00
Information Technology Consolidation	37	32,347,055.00
Facilities Management Consolidation	11	8,697,686.00
Vehicle Fleet Management	28	3,896,153.00
Internal Audit Consolidation	3	3,083,254.69
Legal Research Consolidation	6	327,154.44
	<b>TOTAL:</b>	<b>\$ 136,964,823.13</b>

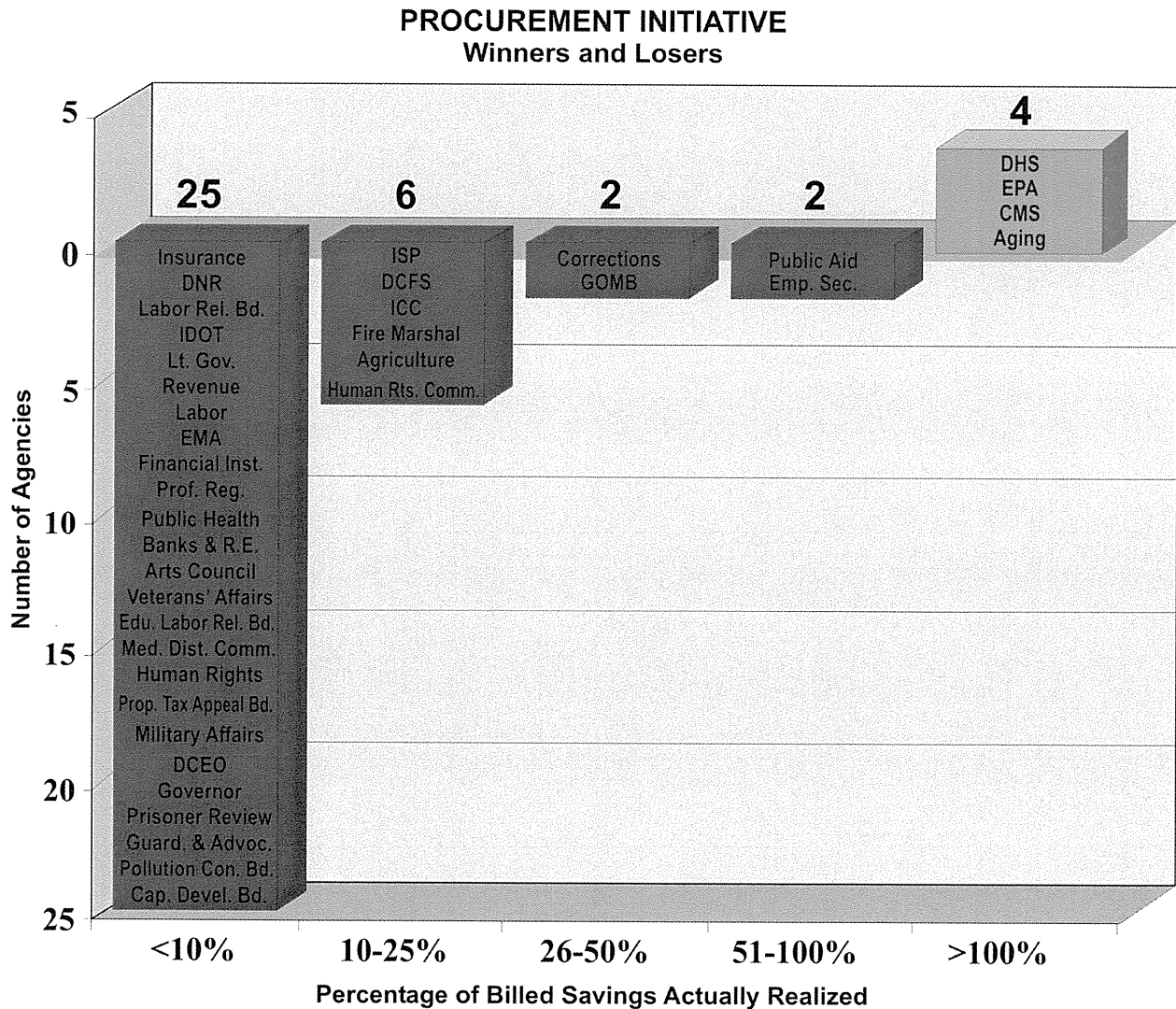
Not all agencies were billed for all initiatives. For example, Historic Preservation was billed for facilities management consolidation but not procurement efficiency, information technology or vehicle fleet management. In fact, documentation provided by the Department in September 2004, listed 13 agencies that should have been billed \$5.6 million for procurement, information technology and vehicle fleet management initiatives but were never billed. According to Department officials, the Governor’s Office of Management and Budget (GOMB) was very involved in the billing process and GOMB made the decision as to what agencies were billed and what agencies were not billed.

In November 2004, the Department provided documentation on the “Winners and Losers” from the procurement efficiency initiative. Some of the agencies that **were not billed** for procurement efficiency initiatives did, according to documentation submitted by the Department, experience savings from the procurement efficiency initiative. For instance, Department documentation showed that the Illinois Student Assistance



Commission (ISAC) **should have been billed** \$728,600 for the procurement efficiency initiative, and according to the Department, ISAC saved \$1,585,181 from the procurement efficiency initiative in FY04.

Conversely, the Department of Transportation (IDOT) **was billed** \$17,061,200 during FY04 but Department documentation showed that IDOT **only saved** \$1,232,179 from the procurement efficiency initiative. Consequently, IDOT paid \$15.8 million more into the Efficiency Initiatives Revolving Fund than the Department of Central Management Services documentation showed IDOT realized in savings. Likewise, the Department of Revenue (DOR) **was billed** \$4,321,900 during FY04 but **only saved** \$238,302 from the procurement efficiency initiative. In total, Department documentation showed that there were 4 “Winners” and 35 “Losers” from the efforts of the procurement efficiency initiative. The chart below summarizes the percentage of billed savings actually realized by the State agencies:



Source: OAG summary of CMS document.

To determine the savings levels the Department utilized the following methodologies:

- **Facilities Management Consolidation:** In May 2004, the Department sent out \$8.7 million in billings to eleven agencies for the facilities management consolidation initiative. The methodology used to determine this amount was a FY03 (Spring 2003) survey of State agencies that showed funded vacant headcount in the facilities management area.

Given that billings were sent out a year after the surveys were completed, and the fact that as of May 2004 facilities management had not yet been consolidated, this may have not been the most appropriate methodology to bill State agencies. For instance, the Department of Military Affairs (DMA) was billed \$772,580 for 17 vacant positions according to the FY03 survey. However, by the time the billing came in May 2004, DMA had filled several of the vacancies and only paid \$222,022 for parts of the year where the positions were vacant. In another instance, an official from the Department of Veterans' Affairs (DVA) questioned GOMB whether the six funded vacant headcount positions it was billed \$363,944 for were true facilities management personnel, noting that some positions had been filled. The billing was not changed and DVA paid the entire amount.

- **Information Technology Initiative:** While statute grants the Department the authority to determine savings to be realized by State agencies, this was not the case for the IT initiative. According to Department officials, GOMB had Accenture, LLP perform a two-week review in May 2003 of IT spending data to determine an amount of statewide savings that would be expected from the IT initiatives undertaken by the Department. This figure, \$35 million, was used by GOMB in determining how much to bill each agency for this initiative. Documentation on this two-week project does not total the \$35 million figure used to bill State agencies.

The Department questioned the GOMB methodology in a September 15, 2003 memorandum due to: (1) GOMB's use of a methodology that was not the best indicator of total IT spending; (2) several agencies' savings billings would be more than 15 percent of their total IT spending budget; and (3) \$750,000 in savings were attributable to agencies no longer in the consolidation process. GOMB utilized the same methodology, did not adjust billings for agencies based on Department concerns, and spread the \$750,000 in billings among other State agencies when IT Consolidation billings went to agencies on September 19, 2003.

- **Vehicle Fleet Management Initiative:** The Department's methodology for calculating savings from the reduction of agency vehicles resulted in agencies being overcharged for savings estimates. In one instance, an agency was billed more in savings from fleet reduction than the agency was appropriated in operation of automobile appropriations.

Documentation submitted by the Department for calculated savings estimates contained inconsistent data. The Department used a weighted average in determining the amount of savings an agency would realize for the disposal of a

vehicle. This weighted average was for all categories of vehicle – passenger car, truck, bus, snowplow, etc. Using the weighted average, which amounted to \$3,044 for every vehicle disposed of regardless of vehicle type, resulted in agencies being over billed if its vehicles were not the high end of maintenance cost (dump trucks and snow trucks, etc.). Department calculations showed that an agency would expect to save \$1,700 for every passenger car reduced from its fleet. During FY04, the Department sold 402 passenger vehicles at its surplus auctions. Each agency that was billed for one of these vehicles would have been overcharged approximately \$1,300.

A Department official indicated that while the Department was not certain what types of vehicles would be turned in for sale, GOMB wanted one figure to compute savings so that billings could begin. The Department official added that the Department was not sure the numbers were going to be absolutely correct, but wanted them to be close. The official stated that GOMB made the decision to use the one figure for billing in order to cut the budget as soon as possible, therefore they did not have time to go back and figure the savings by vehicle type. However, this methodology can drastically influence the appropriations an agency received for automobile usage. Using this methodology the Property Tax Appeal Board was billed \$13,211 during FY04 for vehicle fleet management – when the total appropriations for the Property Tax Appeal Board for operation of automobiles was \$11,300.

- **Procurement Efficiency Initiative:** According to a Department official, GOMB approached McKinsey and Company, Inc. to assist in gathering data to help develop the State's savings targets. The procurement initiative was one of those projects. The vendor performed pro bono diagnostic work in March 2003 and had about 2-3 weeks to produce the numbers.

The savings goal stated in the RFP for the procurement initiative was \$109 million. According to a Department official, this figure was developed by the vendor looking at FY02 Comptroller data on State spending in several areas and comparing that to vendor information on past practices and market rates for goods and services. However, the preliminary savings documentation provided by the Department that this vendor developed did not total to \$109 million. (Finding Code No. 04-10)

#### **RECOMMENDATION:**

We recommend that the Department take the necessary steps to ensure that amounts billed to State agencies for savings initiatives are supported by sound methodologies so that agencies are not paying for savings that are not realized.

**DEPARTMENT RESPONSE:**

The Department disagreed with the finding.

The complete text of the Department's response, along with auditor comments on those responses, is presented in a separate document entitled "CMS Responses, Auditor General Comments and Auditors' Comments on the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004." Another supplemental volume entitled "CMS Attachments to CMS Responses to the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004" contains attachments referred to by CMS in the body of its responses.

**04-11 FINDING:** (Inadequate Documentation to Support the Validation of Savings)

The Department of Central Management Services (Department) did not maintain adequate documentation to support the validation of many of the savings which the Department attributes to its various efficiency initiatives. Furthermore, savings goals stated in the Request for Proposals (RFP), vendor proposals, and/or contract were not always realized or documented.

The Department awarded over \$69 million during FY04 to outside vendors for contracts intended to achieve savings as part of the efficiency initiatives. In some cases contracts were awarded based on the vendors' ability to show they could meet savings goals stated in the RFP, vendor proposal and/or contract. Where savings are a specific goal, the Department should ensure it has in place a valid and reliable system to track savings achieved by the vendors. The table below illustrates the contracts we sampled that specified savings goals, by fiscal year, along with the dollar amounts.

CONTRACT PURPOSE	VENDOR	MAXIMUM CONTRACT AMOUNT <sup>(1)</sup>	SAVINGS GOAL <i>(in millions \$)</i>			SAVINGS GOAL STATED IN:				
			FY 04	FY 05	FY 06	PROCUREMENT BUSINESS CASE	SOLICITATION OVERVIEW	RFP	VENDOR PROPOSAL	CONTRACT
Procurement Assessment	McKinsey	\$ 14,720,000	109.0	200.0				✓	✓	✓ <sup>(2)</sup>
Server Consolidation	BearingPoint	195,000	7.0	7.0	7.0	✓ <sup>(3)</sup>				
Software Review	BearingPoint	198,000	1.5	1.5	1.5	✓ <sup>(3)</sup>				
IT Rationalization	BearingPoint Accenture	21,500,000	25.0	100.0	100.0	✓	✓	✓	✓	
Telecom Rationalization	EKI	6,500,000	5.0		30.0	✓		✓	✓	
Asset Management	IPAM	24,943,750	14.0	30.0		✓		✓	✓	
Fleet Management	Maximus	214,000	1.0	2.6				✓	✓	✓
<b>TOTAL:</b>		<b>\$ 68,270,750</b>	<b>162.5</b>	<b>341.1</b>	<b>138.5</b>					
<p><sup>(1)</sup> Amounts taken from CMS postings in the Illinois Procurement Bulletin.  <sup>(2)</sup> If McKinsey has not satisfactorily completed services, the CMS Director may elect not to pay vendor.  <sup>(3)</sup> Projection made by Accenture.</p>										

**Procurement Efficiency Initiatives**

The documentation used by the Department to support the validation in savings captured by McKinsey for procurement in FY04 raised concerns. Agencies were billed \$88.6 million in September 2003 for Procurement Efficiency Initiatives. A goal stated in the Procurement Assessment RFP issued in May 2003 was that savings of approximately \$109 million could be achieved during FY04 and \$200 million in FY05. The Performance Guarantee in the McKinsey contract states "McKinsey and CMS agree that CMS may, in the sole and absolute discretion of the Director, exercise the performance guarantee as provided herein. CMS may withhold full or partial payment from an

unapproved invoice if CMS determines that McKinsey has not satisfactorily completed services at least equal to the ratio that the percentage of payment bears to the percentage of services required for the successful completion of the contract as determined by CMS in its sole and absolute discretion....”

The Department provided two summary spreadsheets showing amounts of validated savings. The first summary spreadsheet was provided in August 2004 with \$101,129,585 in FY04 savings validated. In January 2005, the Department provided a second summary spreadsheet that listed \$108,249,175 in FY04 validated savings.

There were several differences between the first and second summary spreadsheets that raise questions concerning the claimed FY04 “validated” savings. In the second summary, two savings initiatives, totaling \$689,765, were deleted from the original spreadsheet of “validated” savings. Also, eight new savings initiatives were added. In addition, “validated” savings dollar amounts for several of the individual initiatives changed significantly between the first and second summaries.

Both spreadsheets were provided after the end of FY04, yet major changes were still being made. The January 2005 spreadsheet noted that “categories are still being reviewed as part of the validation process.” When savings previously validated are subsequently not considered as savings, it raises questions regarding other savings that were reportedly validated by the Department.

Over 50 percent of the procurement initiatives savings, or \$58.8 million, were related to six fee-for-service billings at DHS (such as submitting back claims, correcting and resubmitting rejected Medicaid claims, etc.). According to DHS personnel, many of these activities had been initiated by DHS years ago; however, more intense efforts began in February of 2004 with the help of McKinsey consultants.

Based on information provided by DHS, a \$2.5 million in “validated” FY04 savings for one of the six DHS initiatives (“Mental Health Error Correction”) was a future years’ savings and not savings collected in FY04. Furthermore, on two of the other five DHS initiatives, over \$2.8 million in “validated” FY04 savings were not actually collected in FY04. Of \$1.1 million the Department listed as validated FY04 savings (for the Developmental Disabilities and Division of Rehabilitation Services waiver initiative), DHS reported that only \$839,028 was actually collected in FY04. Of the \$19.9 million the Department listed as validated FY04 savings (for the Family Case Management and Targeted Intensive Prenatal Case Management initiative), DHS reported that only \$17.3 million was actually collected in FY04.

Other issues related to the procurement initiative were:

- On at least 18 of 51 (35 percent) of the Savings Tracking Forms, there were no McKinsey employees listed as “Team Members” assisting in the initiative. For example, on a contract renewal of a copier lease at DHS, \$1.3 million in savings are claimed and no McKinsey staff were listed as a team member for this initiative. Furthermore, based on the Savings Tracking Form provided by the Department, it was the copier vendor that approached DHS with an offer

of significant savings on the copier lease contract renewal. The Department acknowledged that the copier vendor initiated the idea but felt that the work of the procurement initiative was a significant factor in this vendor making the offer to the State. The Department provided e-mails showing that McKinsey staff were involved after the initial proposal from the vendor was received and that McKinsey was assisting the State with a new statewide RFP for copier maintenance in late October 2003.

- On the Paper – Envelope RFP initiative, \$133,000 in validated savings was attributable to canceling an envelope order for the Illinois Commission on Intergovernmental Cooperation, which had been abolished. The Department said that the envelopes would have been ordered and wasted, since the agency no longer existed. However, in response to a follow-up question from the auditors, the Department stated “we have discovered that the large database download into a spreadsheet was linked to a lookup table that erroneously allowed for agencies to be separated from the actual spend on envelopes. In fact, through this exercise we discovered that the amount attributed to the Illinois Commission on Intergovernmental Coop should have been assigned to a different agency. We have updated our records accordingly.”

### **Information Technology Consolidation**

The Department also lacked documentation to support savings from the IT initiative. Agencies were billed \$32.3 million in September 2003 for Information Technology Consolidation Initiatives. Although the statute indicates savings should be achieved from the efficiency initiative projects, Department personnel indicated they did not calculate savings (for the \$32.3 million billed to agencies); they were trying to get the agencies to spend less on IT.

According to a discussion document prepared by Accenture in September 2004, reductions from FY03 to FY04 can be attributed to:

- employee reductions/funded vacant headcount,
- amounts billed to the agencies for IT consolidation initiatives, and
- contract renegotiations/spending governance.

However, no verifiable savings documentation was provided to support these reductions.

The Department entered into four contracts with IT vendors totaling \$28.4 million. Department documentation on Server Consolidation showed that Accenture estimated up to \$7 million recurring savings. However, on January 20, 2005, Department personnel could not provide documentation and could not attribute savings to this contract in FY04. Documentation on the Software Review project showed that Accenture estimated up to \$1.5 million recurring savings. Again on January 20, 2005, Department personnel could not provide documentation and could not attribute savings to this contract in FY04. IT Rationalization was to save \$25 million in FY04. Department personnel stated on February 2, 2005, savings could not be attributable to this contract. Telecommunications Services Rationalization was to save \$5 million in FY04, with annualized savings of \$30 million being attained by the third year. Department personnel stated on February 2, 2005, savings could not be attributable to this contract. On April 6, 2005, after our exit

conference, the Department provided a one-page document on information technology savings. However, the information was not attributable to any individual contract. Additionally, two caveats were included on the document stating: "Some categories are still being reviewed by BCCS and could be subject to change"; and "There is some crossover of IT categories with McKinsey savings validated under the procurement initiative; these amounts will not be billed again."

**Facilities Management Consolidation**

The Department also failed to maintain adequate documentation to support that the savings goal was reached on the Facilities Management initiative. Agencies were billed \$8.7 million in May 2004 for Facilities Management Consolidation Initiatives. A goal stated in the Asset Management RFP issued in September 2003 was to achieve a minimum of \$14 million in budgetary savings during FY04 with an additional \$30 million in FY05 through the consolidation effort.

In December 2004, Department personnel stated that IPAM (the vendor selected for this contract) had not met the \$14 million savings goal, but instead, had achieved approximately \$7 million in savings. According to the Department, these savings can be attributed to:

- \$6,000,000 – Funded vacant headcount **billed** to agencies in May 2004. However, the positions identified as vacant were the result of a survey of State agencies, in Spring 2003, not IPAM work on organizational structure. All of these funded positions were vacant prior to IPAM receiving the Asset Management contract announced December 29, 2003.
- \$500,000 – resulting from an energy audit. However, the energy audit was conducted by the University of Illinois at Chicago at the request of CMS and McKinsey, not IPAM.
- \$500,000 – resulting from the cancellation of leases. The Department provided a report of leases terminated between January 1, 2004 and June 30, 2004 totaling \$401,397. We could not determine from the information provided that they considered the offsetting costs of placing agencies in another location. In February 2005, the Department provided documentation to show that only \$185,159 had been saved in FY04 from terminated leases.

**Fleet Management Initiative**

The Department was unable to provide any information or documentation to support the savings goal of \$1 million in FY04 and \$2.6 million in FY05.

**Conclusion**

Per statute, it is the Department's responsibility to "establish the amount of cost savings to be

<b>FISCAL YEAR 2004 DISBURSEMENTS</b>	
Transferred to General Revenue Fund	\$ 58.9 million
Payments to Major Efficiency Contractors	30.0 million
Other Disbursements	7.3 million
<b>TOTAL:</b>	<b>\$ 96.2 million</b>



realized by State agencies from implementing the efficiency initiatives, which shall be paid to the Department for deposit into the Efficiency Initiatives Revolving Fund” (20 ILCS 405/405-292). In FY04, agencies paid **\$129.7 million** into the Efficiency Initiatives Revolving Fund for cost savings to be realized from the procurement, facilities management, fleet management, information technology and other initiatives. While these are considered reported as savings by the Department, \$96.2 million was paid out of the Fund in FY04 (see inset). Since the \$96.2 million in disbursements made from the Efficiency Initiatives Revolving Fund in FY04 were actually spent to pay contractors and disbursements, or transferred to the General Revenue Fund where they were used to pay other expenses of the State, it is not clear how much of the saving claimed by the Department represents actual savings for the State. Additionally, we could not find evidence to support that any of the vendor’s fees were affected by its failure to achieve and/or document its achievement of stated savings goals. (Finding Code No. 04-11)

**RECOMMENDATION:**

We recommend that the Department develop and maintain adequate supporting documentation to support the validation of savings billed to agencies and captured by vendors.

**DEPARTMENT RESPONSE:**

The Department disagreed with the finding and recommendation.

The complete text of the Department's response, along with auditor comments on those responses, is presented in a separate document entitled "CMS Responses, Auditor General Comments and Auditors' Comments on the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004." Another supplemental volume entitled "CMS Attachments to CMS Responses to the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004" contains attachments referred to by CMS in the body of its responses.

**04-12 FINDING:** (Follow Up to Management Audit of the Department's Administration of the State's Space Utilization Program)

In February 2004, the Office of the Auditor General released a management audit of the Department of Central Management Services' Administration of the State's Space Utilization Program. The audit contained nine recommendations to improve the performance and operation of the Department of Central Management Services (Department) to effectively manage the State's real property. As part of this compliance audit, auditors followed-up, in September 2004, on the status of the nine recommendations contained in the management audit. While the Department has addressed issues in the recommendations, we found that none of the nine recommendations had been fully implemented.

The Department awarded a \$24.9 million three-year contract for professional asset management services to Illinois Property Asset Management (IPAM) on December 29, 2003. In the Department response to the management audit it indicated that many of the activities to address the recommendations would be performed by IPAM. An IPAM representative stated, at a Legislative Audit Commission meeting in March 2004, that IPAM would make substantial progress by the end of FY04 on all nine recommendations in the management audit. As of August 30, 2004, this contractor received over \$8.9 million in fees for consulting services and reimbursable expenses under the contract. Below is a summary of the nine recommendations.

The following recommendation has not been implemented by the Department:

- **Strategic Planning (Recommendation #4):** *The Department should take steps to complete the objectives set forth to accomplish the space utilization program. Additionally, the Department should develop a comprehensive space utilization strategic plan.* The Department did not believe the 2002 strategic plan outlined in the audit report was "the appropriate strategy for creating the comprehensive space utilization and asset management plan that the State needs." While the Department's contractor has been conducting activities with respect to the space utilization program, the Department did not provide auditors with a new comprehensive strategic plan.

The following eight recommendations have been partially implemented by the Department:

- **Agency Reporting of Real Property to CMS (Recommendation #1):** *The Department should take the steps to require agencies to submit the required information on State-owned real property on the Annual Real Property Utilization Reports. Additionally, the Department should consider revising the Form A to include additional information requirements to assist the Department in identifying excess and surplus real property. These revisions may include requiring: agencies to submit a Form A for each building or property owned for individual determinations of excess, surplus or utilized for agency function; agencies to list the occupancy level percentage (if applicable) for each building owned; agencies to list any leases of*

*their real property to other entities; agency head to certify future use for any portion of property that is unused and how that use would be cost effective for the State; and, agencies to make a distinction as to whether the property contains any buildings or not. The Department should also determine the appropriate reporting date for submitting the Annual Real Property Utilization Report and request the necessary change to either State law or the Administrative Code. While the Department has initiated the process, through IPAM, of analyzing and organizing the State's real estate portfolio, this project is currently not completed. IPAM, as of September 21, 2004, has developed a draft of a revised Form A that addresses the concerns raised in the recommendation. However, this new Form has not been submitted to the Department for approval nor is it being used by agencies to report information on real property. The Department reported it planned to propose a change in the Administrative Code to address the differences in the reporting dates for the Annual Real Property Utilization Report during the first quarter of calendar 2005. However, no documentation was provided to auditors relative to this plan.*

- **Accuracy of the Master Record (Recommendation #2):** *The Department should conduct a statewide inventory of real property to develop an accurate accounting of land and buildings owned by the State. To accomplish this task, the Department should consider sending the agencies all the information contained in the master record for properties owned by the agencies so that applicable additions and deletions can be reported. Additionally, the Department should clarify whether wetland and flood mitigation land holdings should be reported per the provisions of the State Property Control Act and if so, provide sufficient guidance to applicable agencies holding those types of property. The Department, through IPAM, is in the process of conducting a statewide inventory of real property that includes detailed property condition assessments for each property owned by the State. As of September 2004, IPAM was in its 3<sup>rd</sup> week of conducting assessments on the estimated 40 million square feet of remaining State-owned property. While it is the Department's position that wetland and flood mitigation lands should be reported on the Annual Real Property Utilization Report, the Department did not provide documentation to show it had instructed agencies with this type of property how to report on the State asset.*
- **Automation of the Master Record (Recommendation #3):** *The Department should once again look into the possibility of automating the master record of State-owned real property with a system that is capable of producing management reports to allow the State to effectively manage land and building assets. IPAM is developing databases for the Department to use in the management of the space utilization program. As of September 21, 2004 these databases were not yet completed. IPAM officials reported that management reports could be developed once all the information in the databases is complete and accurate. A master record of State-owned property will be one of the reports generated.*

- **State-Owned Space Verification (Recommendation #5):** *The Department should maintain documentation to show the Department verified whether State-owned space existed prior to leasing space from third parties. Additionally, the Department should follow its documented process and perform the verification check at the beginning of the leasing process and be more timely in relation to when the space request is received from the agency. Lastly, the verification should be accomplished prior to expending leasing division resources. Once completed, IPAM developed databases will allow for verification of space in both owned and leased facilities within a geographic radius. This tool has not been implemented as of September 2004. For leases executed from March 2004 through September 2004, a Department official noted the old process of checking with the Real Property Division was still in place. Our testing of this process showed that in 6 of 7 leases tested (the 7<sup>th</sup> lease did not have a space request), the Department did check for excess space in State-owned facilities before leasing space from outside lessors. According to the Department, there was no excess space at State-owned facilities in any of the locations – from Cook County to Carbondale.*
- **Monitoring of Space in State-Owned Buildings (Recommendation #6):** *The Department should: develop formal policies and procedures for systematically reviewing space in buildings owned or controlled by the Department which would include reporting excess space to divisions responsible for leasing space for State agencies; take steps to follow up with agencies to declare unused space as excess or surplus so that it can be utilized by State agencies that currently lease space, thus saving State resources; and, develop formal policies and procedures to ensure that excess and surplus real property is considered when filling State agencies' space requests. As of September 2004, the Department could not provide auditors with any formal policies and procedures recommended in this finding. IPAM officials noted that they were following up with agencies to find the best use for unused space. However, this process is only partially completed.*
- **Use of Unoccupied Space in State-Owned Facilities (Recommendation #7):** *The Department should conduct a detailed examination of all real property owned or controlled by the State and determine what property is excess. For property identified as excess, the Department should ensure it is efficiently utilized or take the steps necessary to declare the space as surplus and follow laws and regulations established regarding the disposal of surplus property. Additionally, the Department should: study the unoccupied space at all State-owned facilities, including the Department of Human Services (DHS) facilities, and determine whether it is cost beneficial to move State agencies that lease office space in the same areas into this unoccupied space; and, ensure that the State should receive adequate revenue for the space rented at these DHS facilities. The Department, through IPAM activities, has partially completed an examination of real property. Most of the DHS facilities have not been assessed as of September 2004. The Department has not taken action to ensure that rental revenue at DHS facilities is adequate return for the State.*

- **Monitoring of Leased Space (Recommendation #8):** *The Department should take proactive steps in monitoring leased space and seek to identify any efficiencies (i.e., combining leases to eliminate some costs) that would result in savings to the State. While the Department, through IPAM activities, has developed a lease database, the data needs to be tracked back to changes. While an IPAM official indicated that some lease consolidations were in the planning stages, the Department is not renewing leases until all the facilities management consolidations can be completed. A Department official noted this was the reason so many leases were on holdover status.*
- **Disposal of Surplus Real Property (Recommendation #9):** *The Department should: take steps to ensure that it is more timely in completing the process of disposing of surplus real property; follow the procedures set out in State statute when attempting to dispose of the real property; review what properties are currently listed as surplus, perform cost benefit analyses to ascertain whether leasing the properties is the most economical alternative for the State, and take action to transfer any properties to other government entities where sale may be inhibited or the property may not truly be surplus; and, maintain documentation to show that leases for currently classified surplus real property are at fair market value. One surplus property has been disposed of since the release of the management audit – a National Guard Armory site located in Danville was sold by the Department of Military Affairs on April 26, 2004. The Department reported five new properties on the current listing of State-owned surplus properties: Farmland at the Stateville Correctional Center in Joliet; the IYC Valley View; the Joliet Correctional Center; the Old District Six State Police Headquarters in Peoria; and Read-Dunning vacant land in Chicago. It should also be noted that the surplus property list still contains Rice Cemetery in Galesburg and Memorial Park at Read Mental Health Center in Chicago. The Department has not provided documentation to show that it examined to see if the State was receiving fair market value for surplus property currently leased.*

It is important that the Department continue to implement the recommendations from the management audit to further improve its operations and performance. (Finding Code No. 04-12)

**RECOMMENDATION:**

We recommend that the Department of Central Management Services should continue to fully implement the nine management audit recommendations contained in the February 2004 Space Utilization Management Audit that were either not implemented or were partially implemented.

**DEPARTMENT RESPONSE:**

The Department agreed with the recommendation.

The complete text of the Department's response, along with auditor comments on those responses, is presented in a separate document entitled "CMS Responses, Auditor General Comments and Auditors' Comments on the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004." Another supplemental volume entitled "CMS Attachments to CMS Responses to the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004" contains attachments referred to by CMS in the body of its responses.

**04-13 FINDING:** (Weaknesses in internal control over financial reporting)

The Department's year-end financial reporting in accordance with generally accepted accounting principles (GAAP) to the Office of the State Comptroller contained significant errors in the determination of certain year-end liabilities.

The Office of the State Comptroller requires State agencies to prepare financial reports (GAAP Reporting Packages) for each of their funds to assist in the annual preparation of the statewide financial statements and the Department's financial statements. GAAP Reporting Package instructions are specified in the Statewide Accounting Management System (SAMS) Manual, Chapter 27. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal controls that will, among other things, initiate, record, process, and report transactions consistent with management's assertions embodied in the financial statements. Significant deficiencies in the design or operation of internal control which could adversely affect the organization's ability to fulfill that responsibility are deemed reportable conditions.

During our audit of the June 30, 2004 financial statements, we recommended significant adjustments and corrections be made to the financial statements resulting from the Department's failure to establish adequate internal control over the accumulation of information necessary for the proper determination of certain year-end liabilities as follows:

- The Department is responsible for administering health care benefits to State employees through the Health Insurance Reserve Fund, as well as to members enrolled in the Local Government Health Insurance Reserve Fund, Teacher Health Insurance Fund and the Community College Health Insurance Security Fund. Adjustments were necessary to properly report claims payable and incurred but not reported liabilities at year-end in three of the funds as follows: Health Insurance Reserve Fund liabilities were overstated by \$10,713,000; Local Government Health Insurance Reserve Fund liabilities were understated by \$8,068,000 and Teachers Health Insurance Fund liabilities were understated by \$12,633,000. Errors in reported liabilities in the remaining fund were noted, but were considered immaterial to the financial statements (\$89,000), so an adjustment was not recommended. The determination of the incurred but not reported liability is a complex calculation impacted by various factors that change from year-to-year. Per Department officials, certain errors and inconsistencies occurred as these factors were not fully integrated into the calculations. The Department has not implemented appropriate methodologies and internal controls over the determination of and reporting of these liabilities.
- The Department improperly determined accounts payable at year-end for liabilities incurred for health claims and pharmacy benefits provided to members covered by the Health Insurance Reserve Fund and the Teachers Health Insurance Fund. The liabilities in these funds were overstated by \$39,434,000 and \$4,783,000, respectively. The overstatements were due in part to the improper inclusion in accounts payable of payments made subsequent to June 30, 2004 for services rendered after year-end. Department representatives stated payments for such

services were made from fiscal year 2004 funds as cash balances were available to make additional payments to the providers. In addition, the Department included amounts in accounts payable that were also recognized in the incurred but not reported (IBNR) calculation, and therefore were recognized twice. This duplication was an oversight in the determination of the liabilities. The Department has not implemented appropriate methodologies and controls over the determination of and reporting of these liabilities.

- The Department is required to accumulate information regarding health benefits provided to retired employees for reporting in the statewide financial statements. In addition, similar information is utilized in the actuarial calculations that are prepared for other internal uses, including determination of health cost on a per employee basis for reporting of on-behalf payments by component units. We noted the methodology used by the Department to determine liabilities/expenses for statewide financial statement reporting purposes was different than the methodology used to determine liabilities/expenses for the Department's internal uses. As such, postemployment benefit costs reported by the Department to the Office of the Comptroller were overstated by approximately \$1,158,000. Furthermore, the Department has not determined the effect such differences in methodology would have on the calculation of benefit costs for on-behalf payments. Per Department officials, adequate consideration was not given to the potential implications of the differing methodologies in use. The Department has not established effective lines of communication to ensure development and application of consistent methodologies in the determination of benefit costs and liabilities.

As a result of these deficiencies, the Department's financial statements overstated expenses by a net amount totaling \$34,229,000. In addition, reporting of postemployment benefit costs and on-behalf payments may not be accurate in relation to reported financial statement costs and liabilities. Establishment of appropriate internal controls over financial reporting is important due to the impact adjustments have on the statewide financial statements. (Finding Code No. 04-13)

**RECOMMENDATION:**

We recommend the Department implement procedures to ensure GAAP Reporting Packages are prepared in a complete and accurate manner. Further, the Department should establish a comprehensive, consistent methodology for determining liabilities and accumulating financial information necessary for accurate reporting of benefit costs.



**DEPARTMENT RESPONSE:**

The Department agreed with the finding and recommendation.

The complete text of the Department's response, along with auditor comments on those responses, is presented in a separate document entitled "CMS Responses, Auditor General Comments and Auditors' Comments on the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004." Another supplemental volume entitled "CMS Attachments to CMS Responses to the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004" contains attachments referred to by CMS in the body of its responses.

**04-14 FINDING:** (Noncompliance with the Fiscal Control and Internal Auditing Act)

The Department's Illinois Office of Internal Audit (IOIA) was created by Executive Order #10 on March 31, 2003. During FY04, the IOIA consolidated the internal auditing staff of all legacy agencies and commenced operations. The IOIA did not complete audits of all agencies major systems of internal accounting and administrative control and an effective process to identify new major computer systems or major modification of existing computer systems was not in place.

The Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/2003) requires the internal auditing program include audits of major systems of internal accounting and administrative control be conducted on a periodic basis so that all major systems are reviewed at least once every two years. Major systems, which were included in the two year audit plan but which were not audited, included:

- Capital Development Board – Grants
- Department of Corrections – Grants
- Environmental Protection Agency – Property, Equipment, and Inventories, Agency Operations and Management, Administrative Support Services, and Purchasing Contracting and Leasing.
- Department of Public Health – Revenues and Receivables, Property, Equipment and Inventories

Additionally, as a result of the consolidation, IOIA assumed primary responsibility for performing independent reviews of computer system development projects or major modifications to computer systems. IOIA did not have an effective process in place to identify and monitor agency computer system projects resulting in development activities not being reviewed at State agencies during the audit period. Department officials have stated the lack of reviews was caused by failure by other State agencies to notify IOIA of computer system projects and organizational inefficiencies from the consolidation. By late in fiscal year 2004, IOIA began implementing a more comprehensive program to gather information from other State agencies regarding computer system development projects that are in progress or planned.

Department officials acknowledge they did not comply fully with the Act. The Department stated they used available resources to comply with the requirements in the Act. The Department developed a comprehensive plan for the audits to provide adequate coverage under the Act. FY04 was a year of transition for the IOIA. It consolidated many agencies into its Department, several of which had been in noncompliance with this Act for several years and were behind in their progress in the current year. Many of these agencies also had experienced turnover and inefficiencies in transition to their new offices and department.

Incomplete auditing of all major internal control systems increases the risk that significant internal control weaknesses will exist and errors and irregularities may go undetected. Further, lack of independent reviews of major new computer systems and major modifications to those systems could result in undetected security and integrity problems in new or modified systems. (Finding Code No. 04-14)

**RECOMMENDATION:**

We recommended the Department comply with the Fiscal Control and Internal Auditing Act by ensuring that audits of all major systems of internal accounting and administrative control be conducted at least once every two years and that independent reviews of major new computer systems and major modifications to those computer systems are performed.

**DEPARTMENT RESPONSE:**

The Department and the Illinois Office of Internal Audit disagreed with the auditor's conclusion.

The complete text of the Department's response, along with auditor comments on those responses, is presented in a separate document entitled "CMS Responses, Auditor General Comments and Auditors' Comments on the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004." Another supplemental volume entitled "CMS Attachments to CMS Responses to the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004" contains attachments referred to by CMS in the body of its responses.

**04-15 FINDING:** (Surplus Property Management Process Weaknesses)

The Department of Central Management Services (Department) Division of Property Management State Surplus Warehouse had several weaknesses in its surplus property management process including:

- Poor inventory control system;
- Ineffective controls for compliance with the Administrative Code;
- Potential for theft;
- Inadequate compensation for sale of computer equipment; and
- Non-compliance with policies designed to prevent violations of State law.

The Surplus Warehouse did not maintain an adequate inventory control system. A paper listing of surplused property would be submitted by agencies with the delivery, which was the only record of surplused inventory. The lack of an inventory control system impedes compliance with the *Illinois Administrative Code* (Title 44, Part 5010), and reduces the ability of Surplus personnel and agencies to locate equipment for potential transfer. This results in a risk that agencies would purchase new equipment when comparable equipment could have been obtained from Surplus.

One method of disposal under the *Illinois Administrative Code* (Title 44, Section 5010.610) is to offer the equipment for the use of any State agency. The lack of an adequate inventory control system hindered the ability of Surplus to offer equipment to State agencies. A comprehensive list of available items was not maintained or disseminated to agencies. However, agencies were permitted to send “want lists” and be notified of requested transferable equipment as it became available (Title 44, Section 5010.640).

Additionally, the lack of effective controls regarding the receipt and inventory of equipment increased the potential for theft of the State’s surplused property. Property would arrive at the Surplus Warehouse, often in large volumes, and Surplus personnel would do a spot check, comparing inventory listed on the delivery form with the inventory delivered, and then sign the form indicating property was received. However, we identified instances where an agency would inadvertently not include equipment in a delivery to Surplus, the spot check by Surplus did not detect the missing equipment, and the form would be signed indicating property had been received by Surplus. Furthermore, this exposure to theft would also provide signed evidence that missing items were received by the Surplus Warehouse, even though the items would not have been received.

The *Illinois Administrative Code* (Title 44, Section 5010.750) states that “all transferable equipment sold to the public shall initially be offered for sale to the highest bidder.” However, compensation for sale of computer equipment was inadequate. Desktop computer equipment was sold at live auctions in bulk for as little as \$5 to \$10 per computer, compared to being sold individually on the Illinois’ I-Bid Internet auction for \$60 to \$100 per computer. Laptop computers generally sold for an average of \$100 to \$150 at the live auction, as compared to \$350 to \$390 on I-Bid.

The *Data Security on State Computers Act* (20 ILCS 450) (Act) requires computer equipment be cleared of all data by overwriting previously stored data at least 10 times prior to being surplus, to prevent disclosure of sensitive or confidential information to unauthorized entities, including the general public. Written verification from State agencies that overwriting was performed must accompany equipment to surplus. We tested equipment onsite at the Surplus Warehouse, and determined some equipment was allowed into Surplus that was not accompanied by confirmation of wiping; in these instances, such equipment tended to contain readable information.

Violations of the Act can result in several potential consequences for the State, such as public embarrassment, security breaches, and possible lawsuits if sensitive personal data is disclosed. While compliance with the Act is the responsibility of individual State agencies, it is in the best interest of the State for Surplus to aggressively enforce their verification policy to deter violations of the Act. Many of the deficiencies identified were a result of poor inventory control. (Finding Code No. 04-15)

**RECOMMENDATION:**

We recommend the State's Surplus Warehouse implement an effective inventory control system. An effective inventory control system would improve controls over the receipt and tracking of inventory, reduce the potential for theft, and enable Surplus to better serve the needs of State agencies.

Also, the Department should evaluate options to increase the compensation received for the sale of the State's surplus property. Further, the Department's Surplus Warehouse should increase efforts to ensure compliance with the Data Security on State Computers Act. Though it is the responsibility of individual agencies to comply with the Act, it is in the best interest of the State for Surplus personnel to ensure that written verification of compliance with the Act accompany all surplus computer equipment, in accordance with policies and procedures.

**DEPARTMENT RESPONSE:**

The Department disagreed with both the finding and recommendation.

The complete text of the Department's response, along with auditor comments on those responses, is presented in a separate document entitled "CMS Responses, Auditor General Comments and Auditors' Comments on the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004." Another supplemental volume entitled "CMS Attachments to CMS Responses to the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004" contains attachments referred to by CMS in the body of its responses.

**04-16 FINDING:** (Reports of reorganization not filed as required)

The Department has not filed reports with the General Assembly regarding reorganization as required.

The Executive Reorganization Implementation Act (15 ILCS 15/11) requires “Every agency created or assigned new functions pursuant to a reorganization shall report to the General Assembly not later than 6 months after the reorganization takes effect and annually thereafter for 3 years. This report shall include data on the economies effected by the reorganization and an analysis of the effect of the reorganization on State government. The report shall also include the agency’s recommendations for further legislation relating to reorganization.”

During the audit period the Governor signed three Executive Orders that provided for the transfer of functions to the Department as follows:

- Executive Order 2003-7, “Executive Order to Reorganize Agencies by the Abolishment of Certain Entities of the Executive Branch” abolished 12 entities and transferred functions to the Department of Central Management Services. This Executive Order was generally effective April 28, 2003. The initial report to the General Assembly was due by October 28, 2003.
- Executive Order 2003-10, “Executive Order to Consolidate Facilities Management, Internal Auditing and Staff Legal Functions” provided that “The functions of facilities management, internal auditing, and staff legal functions for each agency, office, division, department, bureau, board and commission directly responsible to the Governor shall be consolidated under the jurisdiction of the Department of Central Management Services”. This Executive Order was effective May 31, 2003. The initial report to the General Assembly was due by November 30, 2003.
- Executive Order 2004-2, “Executive Order to Reorganize Agencies by the Transfer of Certain Media Relations Functions to the Department of Central Management Services” provided that “Media relations functions for each agency, office, division, department, bureau, board and commission directly responsible to the Governor shall be consolidated under the jurisdiction of the Department of Central Management Services”. This Executive Order was effective April 1, 2004. The initial report to the General Assembly was due by October 1, 2004.

The Department has not submitted reports as required by the Executive Reorganization Implementation Act for any of the reorganizations noted above. Department officials have represented that the reports have not been prepared and submitted as the reorganizations established by the Executive Orders have not been fully implemented. They further indicated that, with respect to the abolishment of certain entities pursuant to Executive Order 2003-7, they did not believe a report was necessary.

The Department is in noncompliance with the Act. Failure to submit the required reports limits the General Assembly's ability to monitor the effects of reorganization on State government or to consider future legislation relating to the reorganization that may be warranted. (Finding Code No. 04-16)

**RECOMMENDATION:**

We recommend the Department file the reports with the General Assembly within six months of a reorganization taking effect pursuant to the requirements of the Executive Reorganization Implementation Act.

**DEPARTMENT RESPONSE:**

The Department disagreed with the finding.

The complete text of the Department's response, along with auditor comments on those responses, is presented in a separate document entitled "CMS Responses, Auditor General Comments and Auditors' Comments on the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004." Another supplemental volume entitled "CMS Attachments to CMS Responses to the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004" contains attachments referred to by CMS in the body of its responses.

**04-17 FINDING:** (Preparation of year-end Department financial statements not timely)

Department financial statements for the year ended June 30, 2004 were not prepared on a timely basis.

The Office of the State Comptroller requires agencies to prepare financial reports (GAAP Reporting Packages) for each of their funds to assist in the preparation of the statewide financial statements and the Department financial statements. All GAAP Reporting Packages were submitted by the Department on a timely basis, with the last submission due by September 15, 2004. The Office of the Comptroller completed their review of all GAAP Reporting Package submissions by October 4, 2004 but the first complete draft of the financial statements was not prepared and available until November 29, 2004.

Department officials have indicated the delay was due to changes made in the process for preparing the financial statements. In prior years, the Department prepared the financial statements, but for fiscal year 2004 the Office of the State Comptroller prepared the initial draft of the financial statements for CMS to review and take responsibility for. The Office of the State Comptroller made a decision to become more involved in assisting State agencies with financial statement preparation to improve control over the financial reporting process, and CMS accepted input from the Office of the State Comptroller.

Untimely preparation of Department financial statements impedes the audit process and could potentially impact the statewide financial statements prepared by the Office of the State Comptroller. (Finding Code No. 04-17)

**RECOMMENDATION:**

We recommend the Department work with the Office of the State Comptroller to improve the coordination of the financial statement preparation process to ensure more timely completion of year-end Department financial statements.

**DEPARTMENT RESPONSE:**

The Department agreed with the finding and recommendation.

The complete text of the Department's response, along with auditor comments on those responses, is presented in a separate document entitled "CMS Responses, Auditor General Comments and Auditors' Comments on the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004." Another supplemental volume entitled "CMS Attachments to CMS Responses to the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004" contains attachments referred to by CMS in the body of its responses.



**04-18 FINDING:** (Inadequate control over property and equipment)

The Department has not provided adequate control over property and equipment. We tested the physical inventory and location of equipment, equipment purchases, and equipment transfers and deletions, and noted deficiencies in each area as described below.

Physical Inventory and Location of Equipment

During our testing of the physical inventory and location of equipment we selected a sample of 34 items noting the following weaknesses in internal controls:

- Two equipment items with an original cost of \$30,202 (a 1994 Chevy van with an original cost of \$18,957 and a Canon copier with an original cost of \$11,245) could not be located during annual physical inventories.
- Two items with an original cost of \$344,850 were located at sites other than the location listed on the property control records.
- One fax machine was located during the inventory observation but could not be located on the property control listings.

The State Property Control Act (30 ILCS 605/4) requires the Department be accountable for the supervision, control and inventory of all property under its jurisdiction and control. In addition, good internal control procedures require the proper tracking of property and equipment. The Department has procedures to track the movement of equipment throughout the Department, but these procedures were not followed in all cases.

Department management stated that many of the property control issues noted above were a result of errors or misunderstanding on the part of property control location supervisors. They further stated the Department has established policies and procedures related to property control, but it is the responsibility of each property control location supervisor to ensure property control records are accurate and complete.

Equipment Purchases

During our testing of equipment purchases we noted the following:

- In 1 out of 25 (4%) equipment expenditures examined, the purchase price recorded in the property records exceeded the actual purchase price by \$89.
- In 1 out of 25 (4%) equipment expenditures examined, the location code of the property was determined to be incorrect.

The Property Management rules as set forth at 44 Ill. Adm. Code 5010.230 require the Department to record in the permanent property records, among other items, the purchase price of the item and the location code.

Additionally, the Department purchased three new furniture items in excess of \$500 totaling \$8,451 during fiscal year 2004. The State Property Control Act (30 ILCS 605/7a), requires agencies purchasing furniture to first check with the surplus property administrator to determine if any surplus property can be used in place of new furniture and to file an affidavit prior to any purchase stating clearly why the furniture must be purchased new as opposed to being obtained from surplus. The Department did not file affidavits for these purchases as required.

Department representatives stated the errors occurred due to lack of staff knowledgeable of the equipment purchase requirements.

#### Equipment Transfers and Deletions

During our testing of transfers and deletions of property and equipment we noted the following:

- During fiscal year 2004, the Department assessed information provided by the Capital Development Board (CDB) regarding capital asset transfers and determined transfers totaling \$373,739 related to properties not titled to the Department. As such, these capital assets were properly excluded from Department records, however, the Department failed to notify CDB of the errors. The Department has provided documentation indicating the capital assets should have been reported to the Department of Commerce and Economic Opportunity.
- In 5 out of 10 (50%) transfers of equipment valued at \$316,664, the Surplus Property Delivery Form completed by the Department did not contain all information regarding the asset (i.e. historical cost, purchase price and date) as required by DCMS Property Control Procedures, Section 4.1, Equipment Dispositions – Equipment to be Transferred to State Surplus Property.
- In 1 out of 10 (10%) transfers, an incorrect inventory code was used to identify and document the transaction (44 Ill. Adm. Code 5010.310).
- In 1 out of 10 deletions (10%) of equipment valued at \$12,067, the Department was unable to provide documentation supporting the deletion; it was likely that an incorrect inventory code was used to identify this transaction (44 Ill. Adm. Code 5010.310).

Department representatives indicated the failure to address the transfers from CDB was an isolated oversight and the remaining errors occurred due to lack of staff knowledgeable of the property requirements.

Failure to maintain accurate property control records increases the potential for theft or misappropriation of State assets. In addition, property improperly included on the Department's inventory may result in inaccurate fixed assets reports and misstated financial information. (Finding Code No. 04-18, 02-1)

**RECOMMENDATION:**

We recommend the Department implement adequate controls and procedures to ensure property and equipment is properly safeguarded and property records are complete and accurate.

**DEPARTMENT RESPONSE:**

The Department agreed with the recommendation.

The complete text of the Department's response, along with auditor comments on those responses, is presented in a separate document entitled "CMS Responses, Auditor General Comments and Auditors' Comments on the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004." Another supplemental volume entitled "CMS Attachments to CMS Responses to the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004" contains attachments referred to by CMS in the body of its responses.

**04-19 FINDING:** (Motor vehicle accident reports not submitted timely)

The Department did not ensure motor vehicle accident reports were submitted timely by its employees.

During fiscal years 2003 and 2004, Department employees reported 40 accidents while driving state owned vehicles and 1 accident involving a personal vehicle while conducting State business. We reviewed all of the SR-1 reports (Motorist's Report of Illinois Motor Vehicle Accident) filed, noting 19 of the 41 (46%) reports were not filed on a timely basis. SR-1 reports filed late were submitted from 1 to 29 days late.

The State of Illinois Self-Insured Motor Vehicle Liability Plan, Section 4.2, issued by the Department's Division of Risk Management requires the completed SR-1 reports to be submitted to the Department's Risk Management Division within seven (7) days following the accident.

Department personnel stated its employees are infrequently involved in accidents and therefore are not in the practice of submitting accident reports in accordance with the Vehicle Guide.

The cost to the State to settle all 41 accident claims was \$15,108. The Department represented that during fiscal years 2003 and 2004 one employee was held responsible for the cost of the damage as the employee refused to submit an accident report. Untimely reporting of vehicle accidents to the Department may limit opportunities to recover costs from outside parties and result in increased financial loss to the State. (Finding Code No. 04-19, 02-5)

**RECOMMENDATION:**

We recommend the Department implement procedures to make all State employees aware of the State of Illinois Vehicle Guide and all rules and regulations related to the use of a State or personal vehicle for business purposes. We further recommend the Department establish procedures to ensure timely submission of motor vehicle accident reports (SR-1).

**DEPARTMENT RESPONSE:**

The Department agreed in part with the finding and recommendation.

The complete text of the Department's response, along with auditor comments on those responses, is presented in a separate document entitled "CMS Responses, Auditor General Comments and Auditors' Comments on the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004." Another supplemental volume entitled "CMS Attachments to CMS Responses to the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004" contains attachments referred to by CMS in the body of its responses.

**04-20 FINDING:** (Travel Control Board not meeting or submitting reports as required)

The Governor's Travel Control Board (Board), chaired by the Director of the Department, did not meet quarterly as required. In addition, quarterly travel reimbursement claim reports were not submitted by the Board to the Legislative Audit Commission as required.

During our testing, we reviewed the Board's meeting minutes, and we noted that the Governor's Travel Control Board only met 3 times each in fiscal years 2003 and 2004 instead of the required 4 (quarterly) meetings in each fiscal year. The meetings were held on September 10, 2002, December 6, 2002, May 9, 2003 (fiscal year 2003 meetings), August 1, 2003, October 24, 2003 and December 10, 2003 (fiscal year 2004 meetings). The Board did not meet during the last two quarters of fiscal year 2004.

At its December 10, 2003 meeting, the Board approved the fiscal year 2004 first quarter report of travel reimbursement claims reviewed. As the Board did not conduct any other meetings during fiscal year 2004, the report of travel reimbursement claims for the second and third quarters of fiscal year 2004 were not approved in a timely manner

The State Finance Act (Act) (30 ILCS 105/12-1(b)) stipulates each travel control board shall meet at the call of the chairman at least quarterly to review all vouchers for travel reimbursement involving an exception to the State Travel Regulations. In addition, the Act (30 ILCS 105/12-1(e)) requires "a report of the travel reimbursement claims reviewed by each travel control board shall be submitted to the Legislative Audit Commission at least once each quarter..."

Department personnel indicated the required meetings for fiscal year 2003 were not held as appointments to the Governor's Travel Control Board had not been made, and in fiscal year 2004 work on the State budget prevented members from meeting. Department personnel also indicated, that despite the Board's failure to meet quarterly, requests for reimbursement for exceptions to the Travel Regulations received by the Board were timely reviewed and approved by all Board members, via email correspondence. Additionally, timely communication of the approval to the Department requesting the reimbursement was made via written letter.

The Board's failure to meet as required constitutes noncompliance with the Act. The Board is unable to submit required reports to the Legislative Audit Commission in a timely manner when the Board fails to meet as required. (Finding Code. No. 04-20)

**RECOMMENDATION:**

We recommend the Governor's Travel Control Board, chaired by the Director, meet as required by statute and properly and timely submit reports to the Legislative Audit Commission.

**DEPARTMENT RESPONSE:**

The Department agreed with the recommendation.

The complete text of the Department's response, along with auditor comments on those responses, is presented in a separate document entitled "CMS Responses, Auditor General Comments and Auditors' Comments on the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004." Another supplemental volume entitled "CMS Attachments to CMS Responses to the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004" contains attachments referred to by CMS in the body of its responses.

**04-21 FINDING:** (Late approval and payment of vouchers)

The Department did not process invoice vouchers in a timely manner as required by the Illinois Administrative Code.

During our testing of 60 vouchers, we noted 17 (28%) vouchers were not approved in a timely manner. Those not approved within 30 days of physical receipt were approved from 4 to 76 days late. Of the 17 vouchers not approved timely, 15 (88%) were also not paid within 60 days of receipt. All but one of the 15 vouchers was paid from the State Garage Revolving Fund.

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 of physical receipt of the bill. For those bills not approved timely, interest shall be due if the date of payment is not within 60 days after the receipt of the bill.

Department personnel stated the State Garage Revolving Fund experienced cash shortfalls resulting in untimely processing of invoice vouchers.

This violation could lead to the assessment of late charges or penalties to the State. On the vouchers tested that were not approved nor paid timely (15 vouchers as noted above), interest charges of \$77 were appropriately calculated and paid to the vendors. In total, for fiscal years 2003 and 2004 the Department made 541 interest payments for late payment of vouchers totaling \$78,179. (Finding Code No. 04-21)

**RECOMMENDATION:**

We recommend the Department enforce procedures requiring the approval or disapproval of vouchers within 30 days of receipt, as required by the Illinois Administrative Code.

**DEPARTMENT RESPONSE:**

The Department agreed with the finding, but not with the recommendation.

The complete text of the Department's response, along with auditor comments on those responses, is presented in a separate document entitled "CMS Responses, Auditor General Comments and Auditors' Comments on the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004." Another supplemental volume entitled "CMS Attachments to CMS Responses to the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004" contains attachments referred to by CMS in the body of its responses.

**04-22 FINDING:** (Employees not removed from payroll during leave of absence)

The Department did not remove employees on leave of absence from the payroll system in a timely manner.

Of the 27 employees taking leaves of absence during the audit period, 4 (15%) were not promptly removed from the payroll system as required. The Department's Policy Manual, Chapter 2, Section 17 states employees on paid disability leave must be removed from their normal payroll and are paid Total Temporary Disability (TTD) payments through the Workers' Compensation Revolving Fund. The General Provisions (5 ILCS 325/1) of State law and the Department's Policy stipulate that those employees on military leave shall receive their regular compensation minus the amount of the base pay for military service. Prior to the issuance of a paycheck, the Department did determine 2 employees were ineligible to receive compensation and removed those employees from the payroll. The remaining 2 employees not promptly removed were overpaid requiring the employee to reimburse the State for compensation improperly received as follows:

- One employee started a service-connected disability leave of absence on December 16, 2003 but received compensation of \$944 for the next pay period. The Department did not identify the overpayment until May 30, 2004 at which time the employee reimbursed the State.
- One employee on military leave continued to receive their full regular compensation for approximately six months before the overpayment was detected by the auditors. The employee received excess compensation of \$22,185. A payment plan was established for this employee and, at June 30, 2004 the employee still owed the State \$12,791.

Department representatives indicated these errors occurred because the payroll department was not properly notified of the employee leaves of absence. As a result, the Department compensated the employees \$23,129 more than they were entitled to receive. Failure to promptly remove employees from the payroll records could result in improperly spent State funds and could create a financial hardship to the employees if they do not realize their compensation has not been computed properly. (Finding Code No. 04-22)

**RECOMMENDATION:**

We recommend the Department improve controls over leave of absence reporting to ensure employees are properly compensated in accordance with policy.



**DEPARTMENT RESPONSE:**

The Department agreed with the finding and recommendation.

The complete text of the Department's response, along with auditor comments on those responses, is presented in a separate document entitled "CMS Responses, Auditor General Comments and Auditors' Comments on the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004." Another supplemental volume entitled "CMS Attachments to CMS Responses to the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004" contains attachments referred to by CMS in the body of its responses.

**04-23 FINDING** (Time sheets not maintained in compliance with the State Officials and Employees Ethics Act)

The Department is not maintaining time sheets for its employees in compliance with the State Officials and Employees Ethics Act (Act).

The Act requires the Department to adopt personnel policies consistent with the Act. The Act (5 ILCS 430/5-5(c)) states, "The policies shall require State employees to periodically submit time sheets documenting the time spent each day on official State business to the nearest quarter hour."

We noted most of the Department's employees did not maintain time sheets in compliance with the Act. Employees' time is generally tracked using the Central Management Services payroll system, which is a "negative" timekeeping system whereby the employee is assumed to be working unless noted otherwise. No time sheets documenting the time spent each day on official State business to the nearest quarter hour are maintained for the majority of Department employees. The employees documenting time to the nearest quarter hour were only upper management employees including the Director, General Counsel, and employees in other positions that involve either principal administrative responsibilities for the determination of policy or principal administrative responsibility for the way in which policies are carried out.

Department management stated they relied on advice from the Governor's Office staff which initially stated that agencies using the Central Management Services payroll system would be in compliance with the Act.

By not maintaining appropriate time sheets for its employees, the Department is not in compliance with the Act. (Finding Code No. 04-23)

**RECOMMENDATION:**

We recommend the Department amend its policies to require all employees to maintain time sheets in compliance with the Act.

**DEPARTMENT RESPONSE:**

The Department disagreed with the finding.

The complete text of the Department's response, along with auditor comments on those responses, is presented in a separate document entitled "CMS Responses, Auditor General Comments and Auditors' Comments on the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004." Another supplemental volume entitled "CMS Attachments to CMS Responses to the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004" contains attachments referred to by CMS in the body of its responses.

**04-24 FINDING:** (Travel Headquarters Reports (Form TA-2) not properly completed)

During our review of Department travel vouchers, we noted Travel Headquarters Reports (Form TA-2) filed with the Legislative Audit Commission (LAC) were not properly completed.

The State Finance Act (30 ILCS 105/12-3) requires that each State agency "...shall file reports of all of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time. The reports shall be filed with the Legislative Audit Commission... The report shall list, for each such officer or employee, the place designated as his or her official headquarters and the reason for that designation."

During our testing, we noted two employees who, based upon their headquarters designations, should have been included on Form TA-2, but were not.

- One employee was headquartered in Chicago but spent 71% of his time working in the Springfield office. This employee was granted "Employee Owned or Controlled Housing" status pursuant to State Travel Regulations (80 Ill. Adm. Code 2800.410) and was reimbursed travel costs in excess of \$16,000 for fiscal year 2004.
- One employee spent 41% of his time in Springfield and 24% of his time in locations other than his officially designated headquarters of Glen Carbon. This employee was reimbursed travel costs in excess of \$8,300 during the last four months of fiscal year 2004.

State Travel Regulations (80 Ill. Adm. 3000.140) defines headquarters as "the post of duty or station at which official duties require the employee to spend the largest part of working time. Headquarters shall ordinarily be the corporate city limits in which the employee is stationed ..."

Department officials stated the employees were involved in functions subject to reorganization to the Department and they were inadvertently omitted from the TA-2 form. Failure to file accurate and complete Form TA-2 is in noncompliance with the State Finance Act and could allow for employees to be reimbursed for travel from an incorrect location. In addition, failure to file mandated reports reduces the effectiveness of governmental oversight. (Finding Code No. 04-24)

**RECOMMENDATION:**

We recommend the Department file all Travel Headquarter Reports with the Legislative Audit Commission as required by statute.

**DEPARTMENT RESPONSE:**

The Department agreed with the recommendation.

The complete text of the Department's response, along with auditor comments on those responses, is presented in a separate document entitled "CMS Responses, Auditor General Comments and Auditors' Comments on the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004." Another supplemental volume entitled "CMS Attachments to CMS Responses to the Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004" contains attachments referred to by CMS in the body of its responses.

**STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

**PRIOR FINDINGS NOT REPEATED  
(STATE COMPLIANCE)**

**04-25 FINDING (Excess vacation carried forward)**

The prior engagement noted the Department allowed employees to accumulate and carry forward vacation in excess of the allowable time period.

During the current period, we did not note any employees with vacation in excess of the allowable time period. (Finding Code No. 02-2)

**04-26 FINDING (Unreported and unrecorded locally held fund)**

The prior engagement noted the Department operated a locally held bank account without statutory authority, without filing reports with the State Comptroller, and without reporting the fund to the Auditor General.

During the current period, the locally held fund was eliminated and unspent money was transferred into the General Revenue Fund (GRF). All related expenditures were reported in the fiscal year 2002 General Revenue Fund GAAP reporting package. (Finding Code No. 02-3)

**04-27 FINDING (Debt service payment made late and controls inadequate)**

The prior engagement noted the Department lacked specific control over funding of debt service payments resulting in one interest payment being made late. In Addition, required notifications to the Office of the Comptroller regarding bond payments were not made on a timely basis.

During the current period, the Department implemented additional procedures for handling bond payments. The Department was late making payments during fiscal year 2003; however, after implementing the additional procedures, no payments were delinquent during fiscal year 2004. (Finding Code No. 02-4)

**04-28 FINDING (Administrative costs of WETSA program not properly accounted for)**

During the prior engagement, the Department's procedures for determining administrative costs of the Wireless Emergency Telephone Safety Act (WETSA) program were inadequate to ensure compliance with provisions of the Act. The Department did not adjust administrative costs to actual or reconcile such costs annually as required by the Illinois Administrative Code.

During the current period, the Department established adequate procedures to ensure timely reconciliation of administrative costs of the WETSA program on a quarterly basis. (Finding Code No. 02-6)

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

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 Efficiency Initiative Payments
- Schedule of Changes in State Property
- Comparative Schedule of Cash Receipts
- Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller
- Analysis of Significant Variations in Expenditures
- Analysis of Significant Variations in Receipts
- Analysis of Significant Lapse Period Spending
- Analysis of Accounts Receivable
- Illinois Century Network – Summary of Activities

- Analysis of Operations:

- Agency Functions and Planning Program
- Average Number of Employees
- Emergency Purchases and Illinois First Projects
- Service Efforts and Accomplishments (Unaudited)

The auditors' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, except for that portion marked "unaudited," on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

STATE OF ILLINOIS  
 DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
 SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES BY FUND  
 APPROPRIATIONS FOR FISCAL YEAR 2004  
 FOURTEEN MONTHS ENDED AUGUST 31, 2004

	Appropriations (Net after Transfers and EO 10 Transfers)	Expenditures Through June 30, 2004	Lapse Period		Balances Lapsed
			Expenditures July 1 to August 31, 2004	Total Expenditures	
<b>APPROPRIATED FUNDS</b>					
Shared Funds:					
General Revenue - 001	\$ 1,052,497,596	\$ 983,330,315	\$ 61,511,836	\$ 1,044,842,151	\$ 7,655,445
Road - 011	105,632,600	103,252,525	267,423	103,519,948	2,112,652
Nonshared Funds:					
Local Government Health Insurance Reserve - 193	137,374,300	63,246,951	6,117,470	69,364,421	68,009,879
State Garage Revolving - 303	44,346,500	28,729,481	4,245,107	32,974,588	11,371,912
Statistical Services Revolving - 304	141,805,992	62,650,572	2,201,819	64,852,391	76,953,601
Paper and Printing Revolving - 308	2,685,500	1,154,325	140,394	1,294,719	1,390,781
Communications Revolving - 312	179,870,900	94,791,845	13,662,359	108,454,204	71,416,696
Facilities Management Revolving - 314	200,000	113,157	33,083	146,240	53,760
Efficiency Initiatives Revolving - 315	63,200,000	20,411,342	16,939,218	37,350,560	25,849,440
Workers' Compensation Revolving - 332	650,000	-	283,225	283,225	366,775
Minority and Female Business Enterprise - 352	50,000	-	-	-	50,000
Group Insurance Premium - 457	76,495,900	54,451,214	11,022,345	65,473,559	11,022,341
Wireless Service Emergency - 612	44,800,000	31,445,813	2,567,908	34,013,721	10,786,279
Wireless Carrier Reimbursement - 613	35,400,000	30,699,870	1,743,985	32,443,855	2,956,145
State Employees' Deferred Compensation Plan - 755	1,856,900	1,135,332	117,434	1,252,766	604,134
State Surplus Property Revolving - 903	2,782,500	1,967,141	466,821	2,433,962	348,538
Health Insurance Reserve - 907	1,533,290,746	1,315,408,922	116,156,095	1,431,565,017	101,725,729
Special Events Revolving - 989	200,000	23,779	-	23,779	176,221
Total appropriated Funds	\$ 3,423,139,434	2,792,812,584	237,476,522	3,030,289,106	\$ 392,850,328
<b>NON-APPROPRIATED FUNDS</b>					
Flexible Spending Account - 202		12,365,206	1,716,808	14,082,014	N/A
Teacher Health Insurance Security - 203		221,682,432	23,450,937	245,133,369	N/A
Community College Health Insurance Security - 577		14,973,300	2,301,450	17,274,750	N/A
State Employees' Deferred Compensation Plan - 755		135,918,714	233,441	136,152,155	N/A
Senior Citizens and Disabled Persons Program - 316		-	175	175	N/A
Total non-appropriated Funds		384,939,652	27,702,811	412,642,463	
<b>TOTAL</b>		\$ 3,177,752,236	\$ 265,179,333	\$ 3,442,931,569	

Note 1 - Appropriated amounts were authorized by Public Act 93-0091.  
 Note 2 - The expenditure amounts are taken directly from the records of the State Comptroller and were reconciled with Department records.  
 Note 3 - This schedule excludes salaries paid to the Department's Director and two Assistant Directors. Such salaries are paid from a separate appropriation with expenditures aggregating \$297,585 recorded in the records of the State Comptroller.

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES BY FUND  
APPROPRIATIONS FOR FISCAL YEAR 2003  
FOURTEEN MONTHS ENDED AUGUST 31, 2003

	Appropriations (Net after Transfers)	Expenditures Through June 30, 2003	Lapse Period Expenditures July 1 to August 31, 2003	Total Expenditures	Balances Lapsed
<b>APPROPRIATED FUNDS</b>					
Shared Funds:					
General Revenue - 001	\$ 843,353,400	\$ 830,068,830	\$ 9,631,464	\$ 839,700,294	\$ 3,653,106
Road - 011	99,450,100	97,077,459	2,368,428	99,445,887	4,213
Nonshared Funds:					
Local Government Health Insurance Reserve - 193	148,188,800	71,675,724	5,012,875	76,688,599	71,500,201
State Garage Revolving - 303	46,531,900	26,280,574	7,686,724	33,967,298	12,564,602
Statistical Services Revolving - 304	147,486,100	69,317,014	9,958,064	79,275,078	68,211,022
Paper and Printing Revolving - 308	2,867,600	1,293,655	76,807	1,370,462	1,497,138
Communications Revolving - 312	177,830,600	97,577,413	13,364,835	110,942,248	66,888,352
Facilities Management Revolving - 314	200,000	134,731	16,541	151,272	48,728
Workers' Compensation Revolving - 332	650,000	273,268	66,839	340,107	309,893
Minority and Female Business Enterprise - 352	100,000	569	-	569	99,431
Group Insurance Premium - 457	73,998,800	53,123,883	10,508,656	63,632,539	10,366,261
Wireless Service Emergency - 612	40,000,000	28,008,686	162,525	28,171,211	11,828,789
Wireless Carrier Reimbursement - 613	30,000,000	8,596,329	162,525	8,758,854	21,241,146
State Employees' Deferred Compensation Plan - 755	1,856,900	1,314,158	55,015	1,369,173	487,727
State Surplus Property Revolving - 903	2,724,000	1,845,478	92,339	1,937,817	786,183
Health Insurance Reserve - 907	1,316,940,100	1,243,173,534	71,574,108	1,314,747,642	2,192,458
Special Events Revolving - 989	250,000	66,723	-	66,723	183,277
Total appropriated Funds	\$ 2,932,428,300	2,529,828,028	130,737,745	2,660,565,773	\$ 271,862,527
<b>NON-APPROPRIATED FUNDS</b>					
Flexible Spending Account - 202		12,192,370	1,573,535	13,765,905	N/A
Teacher Health Insurance Security - 203		196,683,750	18,010,489	214,694,239	N/A
Community College Health Insurance Security - 577		13,400,391	902,710	14,303,101	N/A
State Employees' Deferred Compensation Plan - 755		167,597,484	135,625	167,733,109	N/A
Total non-appropriated Funds		389,873,995	20,622,359	410,496,354	
<b>TOTAL</b>		\$ 2,919,702,023	\$ 151,360,104	\$ 3,071,062,127	

Note 1 - Appropriated amounts were authorized by Public Acts 92-0538 and 93-0014 (Supplemental).

Note 2 - The expenditure amounts are taken directly from the records of the State Comptroller and were reconciled with Department records.

Note 3 - This schedule excludes salaries paid to the Department's Director and two Assistant Directors. Such salaries are paid from a separate appropriation with expenditures aggregating \$182,615 recorded in the records of the State Comptroller.



STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 3

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES,  
AND LAPSED BALANCES  
APPROPRIATED FUNDS

	Fiscal Year		
	2004	2003	2002
	P.A. 93-0091	P.A. 92-0538 and P.A. 93-0014	P.A. 92-0008
<b>General Revenue - 001</b>			
Appropriations (net after transfers)	\$ 1,052,497,596	\$ 843,353,400	\$ 759,824,900
<b>Expenditures:</b>			
Personal services	26,912,116	22,256,236	22,132,071
State contributions to State employees' retirement	3,085,158	3,133,731	3,130,836
State contributions to social security	1,736,014	1,503,954	1,466,754
Group insurance	942,224,255	768,667,807	685,067,100
Contractual services	16,000,450	12,956,374	12,452,102
Travel	336,394	136,424	131,922
Commodities	221,600	223,911	236,977
Printing	69,647	54,906	62,550
Equipment	113,517	115,708	26,778
Electronic data processing	394,904	274,688	244,710
Telecommunications	453,551	376,204	332,262
Operation of automotive equipment	92,574	82,382	90,800
Worker's compensation claims	15,738,100	18,023,149	20,537,425
Automobile liability claims	1,707,538	1,525,728	1,095,780
Payment of employee wage claims	953,884	1,052,693	1,053,375
Civil law suits - claims	1,255,437	2,064,066	1,299,122
Repairs, maintenance, and capital improvements	-	115,584	-
Surplus real property	209,667	206,002	194,461
Employee suggestion board program	1,120	1,703	2,170
Upward mobility program	5,111,126	5,363,369	4,874,368
State board of ethics	60	290	234
Veterans job program	232,370	269,651	259,110
Vito Marzullo intern program	684,673	601,374	698,836
Nurses tuition	55,516	58,463	89,888
Procurement policy board	180,483	180,951	185,664
Status of women/Governor	105,591	39,224	149,809
Compensation review board	25,072	2,503	20,992
Attorneys fees plus interest (Hope Clinic v. James Ryan)	-	413,219	-
Executive Order 2003-10 consolidation transfers	26,941,334	-	-
<b>Total expenditures</b>	<b>1,044,842,151</b>	<b>839,700,294</b>	<b>755,836,096</b>
<b>Lapsed balances</b>	<b>\$ 7,655,445</b>	<b>\$ 3,653,106</b>	<b>\$ 3,988,804</b>

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 3

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES,  
AND LAPSED BALANCES  
APPROPRIATED FUNDS

	Fiscal Year		
	2004	2003	2002
	P.A. 93-0091	P.A. 92-0538 and P.A. 93-0014	P.A. 92-0008
<b>Road - 011</b>			
Appropriations (net after transfers)	\$ 105,632,600	\$ 99,450,100	\$ 90,593,500
Expenditures:			
Group insurance	98,752,836	92,194,600	85,870,800
Worker's compensation claims	4,767,112	7,251,287	4,722,332
Total expenditures	<u>103,519,948</u>	<u>99,445,887</u>	<u>90,593,132</u>
Lapsed balances	<u>\$ 2,112,652</u>	<u>\$ 4,213</u>	<u>\$ 368</u>
<b>Local Government Health Insurance Reserve - 193</b>			
Appropriations (net after transfers)	<u>\$ 137,374,300</u>	<u>\$ 148,188,800</u>	<u>\$ 128,684,600</u>
Expenditures:			
Ordinary and contingent expenditures			
Personal services	433,953	485,757	464,427
Contribution to SERS	66,566	69,216	65,180
Contribution to social security	31,620	35,558	34,146
Group insurance	106,470	100,447	97,952
Contractual services	65,109	47,277	76,952
Travel	4,109	3,478	4,167
Commodities	3,475	1,146	1,364
Printing	3,039	2,421	11,930
Electronic data processing	14,459	22,518	24,016
Telecommunications services	2,076	3,125	4,916
Operation of automotive equipment	2,487	2,049	1,738
Local government contributions	<u>68,631,058</u>	<u>75,915,607</u>	<u>82,840,493</u>
Total expenditures	<u>69,364,421</u>	<u>76,688,599</u>	<u>83,627,281</u>
Lapsed balances	<u>\$ 68,009,879</u>	<u>\$ 71,500,201</u>	<u>\$ 45,057,319</u>

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 3

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES,  
AND LAPSED BALANCES  
APPROPRIATED FUNDS

	Fiscal Year		
	2004	2003	2002
	P.A. 93-0091	P.A. 92-0538 and P.A. 93-0014	P.A. 92-0008
<b>State Garage Revolving - 303</b>			
Appropriations (net after transfers)	\$ 44,346,500	\$ 46,531,900	\$ 41,885,600
<b>Expenditures:</b>			
Ordinary and contingent expenditures			
Personal services	8,833,372	9,429,460	9,470,454
Contribution to SERS	1,464,975	1,338,006	1,320,359
Contribution to social security	653,370	698,993	702,160
Group insurance	2,066,600	1,896,785	1,940,184
Contractual services	818,192	932,724	1,051,648
Travel	3,824	25,172	27,839
Commodities	72,755	91,550	89,393
Printing	12,628	14,697	20,521
Equipment	610,041	793,059	753,414
Electronic data processing	878,938	646,927	654,940
Telecommunications services	72,073	92,090	82,341
Operation of automotive equipment	17,487,592	18,007,835	18,320,491
Refunds	228	-	143
Total expenditures	<u>32,974,588</u>	<u>33,967,298</u>	<u>34,433,887</u>
Lapsed balances	<u>\$ 11,371,912</u>	<u>\$ 12,564,602</u>	<u>\$ 7,451,713</u>
<b>Statistical Services Revolving - 304</b>			
Appropriations (net after transfers)	\$ 141,805,992	\$ 147,486,100	\$ 133,834,300
<b>Expenditures:</b>			
Ordinary and contingent expenditures			
Personal services	14,801,081	17,267,456	17,548,563
Contribution to SERS	2,296,905	2,417,219	2,448,083
Contribution to social security	1,113,987	1,298,924	1,309,597
Group insurance	2,386,744	2,293,131	2,521,344
Contractual services	2,238,759	2,511,642	2,504,999
Travel	71,503	82,168	108,250
Commodities	57,907	63,217	88,040
Printing	67,104	60,402	40,028
Equipment	38,908	14,875	23,477
Electronic data processing	39,167,845	50,112,320	52,053,876
Telecommunications services	2,596,260	3,148,409	3,560,013
Operation of automotive equipment	5,355	5,315	6,981
Refunds	10,033	-	-
Total expenditures	<u>64,852,391</u>	<u>79,275,078</u>	<u>82,213,251</u>
Lapsed balances	<u>\$ 76,953,601</u>	<u>\$ 68,211,022</u>	<u>\$ 51,621,049</u>

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 3

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES,  
AND LAPSED BALANCES  
APPROPRIATED FUNDS

	Fiscal Year		
	2004	2003	2002
	P.A. 93-0091	P.A. 92-0538 and P.A. 93-0014	P.A. 92-0008
<b>Paper and Printing Revolving - 308</b>			
Appropriations (net after transfers)	\$ 2,685,500	\$ 2,867,600	\$ 2,836,900
Expenditures:			
Ordinary and contingent expenditures			
Personal services	175,241	166,107	158,291
Contribution to SERS	28,354	23,793	22,157
Contribution to social security	12,995	12,336	11,766
Group insurance	37,918	33,602	32,576
Contractual services	94,893	85,650	107,226
Travel	305	473	739
Commodities	1,520	797	2,056
Electronic data processing	52,047	99,159	76,292
Telecommunications services	1,719	2,424	1,926
Printing and distribution of wall certificates	889,727	946,121	1,159,801
Total expenditures	1,294,719	1,370,462	1,572,830
Lapsed balances	\$ 1,390,781	\$ 1,497,138	\$ 1,264,070
<b>Communications Revolving - 312</b>			
Appropriations (net after transfers)	\$ 179,870,900	\$ 177,830,600	\$ 168,195,300
Expenditures:			
Ordinary and contingent expenditures			
Personal services	6,326,930	7,085,551	6,823,749
Contribution to SERS	981,794	997,942	948,937
Contribution to social security	491,621	537,855	517,454
Group insurance	1,204,384	1,166,420	1,177,425
Contractual services	3,601,159	3,777,508	3,604,789
Travel	64,914	44,178	65,741
Commodities	35,551	35,814	34,998
Printing	25,160	15,999	89,806
Equipment	124,516	54,106	68,736
Electronic data processing	3,218,831	3,173,738	3,313,532
Telecommunications services	92,130,265	93,861,097	101,362,724
Operation of automotive equipment	88,137	88,555	89,699
Refunds	160,942	103,485	-
Total expenditures	108,454,204	110,942,248	118,097,590
Lapsed balances	\$ 71,416,696	\$ 66,888,352	\$ 50,097,710

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 3

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES,  
AND LAPSED BALANCES  
APPROPRIATED FUNDS

	Fiscal Year		
	2004	2003	2002
	P.A. 93-0091	P.A. 92-0538 and P.A. 93-0014	P.A. 92-0008
<b>Facilities Management Revolving - 314</b>			
Appropriations (net after transfers)	\$ 200,000	\$ 200,000	\$ 200,000
Expenditures:			
Operation & management of state facilities	146,240	151,272	153,319
Total expenditures	146,240	151,272	153,319
Lapsed balances	<u>\$ 53,760</u>	<u>\$ 48,728</u>	<u>\$ 46,681</u>
<b>Efficiency Initiatives Revolving - 315*</b>			
Appropriations (net after transfers)	\$ 63,200,000	\$ -	\$ -
Expenditures:			
Efficiency initiatives	37,350,560	-	-
Total expenditures	37,350,560	-	-
Lapsed balances	<u>\$ 25,849,440</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Workers' Compensation Revolving - 332</b>			
Appropriations (net after transfers)	\$ 650,000	\$ 650,000	\$ 650,000
Expenditures:			
Benefits	283,225	340,107	426,786
Total expenditures	283,225	340,107	426,786
Lapsed balances	<u>\$ 366,775</u>	<u>\$ 309,893</u>	<u>\$ 223,214</u>
<b>Minority and Female Business Enterprise - 352</b>			
Appropriations (net after transfers)	\$ 50,000	\$ 100,000	\$ 100,000
Expenditures:			
Total expenditures	-	569	9,762
Lapsed balances	<u>\$ 50,000</u>	<u>\$ 99,431</u>	<u>\$ 90,238</u>

\* New fund in fiscal year 2004

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 3

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES,  
AND LAPSED BALANCES  
APPROPRIATED FUNDS

	Fiscal Year		
	2004	2003	2002
	P.A. 93-0091	P.A. 92-0538 and P.A. 93-0014	P.A. 92-0008
<b>Group Insurance Premium - 457</b>			
Appropriations (net after transfers)	\$ 76,495,900	\$ 73,998,800	\$ 86,476,100
Expenditures:			
Group insurance	65,191,319	63,344,547	61,614,696
Cost containment program	282,240	287,992	285,474
Total expenditures	65,473,559	63,632,539	61,900,170
Lapsed balances	\$ 11,022,341	\$ 10,366,261	\$ 24,575,930
<b>Wireless Service Emergency - 612</b>			
Appropriations (net after transfers)	\$ 44,800,000	\$ 40,000,000	\$ 35,000,000
Expenditures:			
Administration	34,013,721	28,171,211	28,194,633
Total expenditures	34,013,721	28,171,211	28,194,633
Lapsed balances	\$ 10,786,279	\$ 11,828,789	\$ 6,805,367
<b>Wireless Carrier Reimbursement - 613</b>			
Appropriations (net after transfers)	\$ 35,400,000	\$ 30,000,000	\$ 24,500,000
Expenditures:			
Administration	32,443,855	8,758,854	572,289
Total expenditures	32,443,855	8,758,854	572,289
Lapsed balances	\$ 2,956,145	\$ 21,241,146	\$ 23,927,711
<b>State Employees' Deferred Compensation Plan - 755</b>			
Appropriations (net after transfers)	\$ 1,856,900	\$ 1,856,900	\$ 1,856,900
Expenditures:			
Administration	1,252,766	1,369,173	1,188,125
Total expenditures	1,252,766	1,369,173	1,188,125
Lapsed balances	\$ 604,134	\$ 487,727	\$ 668,775

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 3

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES,  
AND LAPSED BALANCES  
APPROPRIATED FUNDS

	Fiscal Year		
	2004	2003	2002
	P.A. 93-0091	P.A. 92-0538 and P.A. 93-0014	P.A. 92-0008
<b>State Surplus Property Revolving - 903</b>			
Appropriations (net after transfers)	\$ 2,782,500	\$ 2,724,000	\$ 2,660,600
<b>Expenditures:</b>			
<b>Ordinary and contingent expenditures</b>			
Personal services	932,438	949,375	848,762
Contribution to SERS	140,752	135,086	118,537
Contribution to social security	67,307	68,686	64,851
Group insurance	190,831	176,719	163,387
Contractual services	600,565	323,599	430,945
Travel	17,801	9,873	23,521
Commodities	7,922	9,840	8,798
Printing	3,009	1,713	1,301
Equipment	172,088	58,171	15,510
Electronic data processing	62,647	29,578	43,992
Telecommunications services	24,777	16,323	19,325
Record processing/I-Cycle program	107,892	69,231	130,852
Operation of automotive equipment	105,883	87,173	101,829
Refunds	50	2,450	951
<b>Total expenditures</b>	<u>2,433,962</u>	<u>1,937,817</u>	<u>1,972,561</u>
Lapsed balances	<u>\$ 348,538</u>	<u>\$ 786,183</u>	<u>\$ 688,039</u>
<b>Health Insurance Reserve - 907</b>			
Appropriations (net after transfers)	<u>\$ 1,533,290,746</u>	<u>\$ 1,316,940,100</u>	<u>\$ 1,176,246,700</u>
<b>Expenditures:</b>			
Cost containment	155,722	157,103	158,422
Health care coverage	<u>1,431,409,295</u>	<u>1,314,590,539</u>	<u>1,061,777,266</u>
<b>Total expenditures</b>	<u>1,431,565,017</u>	<u>1,314,747,642</u>	<u>1,061,935,688</u>
Lapsed balances	<u>\$ 101,725,729</u>	<u>\$ 2,192,458</u>	<u>\$ 114,311,012</u>
<b>Special Events Revolving - 989</b>			
Appropriations (net after transfers)	<u>\$ 200,000</u>	<u>\$ 250,000</u>	<u>\$ 250,000</u>
<b>Expenditures:</b>			
Lease/rental of CMS buildings	<u>23,779</u>	<u>66,723</u>	<u>65,827</u>
<b>Total expenditures</b>	<u>23,779</u>	<u>66,723</u>	<u>65,827</u>
Lapsed balances	<u>\$ 176,221</u>	<u>\$ 183,277</u>	<u>\$ 184,173</u>

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 3

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES,  
AND LAPSED BALANCES  
APPROPRIATED FUNDS

	Fiscal Year		
	2004	2003	2002
	P.A. 93-0091	P.A. 92-0538 and P.A. 93-0014	P.A. 92-0008
<b>Grand Total, All Appropriated funds</b>			
Appropriations (net after transfers)	\$ 3,423,139,434	\$ 2,932,428,300	\$ 2,653,795,400
Total expenditures	<u>3,030,289,106</u>	<u>2,660,565,773</u>	<u>2,322,793,227</u>
Total lapsed balances	<u>\$ 392,850,328</u>	<u>\$ 271,862,527</u>	<u>\$ 331,002,173</u>
<b>State Officers' Payroll</b>			
Appropriations (through Comptroller's Office)	<u>\$ 326,500</u>	<u>\$ 326,500</u>	<u>\$ 326,500</u>
Expenditures:			
For the Director	120,900	83,830	120,861
For two Assistance Directors	<u>176,685</u>	<u>98,785</u>	<u>205,567</u>
Total expenditures	<u>297,585</u>	<u>182,615</u>	<u>326,428</u>
Lapsed balances	<u>\$ 28,915</u>	<u>\$ 143,885</u>	<u>\$ 72</u>



STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
SCHEDULE OF EFFICIENCY INITIATIVE PAYMENTS  
For the Year Ended June 30, 2004

Schedule 4

**Procurement Efficiency Initiative**

General Revenue - 001	
Lump sum and other purposes	\$ 1,800,000
Statistical Services Revolving - 304	
Electronic data processing equipment	2,250,000
Communications Revolving - 312	
Telecommunications	5,000,000
State Surplus Property Revolving - 903	
Contractual services	100,000
Health Insurance Reserve - 907	
Lump sum and other purposes	11,433,043
Subtotal for Procurement Efficiency Initiative	20,583,043

**Information Technology Initiative**

General Revenue - 001	
Electronic data processing equipment	20,763
Lump sum and other purposes	17,000
Lump sum, operations	10,000
Subtotal for Information Technology Initiative	47,763

**Vehicle Fleet Management Initiative**

General Revenue - 001	
Contractual services	4,164
Operation of automotive equipment	10,834
Communications Revolving - 312	
Operation of automotive equipment	9,998
State Surplus Property Revolving - 903	
Operation of automotive equipment	9,998
Subtotal for Vehicle Fleet Management Initiative	34,994

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
SCHEDULE OF EFFICIENCY INITIATIVE PAYMENTS  
For the Year Ended June 30, 2004

Schedule 4

**Facilities Management Consolidation Initiative**

General Revenue - 001	\$ 748,740
Personal services	141,502
Employee retirement - contributions paid by employer	237,133
State contributions to State Employees' Retirement System	70,413
Contractual services	30,240
Lump sum and other purposes	95,301
	<hr/>
Subtotal for Facilities Management Consolidation Initiative	1,323,329

**Internal Audit Consolidation Initiative**

General Revenue - 001	1,700,000
Personal services	16,000
Employee retirement - contributions paid by employer	177,000
State contributions to State Employees' Retirement System	125,000
State contributions to Social Security	250,000
Contractual services	50,000
Travel	20,000
Commodities	23,000
Printing	63,000
Equipment	20,000
Electronic data processing equipment	45,000
Telecommunications	2,000
Operation of automotive equipment	209,000
Lump sum and other purposes	<hr/>
	2,700,000
Subtotal for Internal Audit Consolidation Initiative	<hr/>

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
SCHEDULE OF EFFICIENCY INITIATIVE PAYMENTS  
For the Year Ended June 30, 2004

Schedule 4

**Legal Services Consolidation Initiative**

General Revenue - 001	
Personal services	\$ 77,046
Employee retirement - contributions paid by employer	17,740
State contributions to State Employees' Retirement System	32,724
State contributions to Social Security	6,204
Contractual services	7,228
Travel	4,268
Commodities	1,295
Printing	1,070
Equipment	2,606
Telecommunications	4,632
	<hr/>
Subtotal for Legal Services Consolidation Initiative	154,813
	<hr/>
Grand Total for Efficiency Initiative Payments	\$ 24,843,942
	<hr/> <hr/>

Note: This schedule includes only those payments made pursuant to 30 ILCS 105/6p-5.  
Amounts were obtained from the Department and reconciled to information from  
the Office of the Comptroller.

STATE OF ILLINOIS  
 DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
 SCHEDULE OF CHANGES IN STATE PROPERTY  
 For Fiscal Years Ended June 30, 2004 and 2003  
 (Expressed in Thousands)

	Balance June 30, 2002	Additions	Deletions	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
<u>General Government</u>							
Land and land improvements	\$ 8,591	\$ -	\$ -	\$ 8,591	\$ -	\$ -	\$ 8,591
Historical treasures and works of art	-	-	-	-	-	-	-
Site and site improvements	-	-	-	-	-	-	-
Building and building improvements	358,036	4,319	-	362,355	4,036	-	366,391
Equipment	3,351	220	(51)	3,520	365	(96)	3,789
Total General Government	369,978	4,539	(51)	374,466	4,401	(96)	378,771
<u>State Garage Revolving - 303</u>							
Building and building improvements	10,441	1,747	-	12,188	239	-	12,427
Equipment	7,515	75	(479)	7,111	208	(1,624)	5,695
Total State Garage Revolving - 303	17,956	1,822	(479)	19,299	447	(1,624)	18,122
<u>Statistical Services Revolving - 304</u>							
Land and land improvements	1,048	-	-	1,048	-	-	1,048
Building and building improvements	14,900	147	-	15,047	65	-	15,112
Equipment	53,472	4,200	(3,020)	54,652	2,066	(7,139)	49,579
Total Statistical Services Revolving - 304	69,420	4,347	(3,020)	70,747	2,131	(7,139)	65,739
<u>Paper and Printing Revolving - 308</u>							
Equipment	56	-	-	56	-	(22)	34
<u>Communications Revolving - 312</u>							
Land and land improvements	713	-	-	713	-	-	713
Building and building improvements	4,039	-	-	4,039	11	-	4,050
Equipment	61,804	3,064	(5,988)	58,880	6,885	(4,925)	60,840
Total Communications Revolving - 312	66,556	3,064	(5,988)	63,632	6,896	(4,925)	65,603
<b>TOTAL STATE PROPERTY, AT COST</b>	<b>\$ 523,966</b>	<b>\$ 13,772</b>	<b>\$ (9,538)</b>	<b>\$ 528,200</b>	<b>\$ 13,875</b>	<b>\$ (13,806)</b>	<b>\$ 528,269</b>

(1) Reclassifications presented to properly classify property and equipment.

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
COMPARATIVE SCHEDULE OF CASH RECEIPTS  
For Fiscal Years Ended June 30, 2004, 2003, 2002

Schedule 6

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>SHARED FUNDS</b>			
<u>General Revenue - 001</u>			
Rents from State of Illinois Buildings in Chicago, farmland, and other property	\$ 736,110	\$ 770,180	\$ 135,179
Miscellaneous	103,363	86,963	-
Repay State-Upward Mobility	34,898	-	-
Sale of Land & Structures	81,000	2,677,100	-
Prior year Refunds	76,638	37,983	32,508
Private organization or individual	2,701	6,797	-
Other	1,615	(666)	549,403
Total - Fund 001	<u>\$ 1,036,325</u>	<u>\$ 3,578,357</u>	<u>\$ 717,090</u>
<u>Road - 011</u>			
Prior year refunds	<u>\$ 6,175</u>	<u>\$ 1,100</u>	<u>\$ 3,321</u>
<b>NONSHARED FUNDS</b>			
<u>Local Government Health Insurance Reserve - 193</u>			
Contributions	\$ 72,842,522	\$ 84,225,868	\$ 87,114,457
Interest	130,779	93,829	79,394
Total - Fund 193	<u>\$ 72,973,301</u>	<u>\$ 84,319,697</u>	<u>\$ 87,193,851</u>
<u>Flexible Spending Account - 202</u>			
Payroll deductions	<u>\$ 14,220,122</u>	<u>\$ 14,853,114</u>	<u>\$ 13,462,111</u>
<u>State Police Vehicle - 246</u>			
State property sales	<u>\$ 95,400</u>	<u>\$ 172,024</u>	<u>\$ 540,025</u>
<u>State Garage Revolving - 303</u>			
Charges to user agencies	<u>\$ 35,759,307</u>	<u>\$ 32,759,156</u>	<u>\$ 35,634,840</u>
<u>Statistical Services Revolving - 304</u>			
Charges to user agencies	<u>\$ 85,712,081</u>	<u>\$ 70,349,582</u>	<u>\$ 65,142,455</u>
<u>Paper and Printing Revolving - 308</u>			
Charges to user agencies	<u>\$ 1,263,465</u>	<u>\$ 1,298,845</u>	<u>\$ 1,447,547</u>
<u>Communications Revolving - 312</u>			
Charges to user agencies	<u>\$ 124,559,377</u>	<u>\$ 116,846,886</u>	<u>\$ 139,608,617</u>
<u>Facilities Management Revolving - 314</u>			
Rental income	<u>\$ 183,121</u>	<u>\$ 189,470</u>	<u>\$ 183,121</u>
<u>Efficiency Initiatives Revolving - 315*</u>			
Other Illinois state agencies	<u>\$ 109,978,596</u>	<u>\$ -</u>	<u>\$ -</u>

\*New fund in fiscal year 2004

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
COMPARATIVE SCHEDULE OF CASH RECEIPTS  
For Fiscal Years Ended June 30, 2004, 2003, 2002

Schedule 6

	2004	2003	2002
<u>Senior Citizens and Disabled Persons Program - 316*</u>			
Senior citizens / Prescription drug discount fees	\$ 218,873	\$ -	\$ -
<u>Workers' Compensation Revolving - 332</u>			
Receipts due to subrogation of workers' compensation claims	\$ 564,955	\$ 315,019	\$ 412,003
<u>Minority and Female Business Enterprise - 352</u>			
License fees or registration	\$ 825	\$ 950	\$ 8,300
<u>Group Insurance Premium - 457</u>			
Direct payments of insurance premiums by employees	\$ 378,952	\$ 3,250,804	\$ 5,317,733
Optional life deductions	39,453,509	35,604,134	33,907,910
Charges to other State user agencies	1,390,431	1,824,196	1,674,948
Health facilities	4,884,188	4,367,303	4,441,691
Transfers in from other funds	19,314,200	20,000,000	6,000,000
Interest	93,671	126,034	1,708,522
Prior year refund	-	126	173
Total - Fund 457	\$ 65,514,951	\$ 65,172,597	\$ 53,050,977
<u>Community College Health Insurance Security - 577</u>			
Transfers in from other funds	\$ 3,101,100	\$ 2,960,315	\$ 2,968,328
Member contributions	297,669	188,520	89,943
Total - Fund 577	\$ 3,398,769	\$ 3,148,835	\$ 3,058,271
<u>Wireless Service Emergency - 612</u>			
Surcharges	\$ 30,841,832	\$ 28,665,757	\$ 27,491,193
<u>Wireless Carrier Reimbursement - 613</u>			
Surcharges	\$ 15,420,916	\$ 14,332,878	\$ 12,815,842
<u>State Employees' Deferred Compensation Plan - 755</u>			
Benefits receipts	\$ 2,448,970	\$ 4,329,775	\$ 1,661,961
Annual asset charge and investment exchange	16,456	429,393	1,250,058
Investments and other income	54,811	111,568	192,579
Payroll deductions	133,609,415	163,705,958	150,660,003
Other	1,089	5,048	904
Total - Fund 755	\$ 136,130,741	\$ 168,581,742	\$ 153,765,505
<u>State Surplus Property Revolving - 903</u>			
Sales of surplus property	\$ 3,235,401	\$ 2,015,783	\$ 2,019,730

\*New fund in fiscal year 2004

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
COMPARATIVE SCHEDULE OF CASH RECEIPTS  
For Fiscal Years Ended June 30, 2004, 2003, 2002

Schedule 6

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<u>Health Insurance Reserve - 907</u>			
Reimbursement of insurance premiums from federal trusts, other funds, and employers	\$ 97,491,380	\$ 124,180,301	\$ 163,262,487
Direct payments of insurance premiums by employees	8,368,362	8,184,051	6,870,551
Refunds from insurance carriers	12,771,332	8,065,176	4,927,024
Optional health deductions	184,874,341	171,689,053	162,879,585
Health facilities	117,220,528	104,815,275	-
Interest	688,939	711,857	1,209,442
Miscellaneous	-	-	2,461,330
Transfers in from other funds	974,275,236	870,018,800	748,305,200
Prior year refund	4,000	-	-
Total - Fund 907	<u>\$1,395,694,118</u>	<u>\$1,287,664,513</u>	<u>\$1,089,915,619</u>
<u>Special Events Revolving - 989</u>			
Rental income	<u>\$ 63,275</u>	<u>\$ 64,545</u>	<u>\$ 45,600</u>
GRAND TOTAL, ALL FUNDS	<u>\$2,096,871,926</u>	<u>\$1,894,330,850</u>	<u>\$1,686,516,018</u>

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
RECONCILIATION SCHEDULE OF CASH RECEIPTS TO DEPOSITS  
REMITTED TO THE STATE COMPTROLLER  
For Fiscal Years Ended June 30, 2004 and 2003

	Shared Funds				Nonshared Funds					
	General Revenue 001	Road 011	Local Government Health Insurance Reserve 193	Flexible Spending Account 202	State Police Vehicle 246 (1)	State Garage Revolving 303	Statistical Services Revolving 304	Paper and Printing Revolving 308		
<u>2004</u>										
Cash receipts per Department records	\$ 1,036,325	\$ 6,175	\$ 72,973,301	\$ 14,220,122	\$ 95,400	\$ 35,759,307	\$ 85,712,081	\$ 1,263,465		
Add:										
Deposits in transit at beginning of period	1,394	42	1,053,914	-	-	-	-	-		
Miscellaneous	-	-	-	-	-	442	183	-		
IOC holds from GRF (current month)	-	-	-	-	-	2,719	352	-		
Deduct:										
Interest income	-	-	130,779	-	-	-	-	-		
Deposits in transit at end of period	2,629	-	-	-	-	348	12,664	-		
Miscellaneous/Adjustments	-	-	-	-	-	-	5,706	-		
IOC holds from GRF (prior year)	-	-	-	-	-	926,055	4,828,814	37,008		
<u>Deposits into the State Treasury</u>	<u>\$ 1,035,090</u>	<u>\$ 6,217</u>	<u>\$ 73,896,436</u>	<u>\$ 14,220,122</u>	<u>\$ 95,400</u>	<u>\$ 34,836,065</u>	<u>\$ 80,865,432</u>	<u>\$ 1,226,457</u>		
<u>2003</u>										
Cash receipts per Department records	\$ 3,578,357	\$ 1,100	\$ 84,319,697	\$ 14,853,114	\$ 172,024	\$ 32,759,156	\$ 70,349,582	\$ 1,298,845		
Add:										
Deposits in transit at beginning of period	6,248	-	-	-	-	40,493	9,632	6,320		
Miscellaneous/Adjustments	-	-	1,044	-	-	519	-	-		
IOC holds from GRF (current month)	-	-	-	-	-	926,055	4,828,814	37,008		
Deduct:										
Interest income	-	-	93,829	-	-	-	-	-		
Deposits in transit at end of period	1,394	42	1,053,914	-	-	-	-	-		
Miscellaneous/Adjustments	-	-	-	-	-	151	48,711	-		
Transfers	-	-	-	-	-	-	7,173,650	-		
IOC holds from GRF (prior year)	-	-	-	-	-	5,414	1,682	423		
<u>Deposits into the State Treasury</u>	<u>\$ 3,583,211</u>	<u>\$ 1,058</u>	<u>\$ 83,172,998</u>	<u>\$ 14,853,114</u>	<u>\$ 172,024</u>	<u>\$ 33,720,658</u>	<u>\$ 67,963,985</u>	<u>\$ 1,341,750</u>		

(1) The State Police Vehicle Fund is the reporting responsibility of the Illinois State Police.  
(2) The Efficiency Initiatives Revolving and Prescription Drug Discount Program were established in FY2004.



STATE OF ILLINOIS  
 DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
 RECONCILIATION SCHEDULE OF CASH RECEIPTS TO DEPOSITS  
 REMITTED TO THE STATE COMPTROLLER  
 For Fiscal Years Ended June 30, 2004 and 2003

	Nonshared Funds							Community
	Communications Revolving 312	Facilities Management Revolving 314	Efficiency Initiatives Revolving 315 (2)	Senior Citizens and Disabled Persons Program 316 (2)	Workers' Compensation Revolving 332	Minority and Female Business Enterprise 352	Group Insurance Premium 457	College Health Insurance Security 577
<u>2004</u>								
Cash receipts per Department records	\$ 124,559,377	\$ 183,121	\$ 109,978,596	\$ 218,873	\$ 564,955	\$ 825	\$ 65,514,951	\$ 3,398,769
Add:								
Deposits in transit at beginning of period	8,409	-	-	-	-	-	-	-
Miscellaneous	1,098	-	-	-	-	-	-	-
IOC holds from GRF (current month)	5,446	-	-	-	-	-	-	-
Deduct:								
Interest income	-	-	-	-	-	-	93,671	-
Deposits in transit at end of period	426,497	-	-	-	51,034	-	-	-
Miscellaneous/Adjustments	-	-	-	-	-	-	-	-
IOC holds from GRF (prior year)	2,473,717	-	-	-	-	-	-	-
Deposits into the State Treasury	\$ 121,674,116	\$ 183,121	\$ 109,978,596	\$ 218,873	\$ 513,921	\$ 825	\$ 65,421,280	\$ 3,398,769
<u>2003</u>								
Cash receipts per Department records	\$ 116,846,886	\$ 189,470	\$ -	\$ -	\$ 315,019	\$ 950	\$ 65,172,597	\$ 3,148,835
Add:								
Deposits in transit at beginning of period	637,676	-	-	-	13,845	50	18,484	-
Miscellaneous/Adjustments	-	-	-	-	-	-	-	-
IOC holds from GRF (current month)	2,473,717	-	-	-	-	-	-	-
Deduct:								
Interest income	-	-	-	-	-	-	126,034	-
Deposits in transit at end of period	8,409	-	-	-	-	-	-	-
Miscellaneous/Adjustments	26,367	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-
IOC holds from GRF (prior year)	-	-	-	-	-	-	-	-
Deposits into the State Treasury	\$ 119,923,503	\$ 189,470	\$ -	\$ -	\$ 328,864	\$ 1,000	\$ 65,065,047	\$ 3,148,835

(1) The State Police Vehicle Fund is the reporting responsibility of the Illinois State Police.  
 (2) The Efficiency Initiatives Revolving and Prescription Drug Discount Program were established in FY2004.

STATE OF ILLINOIS  
 DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
 RECONCILIATION SCHEDULE OF CASH RECEIPTS TO DEPOSITS  
 REMITTED TO THE STATE COMPTROLLER  
 For Fiscal Years Ended June 30, 2004 and 2003

	Nonshared Funds							TOTAL
	Wireless Service Emergency 612	Wireless Carrier Reimbursement 613	State Employees' Deferred Compensation Plan 755	State Surplus Property Revolving 903	Health Insurance Reserve 907	Special Events Revolving 989		
<u>2004</u>								
Cash receipts per Department records	\$ 30,841,832	\$ 15,420,916	\$ 136,130,741	\$ 3,235,401	\$ 1,395,694,118	\$ 63,275	\$ 2,096,871,926	
Add:								
Deposits in transit at beginning of period	-	-	-	29,137	-	-	1,092,896	
Miscellaneous	-	-	-	-	-	-	1,723	
IOC holds from GRF (current month)	-	-	-	-	-	-	8,517	
Deduct:								
Interest income	-	-	54,811	-	688,939	-	968,200	
Deposits in transit at end of period	-	-	-	89,441	-	1,900	584,513	
Miscellaneous/Adjustments	-	-	-	-	-	-	5,706	
IOC holds from GRF (prior year)	-	-	-	-	-	-	8,265,594	
<u>2003</u>								
Deposits into the State Treasury	\$ 30,841,832	\$ 15,420,916	\$ 136,075,930	\$ 3,175,097	\$ 1,395,005,179	\$ 61,375	\$ 2,088,151,049	
Cash receipts per Department records	\$ 28,665,757	\$ 14,332,878	\$ 168,581,742	\$ 2,015,783	\$ 1,287,664,513	\$ 64,545	\$ 1,894,330,850	
Add:								
Deposits in transit at beginning of period	-	-	8,548	53,865	2,063,128	4,800	2,863,089	
Miscellaneous/Adjustments	-	-	-	-	-	-	1,563	
IOC holds from GRF (current month)	-	-	-	-	-	-	8,265,594	
Deduct:								
Interest income	-	-	111,568	-	711,857	-	1,043,288	
Deposits in transit at end of period	-	-	-	29,137	-	-	1,092,896	
Miscellaneous/Adjustments	-	-	-	-	-	-	75,229	
Transfers	-	-	-	-	-	-	7,173,650	
IOC holds from GRF (prior year)	-	-	-	-	-	-	7,519	
Deposits into the State Treasury	\$ 28,665,757	\$ 14,332,878	\$ 168,478,722	\$ 2,040,511	\$ 1,289,015,784	\$ 69,345	\$ 1,896,068,514	

(1) The State Police Vehicle Fund is the reporting responsibility of the Illinois State Police.  
 (2) The Efficiency Initiatives Revolving and Prescription Drug Discount Program were established in FY2004.

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES

For the Two Years Ended June 30, 2004

The State of Illinois, Department of Central Management Services' (Department) explanations for significant fluctuations in expenditures as presented in the "Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances – Appropriated Funds" are detailed below:

*General Revenue – 001*

The General Revenue Fund experienced an increase in expenditures of \$205,141,857, or 24.43%, from fiscal year 2003 to fiscal year 2004. The increase is attributable in part to consolidations of audit, legal and facilities management that were completed in fiscal year 2004 as mandated by Executive Order 2003-10.

An 18% increase in personal services and related items is attributable to 93 additional personnel that were transferred to CMS as part of the audit consolidation. Travel, EDP and telecommunication expenses also increased as the result of the audit consolidation.

Contractual services increased primarily as the result of the facilities management consolidation. In fiscal year 2004, rental of real property increased \$2,064,976, or 2,053%, from fiscal year 2003.

A savings initiative payment of \$4,178,000 was made to Fund 315.

Employer contributions to Group Insurance increased \$173,556,448, of which \$48,000,000 was spent during lapse. The appropriation for group insurance and payment of workers compensation claims increased in fiscal year 2004 compared to fiscal year 2003 by \$173,597,879, which is consistent with the increase in employer contributions.

*Statistical Services Revolving – 304*

Total expenditures for the Statistical Services Revolving Fund decreased by \$14,422,687, or 18.19%, from fiscal year 2003 to fiscal year 2004. The variance in expenditures is primarily due to the State Information Technology (SIT) project. The largest difference is on the electronic data processing line, which is where the expenditures paid on behalf of other agencies were paid. The SIT project concluded in fiscal year 2003.

### *Workers' Compensation Revolving – 332*

Expenses decreased for the Workers' Compensation Revolving Fund by \$86,679, or 20.31% from fiscal year 2002 to fiscal year 2003. WCRF is used to pay a portion of the Temporary Total Disability Payments (TTD). Payments made from WCRF each year approximate the amount of collections from Workers' Compensation recoveries from third parties, etc. During fiscal year 2002, WCRF received \$408,721 in recoveries while in fiscal year 2003, WCRF received \$315,019 in recoveries resulting in a decrease of \$93,702 from fiscal year 2002 to fiscal year 2003. This decrease in revenue is the reason for the expense change and approximates the \$86,679 decrease in expense from fiscal year 2002 to fiscal year 2003.

### *Wireless Service Emergency – 612*

Expenditures increased for the Wireless Service Emergency Fund by \$5,842,510, or 20.74% from fiscal year 2003 to fiscal year 2004. This increase was the result of several large carriers, such as AT & T, submitting subscriber counts during fiscal year 2004 that were not provided in fiscal year 2003 and prior. As a result of this new data, additional disbursements could be made during fiscal year 2004. In addition, the bureau shortened the time lag between receipt of funds and disbursement. This resulted in increased expenditures during fiscal year 2004.

### *Wireless Carrier Reimbursement – 613*

The Wireless Carrier Reimbursement Fund expenditures increased from fiscal year 2002 to fiscal year 2003 by \$8,186,565, or 1,430.49%. This increase was the result of carriers submitting invoices for reimbursement for equipment that was placed in service during the later part of fiscal year 2002 and through fiscal year 2003.

Additionally, this fund had an increase in expenditures from fiscal year 2003 to fiscal year 2004 of \$23,685,001, or 270.41%. This increase was a result of the Wireless Emergency Telephone Safety Act (WETSA), phase 2 that required the carriers to upgrade their equipment and submit documentation for reimbursement for the additional expenditures.

### *State Employees' Deferred Compensation Plan – 755*

Expenses for the State Employees' Deferred Compensation Plan Fund increased by \$181,048, or 15.24% from fiscal year 2002 to fiscal year 2003. Significant increases are the result of the scanning of paper files (\$23,911), the purchase of imaging equipment (\$27,651), imaging software (\$2,250), and cubicle equipment (\$13,518), and cubicle installation (\$1,271). In addition, this fund had a lump sum payout of \$21,735, paid temporary help \$21,735, and paid two months of salary for a division manager in the amount of \$11,178. These increases, coupled with normal increases in other expenditures due to inflation, resulted in the total increase in expenditures

*State Surplus Property Revolving – 903*

Expenses increased \$496,145, or 25.60% from fiscal year 2003 to fiscal year 2004 for the State Surplus Property Revolving Fund. The increase in expenses is primarily a result of the \$109,557 additional fiscal year 2004 payments on equipment financing packages. Additionally, an increase in the amount paid to State Garage Revolving Fund for vehicle auction and disposal fees due to a rate increase related to required Executive Order #2 reporting and tracking amounted to \$198,350. In fiscal year 2004, EDP costs paid to Statistical Services Revolving Fund increased by \$33,069 over the prior year. The fund also had \$18,100 in purchases of recycling containers in fiscal year 2004 while none were purchased in fiscal year 2003. In addition, a \$27,363 increase in State retirement contribution expense was incurred due to an increase in the contribution rate from 11% in fiscal year 2003 to 13% in fiscal year 2004. A \$14,112 increase in group insurance expense (\$176,719 in fiscal year 2003 and \$190,831 in fiscal year 2004) due to a rate increase from \$9,300 annually per employee in fiscal year 2003 to \$11,000 annually in fiscal year 2004 also contributed to the overall year-to-year difference. Lastly, an \$86,502 increase in costs to inspect and evaluate federal surplus property for sale to qualified organizations was incurred in fiscal year 2004. These costs included \$78,573 in contractual services and \$7,929 in travel related costs.

*Health Insurance Reserve – 907*

The Health Insurance Reserve Fund experienced an \$252,811,954, or 23.81% increase in expenditures from fiscal year 2002 to fiscal year 2003. Approximately 50% of the increase in expenditures was due to the increased cost for the managed care health programs. The remainder of the increase may be attributed to the increased cost related to the self-insured health, dental and pharmacy programs.

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS

For the Two Years Ended June 30, 2004

The State of Illinois, Department of Central Management Services' (Department) explanations for significant fluctuations in receipts as presented in the "Comparative Schedule of Cash Receipts" are detailed below:

*General Revenue – 001*

The Burnham Hospital was sold to the City of Champaign in fiscal year 2003 for \$2.5 million. This sale represents a significant increase in revenue from fiscal year 2002 to fiscal year 2003 and corresponding decrease in receipts from fiscal year 2003 to fiscal year 2004.

*Statistical Services Revolving – 304*

An increase in cash receipts in this fund of \$15,362,499, or 21.84%, from fiscal year 2003 to fiscal year 2004 is due to a number of factors. The Comptroller held payments into the fund from the General Revenue Fund at the end of fiscal year 2003 due to budget constraints. Those payments would have otherwise been deposited in fiscal year 2003 rather than 2004. Additionally, rates were increased and the amount of usage increased during fiscal year 2004. Billing credits relating to fiscal year 2001 were applied to user agencies that decreased the actual receipts in fiscal year 2003 and fiscal year 2002.

*Workers' Compensation Revolving – 332*

Receipts within this fund represent recoveries from third parties for the subrogation of workers' compensation claims. Recovery amounts vary from year to year just as claims vary. During fiscal year 2004, several lengthy cases were closed and recovery amounts were received resulting in an increase of \$249,936, or 79.34%, from fiscal year 2003 to fiscal year 2004. Likewise, there was a decrease of \$96,984, or 23.54%, from fiscal year 2002 to fiscal year 2003 for similar reasons.

*Group Insurance Premium – 457*

Cash receipts for this fund increased in fiscal year 2003 by \$12,121,620, or 22.85%. The primary reason for the difference is the unusually high opening cash balance in fiscal year 2002. During fiscal year 2002, the cash balance decreased from \$16.4 million to \$5.8 million, a decline of \$10.6 million. By using cash available in the fund, less funding from the General Revenue Fund was needed in fiscal year 2002. In fiscal year 2003 and fiscal year 2004, the cash balance in the fund did not change significantly.

*State Employees' Deferred Compensation Plan – 755*

A number of factors contributed to the significant fluctuation in receipts from fiscal year 2003 to fiscal year 2004 for this fund. Receipts for the fund decreased by \$32,451,001, or 19.25%, during this time period. The reasons for the decrease include:

Benefits receipts – During fiscal year 2003 and because of the early retirement incentive (ERI), many retiring participants without qualified beneficiaries with the State Retirement System rolled over their survivor benefits into the Deferred Compensation Plan, resulting in an unusually high amount of benefit receipts in fiscal year 2003.

Annual asset charge and investment exchange – Asset fees were suspended effective January 1, 2003.

Investments and other income – Interest on the Treasury Fund balance was less because of the lower balance and lower interest rates.

Payroll deductions – Participant contributions or payroll deductions decreased in fiscal year 2004 from fiscal year 2003 because the number of deferring plan participants decreased and with the ERI, many retiring participants deferred large amounts out of their sick and vacation lump sum payments during fiscal year 2003. To reflect this, in January 2003, 36,971 participants deferred \$25,943,173. In January 2004, 33,395 participants deferred \$12,895,934.

*State Surplus Property Revolving – 903*

Receipts for this fund increased \$1,219,618, or 60.50%, from fiscal year 2003 to fiscal year 2004 as a result of a one time sale of a surplus state airplane that generated proceeds of \$1.1 million in fiscal year 2004.

*Health Insurance Reserve – 907*

This fund's receipts increased \$197,748,894, or 18.14%, from fiscal year 2002 to fiscal year 2003 primarily due to two major increases during fiscal year 2003. General Revenue Fund transfers increased \$122 million to cover the increase in healthcare expenses. Additionally, reimbursement revenue increased \$66 million due to an increase in reimbursement rates charged to universities and agencies.

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING

For the Two Years Ended June 30, 2004

The State of Illinois, Department of Central Management Services' (Department) explanations for significant lapse period spending as presented in the "Schedule of Appropriations, Expenditures and Lapsed Balances By Fund" for fiscal years 2004 and 2003 are detailed below.

*State Garage Revolving – 303*

The percentage of total expenditures paid during lapse period for the State Garage Revolving Fund exceeded 22% in fiscal year 2003. The timing of vendor payments from the State Garage Revolving Fund is dependent upon the available cash balance. At June 30, 2003, outstanding accounts receivables were \$6,151,448 (\$1,085,055 was held by the Office of the State Comptroller due from other agencies' General Revenue funds) and outstanding accounts payables were \$6,359,707. Upon collection of the receivables and the Department of Transportation prepayment, the vendor payments were made resulting in a large portion of the fund's costs paid during lapse period.

*Efficiency Initiatives Revolving – 315*

Total expenditures paid during lapse period from the Efficiency Initiatives Revolving Fund exceeded 45% of total expenditures in fiscal year 2004. Invoices totaling \$6,044,965 were not received by the fiscal coordinator until the beginning of the lapse period. Obligations had to be increased by \$7,605,531 and Basic Ordering Agreements for EDP software, hardware and services were not signed until June 30, 2004.

*Workers' Compensation Revolving – 332*

More than 19% of the fiscal year 2003 Workers' Compensation Revolving Fund (WCRF) expenditures were paid during lapse period and 100% of fiscal year 2004 expenditures were paid during lapse period. WCRF is used to pay a portion of the Temporary Total Disability Payments (TTD). Payments made from WCRF each year approximate the amount of collections from Workers' Compensation recoveries from third parties, etc. Lapse period is the time when the fiscal year collection amounts and the available funds are finalized so that TTD payments can be made from this fund. All fiscal year 2004 Workers' Compensation Revolving Fund payments were made during lapse after the fiscal year collections were finalized.



*Group Insurance Premium – 457*

More than 16% of total expenditures in the Group Insurance Premium Fund were paid during lapse period during fiscal year 2003 and fiscal year 2004. Vendor payments are based on Carrier Payment Reports. Carrier Payment Reports are generated two months after the month when expenses are incurred. As such, the report for the May payment is generated in July, and the report for June is generated in August. With May and June always paid during lapse, two of the twelve months (2/12 or 16-17%) of carrier payments are always paid during lapse.

*State Surplus Property Revolving – 903*

Lapse period expenditures represent more than 19% of total expenditures for fiscal year 2004. Fiscal year 2004 lapse period expenditures consisted of one-time expenses. \$109,557 additional payments on equipment financing packages were made as well as a vehicle disposal fee of \$246,800 was paid to the State Garage Revolving Fund. The vehicle disposal fee is always paid during lapse period but represented a higher amount in fiscal year 2004. This fee increased \$198,350 from fiscal year 2003 to fiscal year 2004 to perform required Executive Order #2 reporting and tracking.

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
ANALYSIS OF ACCOUNTS RECEIVABLE  
For Fiscal Years Ended June 30, 2004 and 2003  
(Expressed in Thousands)

	Local Government		Teacher Health		State Garage Revolving		Communications Revolving		Senior Citizens and Disabled Persons Program		Group Insurance Premium		Community College Health Insurance Security		State Employees' Deferred Compensation Plan		State Surplus Property Revolving		Health Insurance Reserve		Special Events Revolving		
	General Revenue 001	Health Insurance Reserve	Health Insurance Security	State Garage Revolving	Communications Revolving	Senior Citizens and Disabled Persons Program	Group Insurance Premium	Community College Health Insurance Security	State Employees' Deferred Compensation Plan	State Surplus Property Revolving	Health Insurance Reserve	Special Events Revolving											
2004																							
Accounts receivable - State governmental entities	\$ -	\$ 128	\$ -	\$ 45	\$ 684	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15	\$ -	\$ -	\$ -	\$ -	\$ -	
Accounts receivable - other	357	196	8,846	6	87	15	5	469	1,068	4	7,675	5										5	
Total accounts receivable	357	324	8,846	51	771	15	5	469	1,068	19	7,675	5										5	
Allowance for doubtful accounts	6	-	-	3	4	-	-	-	-	-	-	2											
Net accounts receivable	\$ 351	\$ 324	\$ 8,846	\$ 48	\$ 767	\$ 15	\$ 5	\$ 469	\$ 1,068	\$ 19	\$ 7,675	\$ 3											
2003																							
Accounts receivable - State governmental entities	\$ -	\$ 583	\$ -	\$ 61	\$ 492	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34	\$ -	\$ -	\$ -	\$ -	\$ -	
Accounts receivable - other	346	189	7,063	4	75	-	2,479	368	640	13	4,621	9											
Total accounts receivable	346	772	7,063	65	567	-	2,479	368	640	47	4,621	9											
Allowance for doubtful accounts	6	-	-	-	3	-	-	-	-	-	-	1											
Net accounts receivable	\$ 340	\$ 772	\$ 7,063	\$ 65	\$ 564	\$ -	\$ 2,479	\$ 368	\$ 640	\$ 47	\$ 4,621	\$ 8											

The information in this schedule has been reconciled to the receivable reports submitted to the State Comptroller.

The Department assesses collectibility through comparison of the actual net writeoffs to the total billings. The Department utilizes the Comptroller's offset system for non-State agency receivables. The Department sends a GSARPS 60 report to the Office of the Auditor General for receivables due from other State agencies.

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

ILLINOIS CENTURY NETWORK – SUMMARY OF ACTIVITIES  
For the Two Years Ended June 30, 2004

The Illinois Century Network (ICN), which has been established to provide high-speed communications access, was transferred to the Department of Central Management Services effective July 1, 2003. The ICN was previously administered by the Illinois Board of Higher Education. For fiscal year 2004, the Department entered into an interagency agreement with the Board of Higher Education (IBHE) that retained operational responsibility of ICN within IBHE for the fiscal year. The Department received appropriations in the Communications Revolving Fund to fund ICN operations which were transferred to IBHE as needed to enable IBHE to operate ICN. The prior audit of IBHE noted a finding related to excess ICN equipment. This equipment was not transferred to the Department until the first quarter of fiscal year 2005. As such, the follow-up on this matter will be made during the next compliance audit of the Department.

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

AGENCY FUNCTIONS AND PLANNING PROGRAM

For the Two Years Ended June 30, 2004

Introduction

The Department of Central Management Services (Department) provides a wide variety of centralized services to other State and local government agencies. As an agency that provides services to other units of government, the Department is in a unique position to ensure that tax resources are expended in a responsible and effective manner.

The Department is administered from the seventh floor of the Stratton Office Building in Springfield, Illinois. Michael Schwartz retired as Director of Central Management Services on September 30, 2002. Stephen Schnorf was appointed acting Director on October 1, 2002 and served through December 26, 2002. Nancy White was appointed acting Director on December 27, 2002 and served through January 16, 2003. Michael M. Rumman, the current Director, was appointed on January 17, 2003.

The Department is organized into nine major bureaus:

- Benefits
- Communication and Computer Services
- Information Services
- Internal Security and Investigations
- Business Enterprise Program
- Personnel
- Property Management
- Support Services
- Administrative Operations

On July 1, 2004, the Department reorganized into eight major bureaus:

- Benefits
- Communication and Computer Services
- Office of Communication and Information
- Business Enterprise Program
- Personnel
- Property Management
- Strategic Sourcing and Procurement
- Administrative Operations

The current organizational structure of the Department was developed to provide streamlined management, improved accountability and improved efficiency in the delivery of service to other agencies. The Department is responsible for the coordination of data processing and data communications; providing personnel, procurement, vehicles, and property management services; management of State employee benefit plans; centralized accounting for revolving and trust funds under its control; and administration of the State's Business Enterprises program for Minorities, Females and Persons with Disabilities.

#### Agency Planning Program

The Department integrates strategic planning with the measurement of plan implementation to better focus and evaluate its programs. For the two years ended June 30, 2004, the Department's Director authorized the Department's Office of Finance and Management to be the liaison to the Governor's Office of Management and Budget to facilitate the strategic planning process. This process results in an agency-wide strategic plan and 14 program plans.

The Department has organized its services into the following 14 programs:

1. Business Enterprise Program for Minorities, Females and Persons with Disabilities
2. Communication and Computer Services
3. Employee Benefits
4. Human Resources
5. Internal Security and Investigations
6. Labor Relations
7. Mail and Messenger Services
8. Media Services
9. Paper and Printing Services
10. Procurement Services
11. Property Management
12. Risk Management
13. Vehicle Services
14. Strategic Sourcing and Procurement (Beginning in fiscal year 2005)

For the two years ended June 30, 2004, the Department's Director authorized the Department's Office of Finance and Management to be the liaison to the Governor's Office of Management and Budget to facilitate the performance management process. The performance management process requires the periodic reporting of program performance information.

Annually, the Department submits a strategic plan to the Governor's Office of Management and Budget. This plan reflects the Department's strategic priorities and the initiatives and objectives included to support these priorities. The Department also provides its strategic performance metrics related to its strategic priorities. On a quarterly basis, the Department submits a quarterly performance measure report to the Governor's Office of Management and Budget providing data on its strategic priorities and performance measures.

Both the Annual Management Plan information and the Agency Performance Indicators: Quarterly Reports data is reported through an electronic reporting system (PB Views)

The Department's programs complete Agency Performance Indicators for each of its programs. These indicators provide activity measures data as inputs and outputs, and operational performance measures as customer services or efficiency measures in conjunction with benchmark data. At the completion of each fiscal year, CMS submits Service Efforts and Accomplishments (SEA) information on at least five of its programs to the Comptroller's Public Accountability Project. The information includes a narrative, program mission, goals and input, output and performance data.

#### Auditor's Assessment of Planning Program

Based on our review, we noted the plans contained specific written goals and objectives that could help the Department comply with its mission "to provide quality, cost-efficient services to support Illinois government operations through responsive and professional leadership". We conclude the Department's planning function is effective in developing and achieving goals and objectives that help the Department comply with its mission.

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

AVERAGE NUMBER OF EMPLOYEES

For the Fiscal Years Ended June 30, 2004, 2003, and 2002

The following information was prepared from the State of Illinois Department of Central Management Services (Department) records and represents the average full-time equivalent number of employees by bureau during the fiscal years ended June 30:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Administrative Operations	152	81	80
Communications and Computer Services	330	352	390
Personnel	132	137	158
Benefits	114	122	126
Support Services	226	243	256
Property Management	138	154	170
Information Services	51	57	57
Business Enterprise Programs for Minorities, Females and Persons with Disabilities	6	6	7
Internal Security and Investigation	<u>31</u>	<u>36</u>	<u>45</u>
Total	<u>1,180</u>	<u>1,188</u>	<u>1,289</u>

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
EMERGENCY PURCHASES AND ILLINOIS FIRST PROJECTS

For Fiscal Years Ended June 30, 2004 and 2003

<u>Description</u>	<u>Fiscal Year Ended June 30, 2003</u>
Telecommunications	\$ 6,325,955 *
BCCS	165,146
BCCS/IS	293,677 *
Bureau of Property Management	1,221,012
Bureau of Benefits	<u>35,000</u>
TOTAL APPROXIMATE COST	<u><u>\$ 8,040,790</u></u>

<u>Description</u>	<u>Fiscal Year Ended June 30, 2004</u>
Telecommunications	\$ 3,233,984
BCCS	79,959 *
Bureau of Property Management	98,596
Bureau of Facilities Management	<u>74,550</u>
TOTAL APPROXIMATE COST	<u><u>\$ 3,487,089</u></u>

\*Includes affidavits with estimate amounts

The Department did not have any Illinois First Projects



STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

SERVICE EFFORTS AND ACCOMPLISHMENTS  
(UNAUDITED)

For the Two Years Ended June 30, 2004

General

The mission of Central Management Services is to free Illinois State agencies and governmental entities from administrative responsibilities so that they can focus their energies and resources on accomplishing their core mission. CMS uses a Shared Services model and works in partnership with agencies and governmental entities to help facilitate the reduction of their total cost of operation. CMS is also continuously working to improve the efficiency and effectiveness of the administrative services provided to State agencies and governmental entities, which in turn improves the services provided to the citizens of Illinois. CMS works towards these same goals of efficiency and effectiveness when supplying services to the general public. In fulfilling its mission, CMS utilizes best practices, creative thinking, and forward-looking solutions to develop, lead, monitor and manage administrative and customer services. Ultimately, the services that CMS provides recognize and seek to preserve the State's human and economic assets.

Vehicle Services supports State agencies with their vehicle transportation needs including obtaining, maintaining and operating State fleet vehicles efficiently, providing fleet management, and short-term and long-term leasing. Vehicle Services manages a network of 18 State garages in close proximity to essential service agencies such as the Illinois Department of Transportation and Illinois State Police. Supporting vehicle safety, State garages provide repair and maintenance service and an infrastructure of fuel sites. As fleet manager, Vehicle Services coordinates compliance with environmental regulations and manufacturer safety recalls, serving constitutional offices, State agencies and over 200 local governments.

Risk Management encompasses Workers' Compensation, Motor Vehicle Liability, Insurance Procurement, and Representation and Indemnification. The State's Workers' Compensation program provides statutory benefits for State employees experiencing work-related injury or illness. CMS adjudicates claims for most Illinois agencies and universities.

The self-insured Motor Vehicle Liability program included investigation, evaluation, negotiation and settlement of claims involving State drivers or State-owned vehicles. The Insurance Procurement program involves the purchase of commercial insurance under master policies to address certain risks for the benefit of various State agencies and universities. The Representation and Indemnification program provides legal representation through the Office of the Attorney General and indemnification for employees who are sued for acts or omissions within the scope of their State employment.

The Illinois *Office of Communication and Information* communicates the programs, services and opportunities of the State of Illinois to its citizens. The Office provides information through external print and broadcast media to help Illinois State agencies communicate to the public.

The Division of *Information Services* provides essential communication-related services. Specialists in editing, photography, radio, television, satellite, services, web, visual and electronic media assist State agencies in providing information to the public through the news media. The division provides editorial and distribution services, including monitoring news across the State and issuing news releases on behalf of State agencies. It also operates an information service for radio stations that features interviews with State newsmakers, and creates radio and television public affairs programs and public service announcements for State agencies and State officials.

*CMS Property Management* administers leased space procurement for State agencies. As of September 1, 2004, CMS administered a lease portfolio of 699 leases representing 9,574,063 square feet and \$9,802,393 per month. An equally important program function is the operation and maintenance of State-owned and/or operated facilities. Two of the largest facilities are located in Chicago - the James R. Thompson Center (JRTC) and the State of Illinois Building (SOIB). Together, these facilities house more than 3,700 employees and attract more than 2.5 million visitors annually. The major goal in maintaining these facilities is to provide quality customer service to our tenants and their visitors.

*Employee Benefits* encompasses four benefit programs, a prescription discount program, a deferred compensation program, and flexible spending programs for State employees. The State employee insurance plan provides benefits for State employees, retirees and their dependents, including health, dental, life, vision, and COBRA. In addition, Employee Benefits administers three other health insurance plans: A self-insured risk pool for units of local government and other eligible units, as defined by statute; the Teachers' Retirement Insurance Program (TRIP); and the College Insurance Program (CIP). The Senior Citizens and Disabled Persons Prescription Discount Card Program provides all Illinois seniors and disabled persons the ability to obtain their prescription medications at a discounted price. The State Employees' Deferred Compensation Plan is a supplemental retirement plan for State employees. The Flexible Spending Accounts program allows State employees to use pre-tax dollars to pay medical and dependant care costs; and the Qualified Transportation Benefit program allows State employees to use pre-tax dollars to pay work-related transportation and parking expenses.

Communications and Computer Services Program assists agencies in achieving their immediate and future data processing and telecommunications needs. This program provides a complex array of communications and information processing services to State agencies. This program continues to grow dramatically in both the volume of service and the variety of services offered to user agencies while the levels of performance remain consistent and comparable to those in the private sector.

As a result of Executive Order #10 and the Executive Reorganization Implementation Act, which consolidated non-programmatic, agency-specific legal functions pertaining to labor, personnel, contracts and procurement, CMS Legal established single points of contact for legal services. Deputy General Counsel positions were established and are client focused: Administration & Support Services, Benefits & Personnel, Communication & Computer Information, Procurement, and Property Management & Claims. Individualized contracts for the most part have been eliminated and were replaced with standardized contract forms. CMS Legal provides proactive, timely, practical and innovative legal solutions and legal counsel that meets or exceeds the expectations of CMS and other State agencies that are our clients. By providing such legal counsel, CMS Legal continuously maximizes the total value and efficiency of the services CMS provides.

The Illinois *Office of Internal Audit (IOIA)* is administratively housed within CMS pursuant to Executive Order 2003-10, but functionally reports to the Governor's Executive Audit Committee. The IOIA's mission is to provide the Governor and those entities under his jurisdiction independent, objective assurance and consulting services designed to add value by promoting a pro-active risk control environment based on accountability, professionalism, expertise, open communication and trust. Services provided by the IOIA include risk-based internal audits, objective assessment of non risk-based management requests from program, process, and control reviews, and specialized independent consulting services including expert opinions on risk and control issues. Altogether, the IOIA provides internal audit coverage and services for approximately 36 State entities and is divided into the following three divisions: 1. IT Audit Operations, Quality Assurance & Training, and Administration & Budget; 2. Business Regulation & Labor Relations, Human Services & Grants, and Public Services; and 3. Economic Development, Environmental Regulation & Law Enforcement, and Government Services & Infrastructure.

## Program Specific Objectives and Statistics

### *Employee Benefits*

**Mission Statement:** The Employee Benefits Program will deliver fiscally responsible and high-quality benefit programs that contribute positively to the health, well being and prosperity of statutorily-specified groups of Illinois government employees, retirees and their families.

### **Program Goals: Objectives:**

1. Manage employee benefit programs that promote and maintain individual well-being.
  - a. Continue to contract with an Administrative Service Organization to administer the self-insured medical indemnity plans offered by the Department.
  - b. Annually negotiate contracts to maintain a Quality Care Health Plan (QCHP) Preferred Provider Hospital network with access within 25 miles for 99% of QCHP members residing in Illinois.
  - c. Each year partner with managed health care vendors to provide managed care plans accessible to at least 99% of members residing in Illinois.
  - d. Continue to contract with a dental vendor to administer a self-funded indemnity dental program.
  - e. Offer vision benefits for all enrollees each year.
  - f. Increase enrollment in the Flexible Spending Accounts by 7% each year.
2. Establish benchmarks, measures, and service expectations.
  - a. Resolve disputes between members and carriers with 30 days of notification.
  - b. Conduct audits of all agencies to determine that correct reimbursement payments have been made by agencies, boards, commissions, offices and universities.
  - c. Increase total dollars deferred by 5% each year.

3. Manage resources and services efficiently to minimize costs.
  - a. Obtain competitively priced products and services annually.
  - b. Continue to utilize the Request For Proposal (RFP) process to ensure competitive selection of vendors and appropriate charges to agencies for services.
  - c. Continue to increase cost containment savings at the rate of \$3 million per year.
  - d. Increase managed care enrollment during the annual benefits choice period.
  - e. Continue to contract with a vendor to manage costs of indemnity plan inpatient hospitalizations through notification, continuous stay review, case management, and healthy baby programs in an effort to contain costs and show an increase in savings.
  - f. Provide annual imputed financial statements to satisfy federal review requirements identified by Health and Human Services reviewers to ascertain the correctness of reimbursement charges.
4. Improve the communication level and quality of information on programs and services provided and accomplishments achieved by CMS.
  - a. Educate eligible enrollees regarding all benefit programs available through issuing educational materials prior to the annual benefits choice period.
5. Provide appropriate technological infrastructure, tools, services, and resources to meet user needs.

**Source of Funds: General Revenue Fund, Road Fund, Local Government Health Insurance Reserve Fund, Teachers Health Insurance Security Fund, Efficiency Initiatives Revolving Fund, Senior Citizens and Disabled Persons Prescription Drug Discount Program Fund, Group Insurance Premium Fund, Community College Health Insurance Security Fund, State Employees Deferred Compensation Plan Fund, Health Insurance Reserve Fund**

**Statutory Authority: 5 ILCS 375**

	<u>Fiscal Year 2002 Actual</u>	<u>Fiscal Year 2003 Actual</u>	<u>Fiscal Year 2004 Target/ Projected</u>	<u>Fiscal Year 2004 Actual</u>	<u>Fiscal Year 2005 Target/ Projected</u>
<b><u>Input Indicators</u></b>					
Total expenditures – all sources (in thousands)	\$ 2,163,245.8	\$ 2,546,297.7	\$ 3,093,375.9	\$ 2,871,547.1	\$ 3,210,210.4
Total expenditures – State appropriated funds (in thousands)	\$ 1,979,589.2	\$ 2,317,300.4	\$ 2,793,375.9	\$ 2,609,138.7	\$ 2,894,210.4
Average monthly full-time Equivalents	109.0	82.0	103.0	101.0	111.0
<b><u>Output Indicators</u></b>					
Number of QCHP (State) claims processed	2,473,346	3,458,511	3,000,000	3,064,513	3,200,000
QCHP (State) health claims processed in dollars (in millions)	\$ 453.0	\$ 487.2	\$ 495.3	\$ 509.6	\$ 527.1
Number of disputes resolved	3,879	4,658	4,600	4,374	4,000
Number flexible spending account participants	7,568	8,075	8,400	6,839	7,250
Deferred compensation – total dollars deferred (in millions)	\$ 150.6	\$ 163.5	\$ 140.0	\$ 133.7	\$ 134.0
Number of deferred compensation participants	52,005	51,836	54,400	51,679	51,700
Number of new deferred compensation participants	3,664	2,380	3,300	2,528	2,500
<b><u>Outcome Indicators</u></b>					
Percent of employee and retiree members in managed care (State program)	48.9%	50.1%	51.1%	49.6%	51.1%
Percent Quality Care Health Plan (QCHP) (State) claims processed within 10 days	92.6%	92.8%	85%	98%	98%
Percent of State QCHP members residing within 25 miles of a Preferred Provider Organization (PPO) hospital	99.6%	99.6%	100%	99.6%	100%
Percent of disputes resolved within 30 days of notification	70.3%	87.6%	75%	75%	80%
Percent of members satisfied with telephone inquiry with the State QCHP health claims administrator	78%	88.3%	82%	86%	88%
Percent of members satisfied with claims processing and service with the State QCHP health claims administrator	78%	88.3%	82%	92%	95%

	<u>Fiscal Year 2002 Actual</u>	<u>Fiscal Year 2003 Actual</u>	<u>Fiscal Year 2004 Target/ Projected</u>	<u>Fiscal Year 2004 Actual</u>	<u>Fiscal Year 2005 Target/ Projected</u>
<b>External Benchmarks</b>					
Number of deferred compensation investments exceeding benchmark – 1 year rolling return (Before fiscal year 2002, there were 10 total investments. Since fiscal year 2002, there are 12 total investments)	6.0	6.0	12.0	7.0	12.0
<b>Efficiency/Cost-Effectiveness</b>					
Average monthly employee contribution for indemnity health insurance (State program) (in dollars)	\$ 37.29	\$ 40.43	\$ 43.43	\$ 43.61	\$ 43.79
Average monthly employee contribution for managed care insurance (State program) (in dollars)	\$ 29.21	\$ 31.30	\$ 33.30	\$ 33.48	\$ 33.62
Annual per employee cost of indemnity health insurance (State program) (in dollars)	\$ 5,059.00	\$ 5,136.00	\$ 5,874.00	\$ 5,732.63	\$ 6,511.67
Annual per additional family cost for indemnity health insurance (State program) (in dollars)	\$ 11,434.00	\$ 11,702.00	\$ 13,335.00	\$ 13,609.68	\$ 15,425.39
Annual cost per employee cost of managed care insurance (State program) (in dollars)	\$ 2,956.00	\$ 3,361.00	\$ 3,867.00	\$ 3,865.35	\$ 4,412.58
Annual per additional family cost for managed care insurance (State program) (in dollars)	\$ 7,245.00	\$ 8,240.00	\$ 9,474.00	\$ 9,502.69	\$ 10,844.38
Average monthly administrative cost per group insurance enrollee (State program) (in dollars)(a)	\$ 28.77	\$ 26.31	\$ 27.42	\$ 83.14	\$ 84.59
Average monthly administrative cost per deferred compensation participant (State program) (in dollars)	\$ 22.48	\$ 26.03	\$ 25.45	\$ 24.23	\$ 24.25

### Footnotes

<sup>(a)</sup> The Group Insurance Program for fiscal year 2004 showed a significant increase to its administrative costs due to costs associated with Public Act 93-0032 and Efficiency Initiatives.

*Communications and Computer Services*

**Mission Statement:** The Communications and Computer Services Program is mandated by State statute and committed to procuring and providing state-of-the-art, reliable, cost-effective, high quality telecommunications and computer services to State agencies, boards, commissions, constitutional offices, educational entities and participating units of local and county government. To that end, the program maintains optimum accountability, professionalism, and efficiency in the management and delivery of those services.

**Program Goals:  
Objectives:**

1. Provide appropriate technological infrastructure, tools, services, and resources to meet user needs.
  - a. Maintain data processing and communications infrastructure availability of 99.0% or greater.
  - b. Develop and achieve timeliness and performance standards in each major service area.
  - c. Achieve and maintain an average of 80.0% customer satisfaction across all BCCS program services.
2. Collaborate with agencies to implement technology standards.
  - a. Identify functional areas where the adoption of program standards would be beneficial.
3. Promote opportunities for State employees to become aware of how technology may improve their jobs.
  - a. Develop classes, seminars and presentations to promote technology awareness among employees in non-technical positions.
4. Prepare technology assessments for each CMS program.
  - a. Aid and support CMS Bureaus in their program assessments.
5. Prior to submission of the Annual Management Plan, review and improve processes by mandate and agency policy.



6. Establish benchmarks, measures and service expectations.
  - a. Annually, each service area within Communications and Computer Services will meet with internal and external stakeholders about targets/expectations, and will report on service targets/expectations.
  - b. Annually, each service area within Communications and Computer Services attends conferences to better understand benchmark options; requests benchmarks from professional associations or secures benchmarks from professional association journal articles or web sites.
7. Manage resources and services efficiently to minimize costs.
  - a. Ensure that the State only pays reasonable prices for goods and services that it needs and for which it is responsible.
  - b. Ensure that the rates State government pays and the prices CMS charges for services are appropriate.
8. Improve the communication level and quality of information on programs and services provided and accomplishments achieved by CMS.
  - a. Hold periodic meetings with agency stakeholders regarding available program service offerings.
9. Fortify training options in state government.
  - a. Provide quality technical training opportunities for State employees.

**Source of Funds: General Revenue Fund, Statistical Services Revolving Fund, Communications Revolving Fund, Efficiency Initiatives Revolving Fund, Wireless Service Emergency Fund, Wireless Carrier Reimbursement Fund**

**Statutory Authority: 20 ILCS 405/405-20,405/405-270**

	<u>Fiscal Year 2002 Actual</u>	<u>Fiscal Year 2003 Actual</u>	<u>Fiscal Year 2004 Target/ Projected</u>	<u>Fiscal Year 2004 Actual</u>	<u>Fiscal Year 2005 Target/ Projected</u>
<b>Input Indicators</b>					
Total expenditures – all sources (in thousands)	\$ 219,245.7	\$ 217,275.5	\$ 433,755.1	\$ 267,588.6	\$ 302,779.7
Total expenditures – State appropriated funds (in thousands)	\$ 219,245.7	\$ 217,275.5	\$ 433,755.1	\$ 267,588.6	\$ 302,779.7
Average monthly full-time equivalents	390.0	317.0	316.0	357.0	432.0

	<u>Fiscal Year 2002 Actual</u>	<u>Fiscal Year 2003 Actual</u>	<u>Fiscal Year 2004 Target/ Projected</u>	<u>Fiscal Year 2004 Actual</u>	<u>Fiscal Year 2005 Target/ Projected</u>
<b><u>Output Indicators</u></b>					
Number of network data circuits managed	5,972	5,001	4,700	4,876	4,700
Telecommunications Voice Orders (TSRs) processed/month	8,322	8,003	8,500	8,810	8,800
Billed CPU hours/month (processor hours)	3,602	3,997	4,100	4,958	5,000
Megabytes of Direct Access Storage Device (DASD) billed/month	7,950,363	9,194,246	9,500,000	11,854,359	12,000,000
<b><u>Outcome Indicators</u></b>					
Percent mainframe transactions completed within 1 second	96.8%	98%	95%	98.15%	95%
Percent mainframe system availability	99.09%	99.5%	99%	99.09%	99%
Mean Time to Restore (MTTR) service (data network) (hrs. and minutes)	2.6	3.0	3.0	3.0	3.0
MTTR service (voice network) hrs. and minutes)	4.4	N/A	4.0	4.4	4.0
Territory centrex monthly rate per line (in dollars)	\$ 14.00	\$ 14.00	\$ 10.00	\$ 14.00	\$ 10.85
<b><u>External Benchmarks</u></b>					
Ameritech territory centrex monthly rate per line (in dollars)	\$ 22.64	\$ 22.80	\$ 22.80	\$ 22.64	\$ 22.64
Mainframe application availability - industry goal is 98.0% to 99.5% (per Gartner Group Research)	98%	98%	98%	98%	98%
Mainframe transactions completed within 2 seconds (per Gartner Group Research)	96.3%	96.3%	96.3%	96.3%	96.3%
Mean time to restore service (data network) (SBC) (hrs:mins)	3.3%	3.3%	3.3%	3.3%	3.3%
<b><u>Efficiency/Cost-Effectiveness</u></b>					
Cost per megabyte of mainframe storage (in dollars)	\$ 0.06	\$ 0.04	\$ 0.04	\$ 0.04	\$ 0.04

## *Property Management*

**Mission Statement:** The Property Management Program is authorized by statute to provide, manage, operate, and oversee State of Illinois facilities, and real and personal property for State agencies. To that end, the program secures property by lease or purchase and manages the daily operations of and public access to facilities by maintaining grounds, structure, utilities, and environmental systems. The program acquires and disposes of real and personal property through the surplus property programs in an efficient and cost effective manner.

### **Program Goals: Objectives:**

1. Establish benchmarks, measures and service expectations.
  - a. By April 2002, for each “service area”, each program has met with internal and external stakeholders at least once about the targets/expectations and reports on service/targets expectations within each category.
  - b. By July 2003, for each “service area”, each program attends conferences to better understand benchmark options, requests benchmarks from professional associations or secures benchmarks from professional association journal articles or websites.
  - c. By July 2004, each program presents at one external conference on its best practices or movements toward best practices.
2. Manage resources and services efficiently to minimize costs.
  - a. By June 2002 and annually thereafter, programs’ Bureaus, Division, and other Managers meet to determine which upcoming FY goals/objectives are the highest priority to achieve; what the annual spending/staffing plan should be to achieve the priorities using Strategic Plan and appropriation information; and how cash flow can be adequately maintained considering standard and alternative funding and delivery options.
  - b. Ensure the State only pays for goods and services that it needs and for which it is responsible.
  - c. Ensure the rates State Government pays and the prices CMS charges for services are appropriate.

3. Develop marketing strategy for CMS I-CYCLE.
  - a. Periodically determine what stakeholder problems exist and develop solutions by: a.) Bureaus meet monthly to evaluate stakeholder feedback; b.) Director's office meets quarterly to evaluate and give directions; and c.) Conduct and analyze stakeholder surveys.

**Source of Funds: General Revenue Fund, Statistical Services Revolving Fund, Facilities Management Revolving Fund, Efficiency Initiatives Revolving Fund, State Surplus Property Revolving Fund, Special Events Revolving Fund**

**Statutory Authority: 20 ILCS 405/405-300**

	<u>Fiscal Year 2002 Actual</u>	<u>Fiscal Year 2003 Actual</u>	<u>Fiscal Year 2004 Target/ Projected</u>	<u>Fiscal Year 2004 Actual</u>	<u>Fiscal Year 2005 Target/ Projected</u>
<b><u>Input Indicators</u></b>					
Total expenditures – all sources (in thousands)	\$ 23,909.9	\$ 24,215.7	\$ 42,512.0	\$ 36,172.8	\$ 41,329.5
Total expenditures – State appropriated funds (in thousands)	\$ 23,909.9	\$ 24,215.7	\$ 42,512.0	\$ 36,172.8	\$ 41,329.5
Average monthly full-time equivalents	169.0	135.0	146.0	140.0	133.0
<b><u>Output Indicators</u></b>					
Number of surplus properties sold/transferred	0	1	0	1	2
Number of facilities participating in I-Cycle Program	240	248	248	251	255
Number of daily special events scheduled	634	704	739	718	718
Number of equipment items transferred out of State Surplus Warehouse	4,278	2,460	3,316	3,638	3,500
Number of vehicles transferred out of State Surplus Warehouse	123	95	50	179	175
Number of tenant improvement requests completed	32	12	12	5	10
Number of tenant improvement requests completed within 60 days	20	7	7	1	5
Number of work orders completed within 20 working days for CMS operated facilities	16,728	17,300	17,300	20,247	20,250
Number of items sold via I-Bid	N/A	N/A	954	954	1,600
Number of Registered bidders for I-Bid Program	N/A	N/A	4,580	4,580	6,000

	<u>Fiscal Year 2002 Actual</u>	<u>Fiscal Year 2003 Actual</u>	<u>Fiscal Year 2004 Target/ Projected</u>	<u>Fiscal Year 2004 Actual</u>	<u>Fiscal Year 2005 Target/ Projected</u>
<u>Outcome Indicators</u>					
Percent of real estate customers responding "satisfactory" or better to the customer satisfaction survey	95.29%	87.65%	85%	N/A	85%
Percent increase/decrease of special events between fiscal years	-1.6%	11.04%	5%	2.92%	2%
Percent of surplus property warehouse facilities customers responding "satisfactory" or better to the customer satisfaction survey	99.5%	98.25%	85%	N/A	80%
Percent of regional office buildings' (including JRTC & SOIB) office managers responding "satisfactory" or better to the customer satisfaction survey	75.25%	84.63%	80%	N/A	80%
Average percent of work orders completed within 20 working days at CMS-operated facilities	93.27	93.04%	90%	91%	90%
CMS downtown Chicago lease rate (\$/sq. ft.) (in dollars)	\$ 18.17	\$ 19.53	\$ 19.53	\$ 21.12	\$ 21.12
<u>External Benchmarks</u>					
Compare the inc./dec. in events scheduled through the Chicago Convention and Tourism Bureau (CCTB) (Data is for calendar year)	-3.85%	N/A	N/A	8.43%	8.43%
Building Owners & Managers Association (BOMA) downtown Chicago lease rates (calendar year 1999 - \$/sq. ft.) (in dollars)	\$ 27.86	\$ 27.52	\$ 27.52	\$ 26.07	\$ 26.07
<u>Efficiency/Cost-Effectiveness</u>					
JRTC building operating expenses (\$/sq. ft.) (in dollars)(a)	\$ 4.70	\$ 5.08	\$ 5.08	\$ 8.21	\$ 8.21
SOIB building operating expenses (\$/sq. ft.) (in dollars)(a)	\$ 5.27	\$ 5.87	\$ 5.87	\$ 7.84	\$ 7.84
<u>External Benchmarks</u>					
BOMA downtown Chicago building operating expenses (calendar year 1999 \$/sq. ft.) (in dollars)	\$ 5.31	\$ 7.02	\$ 7.02	\$ 9.12	\$ 9.12

## Footnotes

- (a) In fiscal year 2003, security costs were not included in the total operation expenses for each facility. Also, the cost was figured using the total gross building area at each facility. In fiscal year 2004, \$1,975,316 in security costs for the JRTC and \$282,596 in expenses for the MABB were included; and, the operation cost per square foot was calculated using only the rentable area of each facility. This accounts for the significant increase in operation expenses between fiscal year 2003 and fiscal year 2004. If fiscal year 2004 costs were calculated using the same categories of expenses as fiscal year 2003, the JRTC operating expenses would be \$5.19 and the MABB operating expenses would be \$5.40 per square foot. The slight increase in operating expenses at the JRTC is due to small increases in utilities, and repair and maintenance of the facility. The decrease in operating expenses at the MABB is due to decreases in cleaning and administrative expenses.

## *Risk Management*

**Mission Statement:** The Risk Management Program is mandated by State statutes to minimize the State of Illinois' exposure to risk. The program utilizes best industry practices and cost-effective administration to manage the State's self-insured plans and to procure the most advantageous commercial insurance for selected State property, casualty and liability exposures. The program provides service, oversight and training to State employees, officials, agencies, universities, and the public in a fiscally responsible manner.

## **Program Goals:**

### **Objectives:**

1. Promote and maintain a safe and secure work environment.
  - a. Provide prompt and equitable services to State employees who have work-related injuries; and facilitate their return to work as safely and quickly as possible.
  - b. Continue to improve the Early Intervention Program and work with the Illinois Department of Transportation and the Illinois Department of Corrections to expand the program.
2. Establish benchmarks, measures, and service expectations.
  - a. Work with the Office of the Attorney General to improve methods of processing indemnity payments and projecting liabilities during the 4th Quarter of fiscal year 2004.
  - b. Conduct training sessions for Auto Liability coordinators during the 4th Quarter of fiscal year 2004.

3. Manage resources and services efficiently to minimize costs.
  - a. Process payment of bills for medical treatment, rehabilitation services, temporary disability income payments, and settlements for permanent impairments within ninety days of service.
  - b. Monitor spending plans for Workers' Compensation, Auto Liability, and Representation and Indemnification; and develop budget and supplemental appropriation requests.
  - c. Investigate, evaluate, and negotiate equitable settlements during fiscal year 2004 to parties impacted by negligence of State drivers while operating a State owned, leased, or controlled motor vehicle in the scope of employment.
  - d. Process all auto liability claims for State drivers and authorized non-State employees of all agencies, universities, commissions, and boards; work closely with agency/university coordinators to process the necessary documentation.
  - e. Continue procurement of commercial insurance for State agencies on a cost-effective basis under a program of master policies and expand agency/university use of master policies.
  - f. Engage vendors to provide an on-site case management program to assist with managing medical costs and to facilitate return to work.
  - g. Utilize the Workers' Compensation Physician PPO Network to obtain discount pricing for state employees suffering from a work related injury and channel claimants by suggestive means of the Early Intervention vendor partner.
  - h. Utilize the existing Group Health Preferred Hospital network to provide discounted prices for employees suffering a work related injury and to contain costs.
  - i. Continue use of a Bill Review vendor partner to apply discounts and usual and customary screens to contribute to an overall medical cost containment savings of 20%.
  - j. Expand the Workers' Compensation Hospital PPO Network during fiscal year 2004 to include non-participating centers of care currently selected by injured workers at high volume agency locations to achieve greater medical cost savings.

- k. Maintain a Subrogation Program to recover \$415,000 from third parties who have injured State employees during fiscal year 2004.
  - l. Conduct an audit of the Workers' Compensation Programs administered by CMS and the Devolved Agencies to determine if the programs should be consolidated.
  - m. Manage an Early Intervention Program (telephonic case management) to injured workers to manage medical care, to ensure optimum treatment, to facilitate return to work plans, and to contain costs.
4. Provide appropriate technological infrastructure, tools, services, and resources to meet user needs.
- a. Work with the Bureau of Communications and Computer Services (BCCS) personnel to design and install during fiscal year 2004 electronic running notes and diary features in the Workers' Compensation program to improve adjuster workflow efficiencies.
  - b. Implement the new Auto Liability Automation System during Fiscal Year 2004.

**Source of Funds: General Revenue Fund, Road Fund, Workers' Compensation Revolving Fund**

**Statutory Authority: 20 ILCS 405/405-105**

	<u>Fiscal Year 2002 Actual</u>	<u>Fiscal Year 2003 Actual</u>	<u>Fiscal Year 2004 Target/ Projected</u>	<u>Fiscal Year 2004 Actual</u>	<u>Fiscal Year 2005 Target/ Projected</u>
<b>Input Indicators</b>					
Total expenditures – all sources (in thousands) (a)	\$ 28,915.9	\$ 30,376.1	\$ 25,412.6	\$ 24,344.6	\$ 44,846.4
Total expenditures – State appropriated funds (in thousands) (a)	\$ 28,915.9	\$ 30,376.1	\$ 25,412.6	\$ 24,344.6	\$ 44,846.4
Average monthly full-time equivalents (b)	17.0	11.0	13.0	14.0	16.0
Total Workers' Compensation Spending (in thousands) (b)	\$ 25,686.5	\$ 41,079.2	\$ 35,802.5	\$ 33,703.3	\$ 37,764.4
<b>Output Indicators</b>					
Number of Workers' Compensation Injuries	2,407	2,325	2,441	2,365	2,300
Average Days to Report Workers' Compensation Accident (c)	20.0	17.7	15.0	27.1	15.0



	<u>Fiscal Year 2002 Actual</u>	<u>Fiscal Year 2003 Actual</u>	<u>Fiscal Year 2004 Target/ Projected</u>	<u>Fiscal Year 2004 Actual</u>	<u>Fiscal Year 2005 Target/ Projected</u>
Percent of workers' compensation cases found compensable within 45 days (f)	81.5%	52.77%	62%	40.02%	62%
Number of independent medical evaluations performed	172.0	97.0	170.0	145.0	170.0
Percent utilization of PPO networks	60.79%	52.8%	64%	72.25%	64%
Number of injured employees returned to work at modified duty	120.0	106.0	115.0	93.0	115.0
Number of motor vehicle liability claims (e)	2,122	2,019	2,244	1,682	1,682
Non-litigated vehicle liability claims closed (d)	2,049	1,885	2,270	1,577	1,500
<u>Outcome Indicators</u>					
Annual change in Workers' Compensation spending (l)	5.86%	10.6%	-5.54%	-17.95%	12.05%
Savings resulted from Workers' Compensation Physicians PPO Network (in dollars)	\$1,125,150	\$1,346,433	\$1,200,000	\$1,605,497	\$1,260,000
Percent of medical cost containment savings to total medical program cost	27.42%	13.52%	20%	18.25%	18.25%
Percent of workers' compensation claims paid within 90 days (j)	81.3%	91.27%	70%	97.94%	70%
Workers' compensation coordinator satisfaction with training and communication (on a scale of 1 to 5, 5 being very satisfied) (g)	4.8	4.2	4.3	N/A	4.5
Percent of Workers' Compensation claimants with a satisfied/very satisfied rating of the Early Intervention Program (i)	88%	93%	92%	N/A	92%
Percent of vehicle liability claimants contacted within 5 calendar days	80.8%	77%	85%	91%	85%
Average days to close a vehicle liability case (bodily injury and property damage) (k)	70.8	62.3	80.0	170.4	80.0
Auto vehicle liaison satisfaction with training and communication (on a scale of 1 to 5, 5 being very satisfied)	4.8	4.6	4.5	4.7	4.5
Number of State agencies/universities using the master policies	64.0	64.0	65.0	65.0	65.0
Timely and accurate processing indemnity expenses and awards within a 20 business day period (h)	85.98%	72.3%	90%	91.5%	90%
<u>External Benchmarks</u>					
Annual change in the Consumer Price Index	1.8%	2.58%	2.13%	2.2%	2.3%

## Footnotes

- (a) The projected fiscal year 2005 Target includes expenditures for Workers' Compensation, Auto Liability, and Representation and Indemnification. The increased expenditures reflect the transfer of Group Insurance funds into a newly established Workers' Compensation Revolving fund to cover medical expenses.
- (b) The Workers' Compensation Programs administered by DHS, IDOC, IDOT, ISP and CMS were consolidated 9/1/2004; however, staffing, and fund appropriations reflect pre-consolidation targets for fiscal year 2005.
- (c) The Early Intervention Program Vendor Partner will provide additional training to Workers' Compensation Agency Coordinators and disseminate information to State employees to improve accident reporting. The Early Intervention Program will be expanded during fiscal year 2005 to IDOT and IDOC.
- (d) Decline in cases found compensable within 45 days reflects the reduction of staff in the Workers' Compensation Unit. The Unit lost 50% of its staff during the Early Retirement Incentive (ERI) Program.
- (e) The total number of vehicle accidents during fiscal year 2004 is related to the reduction of the State's Motor Vehicle Fleet and smaller work force in State government. The actual percentage of claims closed to the number of new claims was 94%.
- (f) Fewer Auto Liability cases (440) were reported during fiscal year 2004 resulting in fewer cases closed.
- (g) Fiscal year 2004 Workers' Compensation Revolving Fund receipts and surplus funds in the Group Insurance Medical Fund will be used to offset fiscal year 2005 liabilities. The Annual Workers' Compensation Conference was not held because of inadequate staff resources. Training will be scheduled during fiscal year 2005 to implement electronic reporting for the Early Intervention Program.
- (h) Ample funding in Workers' Compensation was available to process medical payments.
- (i) The Annual Workers' Compensation Conference was not held because of inadequate staff resources. Training will be scheduled during fiscal year 2005 to implement electronic reporting for the Early Intervention Program.
- (j) The Early Intervention Program Survey was deferred until fiscal year 2005 because of the Workers' Compensation consolidation efforts. A survey will be scheduled during fiscal year 2005.
- (k) The decline in performance reflects the reduction of staff in the Auto Liability Unit. The Unit lost 50% of its staff during ERI.
- (l) Risk Management worked closely with the Attorney Generals Office to improve processing. Also, ample funding was available to cover final settlements and legal expenses.

## *Vehicle Services*

**Mission Statement:** The Vehicle Services Program mission is to support State agencies in obtaining, maintaining and operating State fleet vehicles safely, economically and efficiently. Vehicle Services' primary services are fleet maintenance, fuel, fleet management, leasing and short-term rentals.

**Program Goals:  
Objectives:**

1. Fortify training options in State government.
  - a. Ensure mechanics have skills to perform their job by offering at least 15 classes annually and continue or expand ASE certification for technicians.
  - b. Ensure managers and supervisors are provided on-going management training.
  - c. Ensure agency vehicle coordinators receive training on changes to fleet and policies/procedures as per recommendations of the Fleet Efficiency study.
2. Establish benchmarks, measures and service expectations.
  - a. By July 2003, for each "service area" each program attends conferences to better understand benchmark options, requests benchmarks from professional associations or secures benchmarks from professional association journal articles or websites.
3. Manage resources and services efficiently to minimize costs.
  - a. Ensure the rates Illinois State Government pays and the prices CMS charges for service are appropriate.
  - b. Bureau, Division and other managers to meet to determine which upcoming fiscal year goals/objectives are the highest priority to achieve; what the annual spending/staffing plan should be to achieve the priorities using the Strategic Plan and appropriation information; and how cash flow can be adequately maintained considering standard and alternative funding and service delivery options.
  - c. Realize savings of \$3.6 million as a result of Fleet Efficiency Study recommendations.
  - d. Maintain a vehicle return rate less than or equal to 0.4% annually.

- e. Update preventive maintenance schedules for agency vehicles.
  - f. Maintain a mechanic productivity rate of at least 100% during fiscal year 2004.
  - g. Maintain a mechanic utilization rate above industry standard during fiscal year 2004.
  - h. Meet with the Illinois Department of Transportation (IDOT) representatives at least four times during fiscal year 2004 to discuss cash flow issues.
4. Improve the communication level and quality of information on programs and services provided and accomplishments achieved by CMS.
- a. Improve coordination of the vehicle procurement process each fiscal year.
  - b. Conduct at least two meetings with major State agency vehicle coordinators each fiscal year to provide continuous evaluation and feedback, and to improve overall communication.
  - c. Provide regular updates to website information.
5. Provide for timely and continuous stakeholder feedback.
- a. Re-activate Planning Panel Committee to identify internal stakeholder needs.
  - b. Focus group meetings with agency representatives to obtain feedback on changes impacting the State vehicle fleet.
6. Provide for appropriate technological infrastructure, tools, services, and resources to meet user needs.
- a. Develop timeline for FleetAnywhere Project.
  - b. Implement Fleet Focus FleetAnywhere during the first quarter of calendar year 2005.
7. Effectively recruit and select employees to meet such targeted needs as retiring employees, high-growth occupations and diversified employment.
- a. Determine whether the three options for the automotive mechanic test are appropriate

8. Manage employee benefits program that promotes and maintains individual well-being.
  - a. Ensure safe work environment for Division of Vehicles employees.

**Source of Funds: State Garage Revolving Fund, Efficiency Initiatives Revolving Fund**

**Statutory Authority: 20 ILCS 405/405-280**

	<u>Fiscal Year 2002 Actual</u>	<u>Fiscal Year 2003 Actual</u>	<u>Fiscal Year 2004 Target/ Projected</u>	<u>Fiscal Year 2004 Actual</u>	<u>Fiscal Year 2005 Target/ Projected</u>
<u>Input Indicators</u>					
Total expenditures – all sources (in thousands)	\$ 33,300.9	\$ 32,862.7	\$ 42,823.8	\$ 31,629.9	\$ 34,715.0
Total expenditures – State appropriated funds (in thousands)	\$ 33,300.9	\$ 32,862.7	\$ 42,823.8	\$ 31,629.9	\$ 34,715.0
Average monthly full-time equivalents	210.0	188.0	188.0	184.0	146.0
<u>Output Indicators</u>					
Gallons of gasohol sold	1,713,176	1,447,233	1,200,000	1,300,506	1,200,000
Number of daily motor pool rentals	8,171	6,306	6,500	5,727	3,000
Total State garage billings (in thousands)	\$ 26,392.0	\$ 25,700.0	\$ 22,300.0	\$ 24,883.0	\$ 24,000.0
<u>Outcome Indicators</u>					
Satisfaction Rating for Motor Pool Services (scale: 1 = poor, 5 = excellent)	4.1	4.0	3.7	N/A	N/A
Daily rate for motor pool vehicle use (in dollars)	\$ 58.71	\$ 67.36	\$ 62.00	\$ 65.00	\$ 65.00
Mechanic productivity rate (actual time to complete a job compared to industry standard. Industry flat rate standard is 100%)	104.43%	103.9%	104%	104.1%	104%
Percent savings to State agencies - DOV mechanical labor rate per hour vs. industry average (for passenger vehicles)	8.65%	10%	10%	11%	10%
Percent savings on short-term car rentals (1 day) – DOV vs. contract vendor rate	-8.78%	0%	-19.4%	-19.4%	N/A
Percent savings on short-term car rentals (1 day) – DOV vs. personal vehicle	-10.14%	0%	-17%	-17%	-15.5%

	<u>Fiscal Year 2002 Actual</u>	<u>Fiscal Year 2003 Actual</u>	<u>Fiscal Year 2004 Target/ Projected</u>	<u>Fiscal Year 2004 Actual</u>	<u>Fiscal Year 2005 Target/ Projected</u>
Percent of vehicles purchased meeting federal requirements – EPACT (Energy Policy Act) – Federal mandate to purchase light duty alternative fueled vehicles to reduce dependency on foreign oil (example: model year 1999 = fiscal year 2000)	77.63%	79.3%	75%	79.3%	75%
<u>External Benchmarks</u>					
Fleet vehicle purchase compliance EPACT (example: model year 2000 = fiscal year 2001)	50%	75%	75%	75%	75%
<u>Efficiency/Cost Effectiveness</u>					
DOV mechanical labor rate per hour (in dollars)	\$ 57.00	\$ 61.00	\$ 65.00	\$ 65.00	\$ 70.00
<u>External Benchmarks</u>					
Industry average mechanical labor rate per hour (source: National Automobile Dealers Association) (in dollars)	\$ 62.40	\$ 68.00	\$ 68.00	N/A	N/A

**CMS RESPONSES, AUDITOR GENERAL  
COMMENTS AND AUDITORS' COMMENTS  
ON THE COMPLIANCE EXAMINATION OF  
THE DEPARTMENT OF CENTRAL  
MANAGEMENT SERVICES**

For the Two Years Ended June 30, 2004

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

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OFFICE OF THE AUDITOR GENERAL  
WILLIAM G. HOLLAND

**AUDITOR GENERAL'S COMMENTS  
ON THE COMPLIANCE EXAMINATION OF THE  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
FOR THE TWO YEARS ENDED JUNE 30, 2004**

The Auditor General's audits are a very deliberative process with safeguards built in to ensure that the facts contained in each report are supported, the conclusions reached are reasonable, and the audited agency has had ample opportunity to respond to the findings.

The Compliance Examination of the Department of Central Management Services for the two years ended June 30, 2004, followed that process. This audit formally commenced with an entrance conference held on June 14, 2004. Throughout the next ten months, the various auditors assigned to this engagement - some of whom are from a public accounting firm on contract with my Office and some of whom are OAG employees - met with CMS officials on literally dozens of occasions. Our working papers supporting this audit are composed of an estimated 25,000 pieces of paper - each and every one of which was reviewed by the Department. The level and intensity of our interactions with CMS on this audit are unparalleled in my twelve and a half years as the State's Auditor General.

Unfortunately, despite the openness and transparency of the auditors in sharing and discussing their audit results with the Department, CMS continues to misunderstand and, in many instances, mischaracterize our findings. The Department's responses to the audit findings are often misleading and occasionally inaccurate. This document presents the Department's responses and, where necessary, countering Auditors' Comments.

The entire compliance examination report consists of three volumes: (1) the Compliance Examination, including the auditors' findings; (2) this document, containing CMS' responses and Auditors' comments; and (3) CMS' attachments to CMS' responses. Although lengthy, a thorough reading of the entire compliance examination report is essential to a complete understanding of the Department's and the auditors' positions on the findings. While CMS disagrees with the auditors in many cases, *I cannot emphasize enough that I stand behind the integrity of our audit process and unequivocally support each and every one of the auditors' findings and recommendations.*

A handwritten signature in black ink, appearing to read "William G. Holland", written over a horizontal line.

WILLIAM G. HOLLAND, Auditor General



**CMS RESPONSES, AUDITOR GENERAL COMMENTS  
AND AUDITOR COMMENTS ON THE COMPLIANCE EXAMINATION  
OF THE DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
For the Two Years Ended June 30, 2004**

This volume contains the Department of Central Management Services' responses to the Compliance Examination of the Department, for the two years ended June 30, 2004. As depicted below, the Department's responses are on the left side of the document (page "a"), while the auditors' comments are on the facing page (page "b"). Attachments referred to by the Department of Central Management Services in its written response have been included in the third volume of our compliance examination.

<b>Page __ a</b>  <b>Dept. of Central Management Services' Response</b>	<b>Page __ b</b>  <b>Auditor General's and Auditors' Comments</b>
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**Comment 1:** Every fact in our findings can be traced back to a supporting document.

**Comment 2:** CMS claims that this current audit is “inconsistent with...the practice of *prior* audits.” Yet, on page 2 of its response, CMS acknowledges that “[d]uring the past two years CMS has fundamentally transformed the business of State government...” Generally accepted government auditing standards require auditors to be aware of, and respond to, changes in an agency’s operating environment. Those standards also require auditors to assess the risk of fraud and to be alert to operating practices that constitute abuse or waste of resources. The Auditor General's Office has released over 2,100 audits since 1992, and this audit followed the same rigorous applicable standards and practices as each of the audits before it.

#1

**Comment 3:** Draft reports are not “released.” To the contrary, while an audit is on-going, draft reports are confidential. The draft report represents the auditors’ preliminary conclusions and is provided **only** to the audited agency for its review and comment.

#2

#3

#4

**Comment 4:** The draft report was provided to CMS on March 17, 2005, and a formal exit conference was scheduled for April 6. In the interim, the auditors offered to meet with CMS officials in an informal “pre-exit” conference to help facilitate the Department’s review of the draft report. CMS officials accepted our **second** offer of a pre-exit conference, which was subsequently held on March 31. Following the pre-exit conference, on April 4, CMS provided the auditors with additional information on this particular finding (Finding 3). Frankly, CMS’ additional information raised additional questions for the auditors that, unfortunately, CMS was unable to answer at the exit conference two days later. Specifically, CMS officials were unable to state whether a particular individual was working for the State when CMS shared information with him about an upcoming procurement. Given that CMS was unable to answer basic questions concerning this issue, a decision was made to defer this matter for additional follow-up. (Please see Auditors’ Comment 54.)

#5

**Comment 5:** Generally, the auditors and audited agencies are able to agree on matters of statutory interpretation. In those instances, however, where agreement cannot be reached, it is the auditors' standard practice to suggest the agency refer the matter to the Attorney General who, by law, is charged with rendering opinions to State officials on matters of statutory interpretation. 15 ILCS 205/4. In areas of disagreement over statutory interpretation, the Auditor General's Office defers to a formal written opinion from the Attorney General on the matter. CMS' objection to this suggestion simply reveals its ignorance of standard audit practices.

#6

**Comment 6:** Please see Auditors' Comment 2. Our audits are not, and under generally accepted government auditing standards should not be, conducted in a vacuum.

#7

**Comment 7:** In Finding 16, the auditors cite CMS for not filing reports with the General Assembly regarding the status of its reorganizations, as required by the Executive Reorganization Implementation Act. CMS' argument against Finding 16 is that such reports need not be filed until its reorganizations are in "full force" and that, to date, none of its reorganizations are in "full force" or "executed." Nevertheless, CMS has managed to file a report with the National Association of State Procurement Officials (NASPO) to obtain an award in 2004 for its procurement initiative.

#8

**Comment 8:** We're puzzled as to how Director Rumman could have had a discussion with the auditors at the entrance conference about unsubstantiated media allegations when, in fact, **Director Rumman did not attend the entrance conference. Furthermore, no auditor in attendance could have been "slightly embarrassed" by a point that was not made by a person who was not there.** At any rate, as pointed out previously, the auditors are responsible under generally accepted government auditing standards to assess the risk involved in an agency's operating environment at the outset – as well as periodically throughout – an audit engagement. However, media reports are never used as "source materials" or support for audit findings.

#9

**Comment 9:** We agree the issues surrounding the Efficiency Initiatives Revolving Fund are complex. However, the auditors have developed a high level of expertise in this matter by virtue of the fact that we have had similar findings in 20 other agency audits to date. **Sixteen of those 20 other agencies agreed with the auditors that CMS had not provided adequate documentation with the efficiency billings.**

#10

**Comment 10:** It is not uncommon for OAG employees to supplement the efforts of the accounting firms acting as Special Assistant Auditors on behalf of the Auditor General. All such collaborative efforts meet the standards set forth in generally accepted government auditing standards for relying on work performed by others (AU Section 543). For those issues primarily handled by OAG employees, we had over **140 contacts** with CMS officials during the audit engagement, including at least **17 face-to-face meetings**. These meetings were generally with high-level CMS management, including Deputy Directors, the Chief Financial Officer, the Chief Operating Officer, the Budget Manager, and other appropriate CMS staff. OAG employees noted matters of concern to responsible CMS officials throughout the numerous and extensive meetings held during this engagement.

#11

#11

**Comment 11:** CMS' receipt of the draft report and their timeframe for reviewing and responding to its contents was in strict compliance with the Auditor General's Audit Regulations at 74 Ill. Adm. Code 420.720. Further, the Auditor General's Office went above and beyond those regulations by granting CMS' request for a one-week extension for holding the exit conference and providing agency responses. The auditors also provided CMS with an extensive, five-hour pre-exit conference prior to the formal exit conference which is afforded every audited agency. **Further, CMS officials reviewed each and every one of the approximately 25,000 documents supporting this report prior to the exit conference – an extraordinary step that has never been taken by any other audited agency during the past twelve and one-half years.**

#12

**Comment 12:** CMS provides specific responses to each of the individual findings contained in this report. **In many instances, CMS' responses are misleading, inaccurate or unsupported** – and we have provided Auditors' Comments when necessary. As auditors, we continue to maintain confidence that each finding is valid and each recommendation would, if implemented by CMS, represent an improvement in governmental accountability.

#13

**Comment 13:** As pointed out in auditors' comment 11, CMS was given all the due process it was owed – and more – throughout this audit. Where CMS provided appropriate support, the auditors made their suggested changes to the draft report.

#14

**Comment 14:** Actually, CMS' responses are being made available to the public by the Auditor General, consistent with our audit regulations which provide for agency responses to our audit findings to be made part of the audit report.

No Auditor Comments have been included for this page.

#15

**Comment 15:** This finding does **not** question the role of the Governor in approving amounts designated as savings from the efficiency initiatives. To the contrary, the second paragraph of the finding acknowledges the Governor's role. What the finding does question is CMS' role in developing those savings estimates and, specifically, the fact that CMS abdicated its responsibilities under the law in this regard.

#16

**Comment 16:** This finding does **not** discuss payments *to* the General Revenue Fund, as CMS' response seems to indicate. This finding does discuss payments *from* the General Revenue Fund. On the latter topic, nowhere in the finding do the auditors contend that the legislation limits payments from the General Revenue Fund. The audit simply reports that GOMB directed the Department to make payments for the Vehicle Fleet Management initiative from the General Revenue Fund but the Department instead used the Communications Revolving Fund and the State Surplus Property Revolving Fund to make part of the payments.

#17

**Comment 17:** The finding neither states nor implies that efficiency initiative payments cannot be made during the lapse period. The finding does note that, when efficiency initiative payments were made after the end of the fiscal year and with only two weeks remaining in the lapse period, the auditors could not determine whether these payments represented "savings" or, rather, were simply monies that otherwise would have lapsed due to unfilled vacancies. Monies that lapse cannot be spent without further appropriation. Monies that are not allowed to lapse but, instead, are transferred to the Efficiency Initiatives Revolving Fund can be used for such purposes as paying CMS' contractors' fees and expenses, administrative expenses related to its efficiency initiatives, or further transferred to the General Revenue Fund and expended for other purposes for which GRF has been appropriated.

#18

**Comment 18:** As noted in Auditors' Comment 9, 20 other State agencies have a similar finding in their respective audit reports and **16 of those 20 other agencies agreed with the auditors' conclusion** that transfers to the Efficiency Initiatives Revolving Fund were not made from line item appropriations where savings were anticipated to occur, as required by law.

#19

**Comment 19:** The Department's response is inaccurate and misleading. The finding does **not** note that \$3 million has been validated and remains unquestioned by the auditors. In fact, we cite the Department in Finding 11 for failing to maintain adequate documentation to support the validation of savings. Savings for projects related to telecommunications would have been applicable to the State as a whole and not the Department individually.

#20

**Comment 20:** While it may have been "eminently reasonable" to anticipate savings would be realized in these line items, no documentation of that anticipation was prepared to support the billings that were made. As stated in the finding, a CMS official explained that at the time of payment, **the Department did not know exactly where the savings would come from.**

#21

**Comment 21:** Please see Auditors' Comments 19 and 20.



#22

**Comment 22:** Please see Auditors' Comment 15. The auditors did **not** conclude that the Governor's Office has no role in the efficiency initiatives billing process; rather, the auditors concluded that CMS abdicated its responsibility to determine anticipated savings amounts to be billed to the various State agencies. **During our audits of the agencies receiving billings from CMS for efficiency initiatives, we were repeatedly told by the agencies that CMS did not have any detail or documentation supporting the transfer amounts.**

#23

**Comment 23:** Contrary to CMS' assertion that the efficiency billings were done "collaboratively with the Governor's Office," CMS officials told our auditors, with regard to the September 2003 billings, that CMS received the amounts to be billed to the various State agencies from the Governor's Office of Management and Budget (GOMB) and that CMS' role was to put the billings on CMS invoices and return the billings to GOMB for mailing out to the affected agencies. Since, by statute, CMS is charged with the responsibility for designating anticipated savings amounts, **the auditors concluded that CMS had not fulfilled its responsibilities by acting as a mere transcriptionist.**

#24

**Comment 24:** The Department's response is inaccurate. The audit finding **never** suggests that the General Revenue Fund cannot be used to make efficiency initiative payments. The finding also does not imply that efficiency initiative payments cannot be made during the lapse period.

#25

**Comment 25:** Public Act 93-25 amended the State Finance Act to provide that State agencies were required to make efficiency initiative payments "from the line item appropriations where the cost savings are anticipated to occur." 30 ILCS 105/6p-5. The auditors found that CMS did not have documentation to demonstrate that its efficiency initiative payments were made from the proper line items in compliance with that Act. The State Finance Act is cited in the finding because it provides applicable legal criterion for the first portion of this finding and its inclusion is not only **not** misleading or inappropriate, it is necessary.

#26

#26

**Comment 26:** Please see Auditors' Comment 17 concerning transfers made during the lapse period.

#27

**Comment 27:** We agree. We did not cite the Procurement Code or the Administrative Rules as criteria for this finding. We cited good business practices as represented by CMS' own current policies.

#28

**Comment 28:** CMS requested and reviewed several of the Auditor General's procurement files. While CMS indicated that scoring sheets were prepared by individuals evaluating vendor proposals on CMS procurements, those individual scoring sheets were not always maintained in CMS' procurement files. By contrast, the Auditor General's practice is for 3-member teams to jointly prepare and individually sign evaluation score sheets. This scoresheet is maintained in every new procurement file. It is a public document and was reviewed by CMS.

#29

**Comment 29:** To CMS' credit, the auditors believe that the procedures CMS now claims it follows represent good business practices. Notwithstanding the fact that CMS did not adopt specific policies in this regard until October 2004, **good business practices were applicable – but not always utilized – during the current audit.**

#30

**Comment 30:** Unfortunately, in some instances, there is no documentation to support CMS' contention that the scoring process was conducted properly; consequently, the auditors did not determine whether CMS' scoring process was – in its words – “corrupt.” The auditors continue to believe this is a valid finding.

#31

**Comment 31:** Under CMS' procurement rules, to constitute a “written determination” the writing must set forth “sufficient facts, circumstances, and reasoning as will substantiate the specific determination that is made.” 44 Ill.Adm.Code 1.7025 (b). When asked for their written determinations, CMS provided only the Procurement Bulletin notice of award for 8 out of 9 contracts tested. **The notice of award in the Procurement Bulletin is dearth of any reasoning or substantiation for the specific determination that was made.**

#32

**Comment 32:** On the contrary, this information is presented in Finding 9. However, it should be pointed out that the testing of this sample of 25 contracts was more limited than the testing done on the 9 large efficiency initiative contracts.

#33

**Comment 33:** **Not once** in this report did the auditors project the findings from their selection of 9 large efficiency initiative contracts to the universe of CMS contracts.

#34

**Comment 34:** Please see Auditors' Comment 29.

#35

**Comment 35:** The auditors reiterate that the Department has complied with neither administrative rules nor prudent business practices.

#36

**Comment 36:** The Auditor General's Office, as a matter of practice, does defer to an agency's **reasonable** interpretations of applicable statutes, rules and regulations.

#37

**Comment 37:** In 6 of 9 instances individual scoring sheets for these large procurements were not maintained in the files. The Auditor General's practice is for a team evaluation to be prepared by 3 auditors assigned to review each technical proposal. Those team evaluations are signed by each individual evaluator and maintained in our procurement files. Those evaluations were reviewed by, and copied for, CMS officials during the course of this audit.

#38

**Comment 38:** Please see Auditors' Comment 29.

#39

**Comment 39:** CMS claims it had individual scoring sheets, but for 6 of 9 procurements the auditors did not find evidence of those scoring sheets in the files. Further, the summary scoring sheets that were provided to the auditors, in the instances noted in the finding, did not identify the individuals responsible for scoring the proposal or provide information about how the proposal scored in relation to the individual criteria stated in the Request for Proposal. **Without this information, no confirmation of the scoring process and award decision could be made.** Existing law requires an agency's determinations about expenditures of public funds to be in writing, sufficiently documented and maintained. Further, procedures developed by CMS for use by other State agencies acknowledges these procedures as illustrative of good business practice. Therefore, there is nothing "ex post facto" about the standards to which the auditors would hold CMS.

#40

**Comment 40:** Again, the auditors must question – if CMS required individual scoring sheets – why those sheets were not maintained in **all** the files we reviewed since these scoring sheets were contained in **some** of the files.

#41

**Comment 41:** CMS is getting hung up on nomenclature. The auditors would have been happy to receive **any** document – whatever it was called – providing support and rationale for the Department's procurement decisions.

#43

#42

**Comment 42:** Please see Auditors' Comment 28.

## Finding 4-2

#43

**Comment 43:** During the audit process, CMS maintained that the contract approval sheet constituted the agency's required written determination. However, in its written response, CMS now acknowledges that the contract approval sheets are not valid written determinations. CMS now states, **for the first time**, that its summary scoring sheets constitute the written award determination required under Illinois law. However, **these summary scoring sheets were not signed by any CMS official authorized to make final procurement decisions** and, as CMS admits in its response, those scoring sheets do not always reflect the winning vendor.

#44

**Comment 44:** Every one of the Auditor General's procurement files, where applicable, contains a written determination of award. Each file contains: (1) a scoring sheet prepared by a team of auditors, each of whom is identified by name and signs the scoresheet; (2) a Director's scoring sheet incorporating price points into the technical proposal score; (3) a final selection committee's written recommendation to the Auditor General, which is either approved or rejected by him in writing; and (4) a notice of award to the winning proposer signed by the Auditor General himself. Again, unless CMS is specifically looking for a document entitled "Decision Memorandum" (which is not required by law and never specified as necessary by the auditors), then its comment that the Auditor General's procurement files lack this information is inexplicable. Our files are public documents and, unlike executive agencies, include both winning and losing proposals.

#45

**Comment 45:** The Department was informed at the June 14, 2004, entrance conference that the auditors would be reviewing selected large contracts related to CMS' efficiency initiatives. In no instance is a percentage used without including raw numbers; therefore, our use of percentages is not misleading.

#46

**Comment 46:** The sample of 25 contracts was tested for different attributes than were tested in the 9 contracts that are the subject of this finding. However, contrary to CMS' contention, the results of that testing are reflected in the audit report (see Finding 9).

#47

**Comment 47:** There is nothing “mysterious” about the exclusion of the legal services contracts from our testing. Many legal services contracts are excluded from the Procurement Code provisions (30 ILCS 500/1-10 (b) (7)) and, therefore, would not be subject to the same criteria. The temporary services contracts are master contracts that do not, in and of themselves, incur any expenditure obligation and, for that reason, in-depth testing was not done. However, since CMS brings it up, one of the temporary services master contracts has been the subject of much discussion and concern. (See, for instance, the minutes of the Procurement Policy Board meeting of March 4, 2005, pages 2 - 4.)



#48

**Comment 48:** The auditors do **not** state that use of outside vendors to develop information for inclusion in a Request for Proposals is prohibited. Instead, the auditors state that the Department should develop standards and procedures to: (1) determine when vendor-provided information should be used; (2) guard against bias and conflicts of interest; and (3) ensure that required notices are published in the Procurement Bulletin.

#49

**Comment 49:** The Auditor General does not routinely award contracts to firms that provided information for an RFP. We do, however, make copies of public documents available to all firms interested in proposing on our audit engagements. These documents include prior audit reports related to the audit engagement; however, under our rotation policy, the firms who prepared the prior audit reports are generally prohibited from proposing on the new engagement. The Auditor General does award contracts in some instances to vendors who were not the lowest priced but only when the evaluation criteria stated in the RFP establishes that price is a less important factor than technical skill, background, and experience. In those instances, the Auditor General publishes a contemporaneous notice in the Procurement Bulletin reflecting that the audit contract was awarded to a firm that was not the lowest priced. This procedure is in compliance with all applicable laws and rules. In those instances where CMS awarded a contract to a vendor that was not the lowest priced, it did not follow these safeguards and disclosures (see Finding 6).

#50

**Comment 50:** The Department acknowledges it used potential vendors to “collect data and identify opportunities for improvements within the organization...” The primary purpose of the efficiency contracts was to obtain the services of a vendor in identifying and obtaining efficiencies in various areas, such as procurement, fleet management, and information technology – the very same purpose for which CMS acknowledges it used potential vendors to develop information for the RFP. In such circumstances, the auditors continue to believe that the information provided by potential vendors constitutes development of specifications. The definition of “specifications” in the Procurement Code includes “any description, provision, or requirement pertaining to the physical or functional characteristics or of the nature of a supply, services, or other item to be procured under a contract.” 30 ILCS 500/1-15.95. While use of a potential vendor to develop RFP specifications is not prohibited, the auditors believe CMS should develop specific guidelines for using potential vendors to develop RFP specifications so as to ensure the competitive process is fair.

#51 **Comment 51:** This is not a true statement. Please see Auditors' Comment 49.

#52 **Comment 52:** The auditors do **not** state in their finding that it is improper to use potential vendors to develop RFP specifications. Rather, the auditors state that the Department should develop specific standards for such use of potential vendors to help ensure the procurement process is fair and equitable to all vendors – both those who helped develop the RFP specifications and those who did not.

#53 **Comment 53:** This is not a true statement. Please see Auditors' Comment 49.

#54 **Comment 54:** This is the situation referenced in CMS' Footnote 1 in its letter dated April 14, 2005. The auditors noted that a non-State employee had submitted comments on an RFP that had not yet been issued by the Department. CMS was unable to tell the auditors in what capacity this person was working when he provided comments on the draft RFP to one of CMS' Deputy Directors. The person's comments were received on May 4, 2003; the RFP was issued on May 14, 2003; and the winning vendor's proposal was submitted on June 12, 2003. Sometime after submitting comments to CMS on the draft RFP (May 4) and before the winning proposal was submitted (June 12), this non-State employee established a business relationship with the vendor who was eventually awarded the contract. Further, in his comments on the RFP to CMS dated May 4, the non-State employee stated that he "understand[s] one of the objectives in this RFP is to not exclude McKinney & Company [sic] from participating in this procurement simply because they participated in gathering background statistics." The winning vendor, with whom this individual soon after partnered, was McKinsey and Company. Please see also Auditors' Comment 4.

#55

**Comment 55:** The finding acknowledges that using potential vendors to develop RFP specifications is permissible under CMS' procurement rules if the agency head determines in writing that it would be in the State's best interest to accept a proposal from such a vendor, and if a notice to that effect is published in the Procurement Bulletin. 44 Ill. Adm. Code 1.2050 (i). The auditors were not provided with any such written determination by the Director of CMS, and no notice to that effect was published in the Procurement Bulletin. The auditors believe that the type of information provided by potential vendors constitutes "specifications" as that term is defined in the Procurement Code, and that is the basis of our finding. Please see Auditors' Comment 50.

#56

#56

**Comment 56:** CMS' response here reflects a fundamental lack of understanding about the Legislative Audit Commission process. The accounting firms listed in CMS' response attended LAC hearings and provided testimony pertaining to audits those firms had conducted as Special Assistant Auditors to the Auditor General. Such testimony is completely unrelated to our procurement process since the testifying firms are already under contract with our Office at the time their testimony is given. For additional information, please see Auditors' Comment 49.

#57

#57

**Comment 57:** The use of judgmental selection is consistent with generally accepted government auditing standards. In this audit, the auditors judgmentally selected large contracts related to CMS' efficiency initiatives. It was a deliberate process set forth in an audit program at the outset of the engagement. That audit program was discussed with CMS personnel at the audit entrance conference held on June 14, 2004, and a copy of the audit program was provided to CMS at its request. At the time these 9 specific contracts were selected for testing by the auditors, we had no idea what we would find. Somehow CMS seems to be saying that we purposefully selected contracts for which our findings would cast CMS in a bad light. **While we certainly agree the results of our testing are not favorable to CMS, the Department does not explain – short of our being psychic – how the auditors might have known which CMS contracts to select to achieve such a result.**

#58

**Comment 58:** It is a fundamental principle of competitive procurement, recognized by NASPO guidelines and required by Illinois law, that contract awards must be made based on the evaluation criteria set forth in the solicitation document. Sub-criteria, by their definition, should be derived of, not depart from, the evaluation criteria set forth in the RFP. In Finding 4, the auditors noted instances in which CMS departed from its stated criteria and/or failed to maintain documentation necessary to demonstrate its compliance with those criteria.

#59

**Comment 59:** Simply stated, CMS' statement is not correct. The criteria used to evaluate proposals received through the RFP process are set forth in the RFP document. These criteria can be linked to the evaluation team scoring forms. Firms participating in the OAG procurement process have never expressed any concern about the OAG using sub-criteria not delineated in the RFP.

#60

**Comment 60:** CMS' response is inaccurate. As noted in the finding, **CMS changed its scoring methodology without communicating those changes to the vendors.**

#61

**Comment 61:** The finding details the auditors' concerns with this procurement. In addition, similar concerns were expressed in an e-mail written by CMS' Chief Procurement Officer/State Purchasing Officer in Charge listed on the award notice for this procurement.

#62

**Comment 62:** Please see Auditors' Comment 60 and the auditors' position as stated in the finding.

#63

**Comment 63:** The auditors continue to maintain that **changing the fundamental composition of the proposing vendor** (particularly when the winning vendor did not exist as a legal entity until after the contract award), **deleting performance guarantees** and **reducing the scope of work** with regard to facility condition assessments by 80% (from 50 million square feet to 10 million square feet) **do constitute extensive revisions** to the vendor's original proposal.


#64

**Comment 64:** CMS has since amended the IPAM contract to add \$5.75 million – \$2.25 million for facility condition assessments and \$3.5 million for lease transaction services.

#65

**Comment 65:** The audit does **not** question the offering of a best and final to a single vendor. It does take issue with allowing extensive changes to a technical proposal that has already been scored and a lack of documentation to show that such revisions did not significantly change the technical score of the proposal.





#66 **Comment 66:** Please see Auditors' Comment 65.

#67

#67

**Comment 67:** The auditors do **not** contend that IPAM is being allowed to charge twice for the same service; rather, the auditors contend that services that were deleted from IPAM's original proposal during the best and final process have subsequently been amended back into the contract as sole source, non-competitive procurements.

#68

**Comment 68:** Please see Auditors' Comment 63.

#69

**Comment 69:** The auditors do **not** assert that it was improper for the joint venture composition to change; rather, we were concerned that there was no documentation in the procurement file to show that, after significant changes were made in IPAM's original technical proposal, that IPAM's proposal remained superior to other proposers who were not given the opportunity to participate in the best and final process.

#70

#70

**Comment 70: IPAM did not meet its stated savings goal of \$14 million in FY04.** (Please see Finding 11 on this topic.) IPAM's fee has not been reduced because of its failure to meet the savings goal.

#71

**Comment 71:** The principal basis for the auditors' conclusion that these contracts are subject to disclosures applicable to professional and artistic contracts was the Department itself. CMS paid two of the four contracts listed in the finding from the appropriation detailed object code for Professional and Artistic contracts. For three of the four contracts, CMS filed professional and artistic service affidavits with the Comptroller and Auditor General explaining why the contracts were not reduced to writing before services were commenced (see Finding 8 on this topic).

#71 ↑

#72

**Comment 72:** CMS hosted a workshop on August 7, 2002, entitled "Professional Services Workshop." The workshop was attended by staff from a number of State agencies. Neither before, during or after the workshop did the Auditor General's legal counsel have any "discussion" with CMS concerning its interpretations, and her presence at the meeting was merely as an attendee, along with dozens of other individuals. At any rate, the determination of whether a particular service constitutes a professional and artistic service must be made on a case-by-case basis and the contracts at issue did not exist – and, therefore, could not have been the subject of any discussion – three years ago.

#73

**Comment 73:** Again, **contracts that did not exist three years ago could not have been the subject of discussion three years ago.** Please see Auditors' Comment 72. At any rate, it is not uncommon for the auditors to question an agency's classification of contracts when: (1) the agency's classification does not appear to be reasonable; and (2) by not classifying the contract as professional and artistic, the agency is able to avoid safeguarding procedures – such as disclosure of subcontractors – applicable only to that type of procurement. See, for instance, Finding 4 in the Capital Development Board audit released on April 6, 2005.

#74

**Comment 74:** **Nowhere** in the Procurement Code does it state that, to qualify as professional and artistic services, the services must be provided by a licensed professional.

#75

**Comment 75:** The principal basis for the auditors' conclusion that these contracts are subject to disclosures applicable to professional and artistic contracts was the Department itself. CMS paid two of the four contracts listed in the finding paid from the appropriation detailed object code for Professional and Artistic contracts. For three of the four contracts, CMS filed professional and artistic service affidavits with the Comptroller and Auditor General explaining why the contracts were not reduced to writing before services were commenced (see Finding 8 on this topic).

#75 ↑

**Comment 76:** CMS hosted a workshop on August 7, 2002, entitled "Professional Services Workshop." The workshop was attended by staff from a number of State agencies. Neither before, during or after the workshop did the Auditor General's legal counsel have any "discussion" with CMS concerning its interpretations and her presence at the meeting was merely as an attendee, along with dozens of other individuals. At any rate, the determination of whether a particular service constitutes a professional and artistic service must be made on a case-by-case basis and the contracts at issue did not exist – and, therefore, could not have been the subject of any discussion – three years ago.

#76

#77

**Comment 77:** Again, **contracts that did not exist three years ago could not have been the subject of discussion three years ago.** At any rate, it is not uncommon for the auditors to question an agency's classification of contracts when: (1) the agency's classification does not appear to be reasonable; and (2) by not classifying the contract as professional and artistic, the agency was able to avoid safeguarding procedures – such as disclosure of subcontractors – applicable only to that type of procurement. See, for instance, Finding 4 in the Capital Development Board audit released April 6, 2005.

#78

**Comment 78:** **Nowhere** in the Procurement Code does it state that, to qualify as professional and artistic services, the services must be provided by a licensed professional.

#79

**Comment 79:** The use of judgmental selection is consistent with generally accepted government auditing standards. Please see Auditors' Comment 57.

#80

**Comment 80:** In no instance is a percentage used without including raw numbers; therefore, our use of percentages is not misleading. Unlike the audit findings, CMS uses percentages in its responses without providing any raw numbers to put those percentages into context. Further, unlike the audit findings, CMS' percentages are **not** supported with any documentation.

#81

**Comment 81:** This audit is of the Department of Central Management Services. However, the auditors would point out that, in considering significance, the nature and amount of a contract would generally be considered. Failure to reduce a \$24.9 million contract to writing before services commenced is qualitatively different from any such failure that might be related to small or routine contracts. However, since CMS does not provide any further information on its claims, the auditors are not in a position to address its points with regard to the operations of other State agencies that are not the subject of this audit.

#82

**Comment 82:** In 9 out of 9 contracts tested, CMS allowed vendors to commence work before a written contract was executed. For 2 of the 9 awards, the Department entered into "interim agreements." However, the Procurement Code does not use the term "interim agreement." Further, when tested by the auditors, it was noted that these "**interim agreements**" **lacked required terms and conditions necessary to constitute "contracts."** For instance, the "interim agreement" with EKI did not contain a detailed scope of work section or financial conflict of interest disclosure forms. (As stated by CMS in a cover sheet to the interim agreement, "The final definitive agreement will require significant negotiations regarding the statement of work and our expectations.") We stand by our recommendation that CMS should take the necessary steps to increase timeliness in reducing contracts to writing.



#83

**Comment 83:** We do **not** agree that CMS' failure to reduce 9 out of 9 contracts tested – with a total value of \$69 million – to writing before services commenced constitutes a “limited” situation.

#84

**Comment 84:** Since the law requires reducing these agreements to writing before the services are performed (30 ILCS 500/20-80 (d)), any discussion about whether or not this represents good public policy is rather esoteric. However, as auditors, we continue to believe that having a fully-executed and timely contractual agreement represents prudent business practice and helps to avoid potentially costly disputes and litigation. Further, **public accountability is compromised** when the public does not know the actual scope of work and the cost of such work until the final contract is filed.

#85

**Comment 85:** The auditors reiterate that CMS' own FAQ document states that “The State has more leverage and the vendor has more incentive to negotiate prior to knowing they've been selected.”

#85

#86

#87

**Comment 86:** Contract testing performed by our Special Assistant Auditors was consistent with our sampling plan and, contrary to CMS' assertion, the results of that testing were included in Finding 9. CMS appears to take issue with the fact that the Auditor General's Office conducted additional testing on 9 large contracts related to the Department's efficiency initiatives. Our judgmental selection of these 9 contracts was consistent with generally accepted government auditing standards and based on an audit program detailed at the outset of this engagement. Please also see Auditors' Comment 57.

**Comment 87:** In 9 out of 9 contracts tested, CMS allowed vendors to commence work before a written contract was executed. For 2 of the 9 awards, the Department entered into "interim agreements." However, the Procurement Code does not use the term "interim agreement." Further, when tested by the auditors, it was noted that these "**interim agreements**" **lacked required terms and conditions necessary to constitute "contracts."** For instance, the "interim agreement" with EKI did not contain a detailed scope of work section or financial conflict of interest disclosure forms. (As stated by CMS in a cover sheet to the interim agreement, "The final definitive agreement will require significant negotiations regarding the statement of work and our expectations.") We stand by our recommendation that CMS should take the necessary steps to increase timeliness in reducing contracts to writing.

#87

#88

#89

#90

**Comment 88:** There are two separate affidavit requirements in the Procurement Code. One pertains only to professional and artistic contracts and requires an affidavit to be filed when the contract is not reduced to writing prior to the commencement of services under the contract (e.g., Professional and Artistic Services Affidavit). The other affidavit requirement applies to all contracts and requires an affidavit to be prepared when the contract was not filed with the Comptroller within 30 days of its execution (e.g., Late Filing Affidavit). The figures cited by CMS in its response relate only to the late filing affidavits and do not address the professional and artistic services affidavits; therefore, **the Department's figures are incorrect and understated.**

**Comment 89:** Since CMS' percentages were incorrect in the above chart (see Auditors' Comment 88), we can only presume they are incorrect here as well. While CMS has criticized the auditors for using percentages, in each such instance the auditors included raw numbers so that the percentages could be placed into perspective. CMS has not done the same here in its response. (Please see Auditors' Comments 45 and 80.) The raw numbers of affidavits filed by the other entities mentioned by CMS is small compared to CMS. Further, as stated in our Auditors' Comment 81, significance and/or materiality is a consideration in determining whether a finding exists. Comparison of one agency to another cannot be made without a consideration of the specifics on each contract in question, such as the nature of the service being provided, the total amount of the contract and how delayed was the execution and filing of the contract relative to the start date of services being provided. As shown in the finding, an average of 125 days passed between CMS' contractors starting work and CMS' filing of the contracts for these 9 procurements totaling \$69 million. CMS does not consider these factors when comparing itself to other State agencies that were not the subject of this audit.

#90

**Comment 90:** Since the law requires reducing these agreements to writing before the services are performed (30 ILCS 500/20-80 (d)), any discussion about whether or not this represents good public policy is rather esoteric. However, as auditors, we continue to believe that having a fully-executed and timely contractual agreement represents prudent business practice and helps to avoid potentially costly disputes and litigation.

#90

**Comment 91:** The facts and circumstances in the case relied upon by CMS counsel are distinguishable from the facts and circumstances cited in the finding. The plaintiff in the case cited by CMS was suing to enforce an oral contract for \$317,521 that was purportedly authorized by a government employee who did not have any procurement authority. In the 9 contracts discussed in this finding, the procurement decision was made in writing either by CMS' Director (1 contract) or by its Chief Procurement Officer/State Purchasing Officer (8 contracts). For that and other reasons, we believe it is questionable whether the case cited by CMS represents applicable precedent. More importantly, the contracts at issue involve the expenditure of \$69 million for the overall stated purpose of saving hundreds of millions of dollars in public funds. **We simply do not believe that the possibility that the State might prevail in court, in the event the terms and conditions under which the services were provided are disputed, provides adequate protection of State resources or time or furthers the savings goals that are so crucial to the State.**

#91

#92

**Comment 92:** The auditors are similarly “outraged” by the reimbursement by CMS of these contractor expenses. For that reason, we do not feel that an “internal investigation” – as promised by CMS – is a sufficient remedial step. Consequently, we have turned over the information contained in this finding to the Executive Office of Inspector General.

#93

**Comment 93:** CMS indicates, in response to this finding, that it is implementing “more stringent procedures” as a result of this finding. However, the only “more stringent procedure” it specifically enumerates in its response is that future reimbursement requests from vendors must be approved by a CMS Bureau Chief before they are submitted for payment. In this finding, **CMS’ Bureau Chief participated in evaluating the proposals that resulted in the IPAM award, had dinner with IPAM two weeks prior to the award, and also was the subject of many of IPAM’s reimbursement requests for meals and other expenses.** Consequently, the auditors do **not** believe having a Bureau Chief review reimbursement requests before payment is sufficient to address the deficiencies noted in this finding.

#94

**Comment 94:** In this case, “standard industry practice” was **clearly not** an appropriate measure of accountability.

#95

**Comment 95:** The entire amount of \$546,650 shown in the chart on page 39 (formerly page 36) is questionable either because: (1) based on documentation provided by the vendor, CMS reimbursed expenses that were inappropriate; or (2) no documentation to support the expenses was submitted by the vendor at all.

#96

**Comment 96:** The Department's citing of the State Finance Act is not relevant to this finding. In this finding, the Civil Administrative Code is used as criteria. 20 ILCS 405/405-292.

#97

**Comment 97:** Given the large discrepancy between procurement savings billed and savings realized by most State agencies, the auditors concluded that the "measure of deviation" experienced was **not** reasonable.

#98

**Comment 98:** This finding does **not** question the role of the Governor in approving amounts designated as savings from the efficiency initiatives.

#99

**Comment 99:** **Nowhere** in the finding do the auditors state or conclude that "efficiency cannot occur from funded vacant headcount reductions." What the finding does conclude is that CMS' methodology was flawed – basing its billings on an outdated facility management survey, which resulted in agencies being billed for "vacant" positions, some of which had been filled subsequent to the survey.



#100

**Comment 100:** As noted in the finding, these savings goals were included in certain RFPs, vendor proposals or contracts.

#101

**Comment 101:** The auditors are simply pointing out the inconsistencies in the preparation of the savings tracking forms.

#102

**Comment 102:** Contrary to CMS' assertion, the audit report does acknowledge that McKinsey staff were involved in the copier RFP.

#103

**Comment 103:** The Department mischaracterizes DHS officials' responses to the auditors' follow-up and fails to recognize efforts DHS took to collect on these claims prior to McKinsey's involvement. For the \$26.281 million in savings for correction in claims processing errors, DHS officials stated that "The DRS [Division of Rehabilitation Services within DHS] has always made the effort to correct and resubmit Medicaid rejects however, more intense efforts began in February of 2004 with the help of the McKinsey consultants." For the \$3.157 million in savings for correction in Medicaid claims processing errors, DHS officials stated "The Department has been aware of, and devoting staff time to, correcting rejected claims as well as pursuing additional claiming opportunities for many years..."

#104

**Comment 104:** To corroborate FY04 cost savings reported by CMS on the savings tracking forms, auditors followed up – at the suggestion of CMS' Assistant Director – with DHS, and we simply repeated the FY04 savings DHS reported collecting.

#105

**Comment 105:** Please see Auditors' Comment 100.

No Auditor Comments have been included for this page.

#106

**Comment 106:** If the Department has committed its "approach" to writing, it should have provided that document to the auditors during fieldwork.

#107

**Comment 107:** The revised Form A was in draft form only at the time of our fieldwork.

No Auditor Comments have been included for this page.

#108

**Comment 108:** Pending implementation of a risk-based model beginning in Fiscal Year 2005, the IOIA developed an interim audit plan for Fiscal Year 2004 that identified the major systems required to be audited pursuant to the Fiscal Control and Internal Auditing Act (FCIAA). As noted in the finding, the IOIA did not perform all of the major system internal audits included in its plan. We fail to see how grant audits at one agency suffice to overcome IOIA's failure to audit grants at an entirely different agency. **IOIA, in internal memoranda, concluded that FCIAA had not been complied with** in regard to the areas noted in the finding. **The auditors' review and testing supported the conclusion reached by IOIA.**

#109

**Comment 109:** The compliance reports of the Department of Transportation, the Department of State Police and the Department of Commerce and Economic Opportunity for the period ended June 30, 2004, each contain a finding that the agency implemented a major new computer system or a major modification to a computer system without first obtaining an independent review by the Illinois Office of Internal Audits – as required by the Fiscal Control and Internal Auditing Act (30 ILCS 10/2003 (a) (3)).

#110

**Comment 110:** At the October 2003 meeting, the IOIA generally discussed the risk-based approach it was developing. The risk-based approach was not implemented in FY04 and is not the basis for this finding. In any event, in our meetings with IOIA, we have made it very clear that the criteria against which the auditors will continue to test the internal audit function is that contained in the Fiscal Control and Internal Auditing Act.

#111

**Comment 111:** Please see Auditors' Comment 108.

#112

**Comment 112:** During the audit period, IOIA did **not** conduct audits of all major system implementations or modifications. **What it "has planned to conduct" is not relevant.**

#113

**Comment 113:** The process used by IOIA to identify major system implementations or major modifications to computer systems by State agencies was **not** adequate. As noted in Auditors' Comment 109, the IOIA did not review computer systems/modifications that were identified by the agencies or auditors as major during the audit period. The compliance reports of the Department of Transportation, the Department of State Police and the Department of Commerce and Economic Opportunity for the period ended June 30, 2004, each contain a finding that the agency implemented a major new computer system or a major modification to a computer system without first obtaining an independent review by internal auditors – as is required by the Fiscal Control and Internal Auditing Act (30 ILCS 10/2003 (a) (3)). Each of the State agencies involved in these three findings agreed with the auditors' conclusion that the system implementation/modification occurred without the appropriate review.

#114

**Comment 114:** The finding recommends that CMS implement an effective inventory control system for the State's Surplus Warehouse. In fact, the State Property Control Act requires the Director of CMS to "maintain lists of transferable property..." 30 ILCS 605/7.3. The auditors found that comprehensive and accurate lists of transferable property were **not**, in fact, maintained by the Department— thereby putting inventory at risk for theft, loss and misuse.

#115

**Comment 115:** The separate inventory control systems maintained by individual State agencies are unrelated to the substance of this finding, which is about the State Surplus Warehouse operated by CMS.

#116

**Comment 116:** The finding does **not** misstate the law and, in fact, CMS' response is nearly identical to the language in the audit finding which states: "One method of disposal under the Illinois Administrative Code ... is to offer the equipment for the use of any State agency."

#117

**Comment 117:** CMS seems to be stating that administrative rules require it to sell State surplus property to the highest bidder even if the compensation received is inadequate. CMS promulgated these administrative rules and, in light of the audit finding, might wish to consider whether it would be appropriate to amend the rules to ensure that the State is adequately compensated for the sale of its surplus property.

#118

**Comment 118:** This is exactly the auditors' point. CMS is selling State surplus computers for as little as \$5 - \$10 without conducting any review or test to determine an appropriate value.



#119

**Comment 119:** In response to the passage of the Data Security on State Computers Act, in September 2003 CMS' Acting Manager of the Division of Property Control issued a memorandum to State agencies requiring electronic data processing equipment delivered to the Department's State Surplus Warehouse to be affixed with a label indicating the date and manner by which information on the computer had been overwritten. Contrary to its own policy, CMS did accept computer equipment without the required label. In fact, **the auditors found computer equipment at the State Surplus Warehouse that contained readable information.**

#120

**Comment 120:** The auditors strongly disagree. The General Assembly passed this Act because it was concerned about reports from other States that government computers being sold as surplus contained readable information. **The inadvertent disclosure of personal, sensitive or confidential information by the failure to overwrite such information on a surplus computer could result in any of the negative consequences enumerated by the auditors.** CMS could help avoid such consequences by enforcing its own policy.

#121

**Comment 121:** This finding did **not** recommend that CMS develop a statewide inventory control system. This finding is about the State Surplus Warehouse operated by CMS and the recommendation is that CMS implement an effective inventory control system at the Warehouse to help protect the stored goods from theft, loss and misuse, as well as to facilitate the transfer of such goods to State agencies that could use them.

#122

**Comment 122:** The State Property Control Act requires the Director of CMS to "maintain lists of transferable property..." 30 ILCS 605/7.3.

#123

#123

**Comment 123:** CMS promulgated these administrative rules and, in light of the audit finding, might wish to consider whether it would be appropriate to amend the rules to ensure that the State is adequately compensated for the sale of its surplus property. Exploring options to generate additional revenues is consistent with the goals of the Department's efficiency initiatives.

#124

**Comment 124:** CMS states that the auditors "failed to note those computer systems that sold (\$10) from the warehouse floor 'on-site' did not receive the evaluation or testing to determine condition." **CMS does not, however, explain why it did not bother to conduct testing necessary to establish a fair market value on the equipment it is selling.** Further, the finding does express concern about the low rate of compensation received on these computers and the recommendation suggests that CMS "evaluate options to increase the compensation received for the sale of the State's surplus property." The success of iBid demonstrates the potential to obtain additional compensation from the sale of State surplus equipment, and other options may be available as well that CMS should consider.

#125

**Comment 125:** The finding and recommendation note that it is – first and foremost – the responsibility of individual State agencies to comply with the Data Security on State Computers Act. However, the ultimate disposition of surplus equipment is done by CMS, such as by on-site and on-line sales, and CMS thus bears some responsibility to ensure that the Act's requirement that computer hardware "be cleared of all data and software before being prepared for sale, donation or transfer." 20 ILCS 450/20. Further, CMS has adopted a policy that all computer equipment sent by State agencies to its Warehouse must be affixed with a label demonstrating compliance with the Act. Contrary to CMS' assertion that non-compliant computers are being returned to the State agencies, the auditors found 15 out of 50 computers with no labels or with incomplete information on the labels. **We also found 15 computers that contained readable data.**

#126

**Comment 126:** The Auditor General's Office, as a matter of practice, does defer to an agency's interpretations of applicable statutes, rules and regulations when such interpretations appear reasonable. Further, we believe the statutes cited in this finding are clear and unambiguous.

#127

**Comment 127:** This is **not** our position. The statute, and thus the finding, does not use the term "authorized."

#128

**Comment 128:** The Executive Reorganization Implementation Act states that "[e]very agency created or assigned new functions pursuant to a reorganization shall report to the General Assembly not later than 6 months after the reorganization takes effect and annually thereafter for 3 years." 15 ILCS 15/11. The purpose of the reporting requirement appears to be to enable legislators, at periodic intervals, to evaluate the progress of and results achieved by the Governor's reorganizations. We believe the plain meaning of the words "takes effect" is clear. The Executive Orders "take effect" as stated in the body of each order (e.g., "on the 61st day after its delivery to the General Assembly" (Executive Order 10 (2003)); "60 days after delivery to the General Assembly" (Executive Order 7 (2003)); "upon its filing with the Secretary of State" (Executive Order 2 (2004)). When CMS argued that this interpretation would require all reorganizations to be completed within six months, we pointed out that the statutory provision is simply a reporting requirement. Further, the statute contemplates periodic reporting (e.g., annually thereafter for 3 years) – a clear recognition that the reorganization being reported on may very well be a work in progress. Finally, **the initial reporting required under the Act could be postponed ad infinitum under CMS' interpretation** since it would not come due unless and until the Department declares the reorganization as "in full force" or "executed" – or, alternatively, until an arbitrary date unilaterally selected by the Department, such as the end of Fiscal Year 2005. **The auditors do not believe that CMS' interpretation is consistent with, or conducive to, the needs of the General Assembly.**

#128



No Auditor Comments have been included for this page.

No Auditor Comments have been included for this page.

#129

**Comment 129:** CMS **did not provide** the auditors with evidence of the alleged computer input error. Therefore, the auditors could neither confirm nor deny that an input error occurred and no changes to the audit finding were made based on CMS' unsupported contention.

#130

**Comment 130:** Of the 41 accident reports, a total of 9 claims were paid out. Although, as noted in the finding, 19 of the 41 accident reports were filed late, only 1 of the 19 resulted in a payout. The other 8 paid claims were filed timely. The auditors are still concerned at: (a) 19 of 41 – or 46% – of accident reports being filed late; and (b) 1 of 9 paid claims – or 11% – being filed late.



No Auditor Comments have been included for this page.

#131

**Comment 131:** The timeframe for approval and denial of vendor invoices is set forth in administrative rules which were jointly promulgated by the Department and the State Comptroller. If CMS feels that those rules are inadequate or otherwise require amendment, it should initiate that process. In the meantime, the Department should comply with State law.

No Auditor Comments have been included for this page.

#132

**Comment 132:** The State Officials and Employees Ethics Act requires "State employees to periodically submit time sheets documenting the time spent each day on official State business to the nearest quarter hour ..." 5 ILCS 430/5-5 (c). **The auditors believe a positive, rather than a negative, timekeeping system is required by the Act.**

#133

**Comment 133:** We do not disagree with CMS' contention that the Act requires the Governor's Office to adopt and implement timekeeping policies for the agencies under his jurisdiction. Rather, we believe a memorandum from the Governor's Office dated January 13, 2004, appears to constitute such a policy with regard to timekeeping. That memorandum, from the Governor's then Senior Counsel, states that it "is not a formal legal opinion, but it will hopefully help you make some implementation decisions for your agency (emphasis added)." In short, the Governor's policy places the responsibility for developing and implementing a timekeeping system in compliance with the Act's requirements squarely on the shoulders of each individual agency and CMS failed to fulfill the responsibility given it by the Governor's Office under this policy.

#134

**Comment 134:** As stated by CMS itself, the Governor is required to adopt and implement policies for employees under his jurisdiction. **The informal opinion by the Executive Ethics Commission has not been shared with the auditors and may or may not suffice to meet this statutory requirement.**

#135

**Comment 135:** The Auditor General's legal counsel agrees with CMS that the Governor's Office memorandum delegated the responsibility for complying with the State Officials and Employees Ethics Act's timekeeping provisions to each individual executive agency. However, as pointed out in the finding, CMS subsequently did not utilize a timekeeping system in accordance with that Act's requirements.

#135

#136

**Comment 136:** Neither a memorandum from the Governor's Office nor an **informal opinion** by the Executive Ethics Commission can serve to override or derogate from the plain meaning and intent of the timekeeping requirements in the State Officials and Employees Ethics Act at 5 ILCS 430/5-5 (c).

No Auditor Comments have been included for this page.