LEGISLATIVE AUDIT COMMISSION

Review of
Illinois Procurement Policy Board
Two Years Ended June 30, 2006

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REVIEW: 4274
ILLINOIS PROCUREMENT POLICY BOARD
TWO YEARS ENDED JUNE 30, 2006

FINDINGS/RECOMMENDATIONS - 8

ACCEPTED - 1
IMPLEMENTED - 7

This review summarizes the auditors' report on the Procurement Policy Board for the two years ended June 30, 2006, filed with the Legislative Audit Commission on February 15, 2007. The auditors performed a compliance examination in accordance with *Government Auditing Standards* and State law. This is the Board's first audit.

The Procurement Policy Board was first established as a bureau within CMS in August 1998. It was granted recognition as a State Agency effective July 30, 2004. The Board is charged with the responsibility to review, comment upon and recommend rules and practices governing the procurement, management, control and disposal of supplies, services, professional and artistic services, construction, and real property and capital improvement leases procured by the State. The Board is specifically responsible for the approval of lease renewals for state agencies and the review of most State contracts prior to execution. Leases and contracts reviewed number more than 6,000 annually. The Board is governed by five members appointed one each by the four legislative leaders and the Governor.

Board inquiry occurs on proposed contracts that appear contrary to existing policy, contracts that are proposed under newly established policy and contracts that are particularly unique and do not find a ready course through existing procurement policy. There were 5,735 contracts in FY05, all of which were reviewed by the Board. Twenty-two were subject to Board inquiry. Thirteen procurements were withdrawn at some point during the inquiry process. The following is a list of the 5,735 contracts by procurement approach and category.

Contracts by Procurement Approach	FY05	Contracts by Category	FY05
Amendment/Changes	148	Commodities	1,038
Competitive Bid (IFB, RFP, etc)	3,123	Construction	476
Emergency	144	Entertainment	62
Orders (on-going notices)	58	Equipment	737
Quality Based Selection	340	Facilities	38
Professional/Artistic Exception to RFP	7	General Services	1,451
Renewal	518	Health and Medical Services	42
Sole Source	1,397	Highway Construction	1,238
		Information Technology	578
		Pharmaceuticals	36
		Telecom	39
Total by Procurement Approach	**5,735**	**Total by Category**	**5,735**

The Executive Director of the Board during the audit period was Matt Brown. Mr. Brown has served as the Executive Director since the Board's inception. The Board had three employees in FY05 and four employees in FY06.

Fiscal Information

The General Assembly appropriated $262,000 to the Agency in FY06, all from GRF. Total expenditures from appropriated funds were $217,788 in FY06 compared to $178,925 in FY05, which represents an increase of almost $39,000, or 21.7%. The increase was attributed to the hiring of an additional employee in FY06. Lapse period expenditures were 4.6% in FY06, and State property totaled almost $23,000.

Accountants' Findings and Recommendations

Condensed below are the eight findings and recommendations included in the compliance examination. The following recommendations are classified on the basis of updated information provided by Matt Brown, Executive Director, Procurement Policy Board, in a letter received via email dated May 10, 2007.

Accepted or Implemented

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

Findings: The Board did not maintain adequate controls over the recording and reporting of its property. The auditors noted the following:

- The Board filed 7 of 8 (88%) of its FY05 and FY06 Quarterly Reports of State Property (C-15s) with the Comptroller between 5 and 283 days late. In addition, the C-15's were not accurately being reported.
- Fourteen of 14 (100%) equipment items, totaling $8,367, purchased during FY05 and FY06 were not added to the Boards property records.
- The property listing provided to DCMS as part of the Board's annual physical inventory was not accurate. All equipment items purchased during the period which had a purchase price greater than $500, totaling $6,445, could not be traced to the property listing provided to DCMS.

- Two of 10 (20%) equipment items selected for backwards testing contained property tag numbers that did not agree to the property listing.

- One of 14 (7%) equipment items purchased during FY05 and FY06, totaling $569, was for the purchase of new furniture over $500 and the Board did not file a new furniture purchase affidavit with DCMS.

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

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

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

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

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

Updated Response: Accepted and Implemented. Board Staff has created a schedule that tracks submission requirements for all compliance documents for recording and reporting on property inventory. This implementation employs statements of all administrative duties related to property inventory and when these actions are taken and completed. C-15 filings are included in this schedule as is a monthly check of inventory. The Board is also aware of State Property Control Act requirements for purchasing furniture and will comply on all future transactions.

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

Accepted or Implemented - continued

Findings: The Board did not exercise adequate control over voucher processing as follows:

- Eleven of 50 (22%) vouchers tested, totaling $4,162, were not signed and/or dated by the receiving officer.
- The Board did not approve all vouchers for payment within the required time limits. Thirteen of 50 (26%) vouchers tested, totaling $12,086, were approved for payment from 4 to 55 days late.
- Five of 50 (10%) vouchers tested, totaling $4,432 were not coded with the proper SAMS code.
- The Board did not have adequate controls in place to ensure that expenditure obligations were only paid once. The Board approved and paid one invoice in the amount of $192 three times for a total payment of $576. The Board received a refund in the amount of $384.

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

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

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

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

Updated Response: Accepted and Implemented. Board Staff has created a database for controlling all fiscal transactions. Voucher processing now includes a redundant examination to be certain that proper Detailed Object Coding is recorded with the transaction. Accompanying the database is a 7 step completion check list for payment of all bills. A log from when bills are received to when they are released for payment is maintained. Date stamping is occurring on all documents received and a general ledger approach to reconciling payments to vendors has been adopted. One function of this reconciliation is to prevent duplicated payments to vendors.

3. Develop formal policies and procedures and provide those to all employees. Include sexual harassment training as a component of ongoing and new employee training.

Findings: The Board does not have formal personnel policies and procedures.

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

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

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

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

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

Updated Response: Accepted and Implemented. The Board has created and enacted a Procedure and Policy Manual for personnel administration within the office. All employees have attended Sexual Harassment Prevention training and performance evaluations have been conducted for all employees. All employees are now scheduled for annual evaluations.

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

Findings: The Board did not require its employees to file Statements of Economic Interest during the engagement period. During testing, the Executive Director, Fiscal

Accepted or Implemented - continued

Officer, and Procurement Analyst did not file Statements of Economic Interest for FY05 or FY06.

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

Updated Response: Accepted and Implemented. All employees have now filed Statements of Economic Interest. The Board's ethics officer has been given the responsibility to maintain compliance among Board appointed members and staff on this subject.

5. Implement controls to comply with the State Records Act and ensure adequate documentation is maintained and readily available.

Findings: The Board did not maintain adequate documentation to support its financial operations.

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

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

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

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

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

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

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

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

Updated Response: Accepted and Implemented. As referenced on finding 06-1, controls have been put in place to administer fiscal transactions and will help to ensure records retention. Salary statements are now generated for all employees and maintained in their personnel files. GAAP and SCO-580 reporting is being administered through retention of records and the personnel assigned to this task have received training to ensure proper data collection and reporting. The Board will also maintain transaction data and receipts for any future refund that it processes.

6. Perform monthly reconciliations of agency expenditures to Comptroller records as required by SAMS to ensure accurate accounting records are maintained. Further, implement controls to track and monitor actual versus budgeted expenditures.

Findings: The Board did not adequately monitor expenditures as follows:

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

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

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

Updated Response: Accepted and Implemented. The Board has implemented a general ledger accounting system. Reconciliations are performed on a monthly basis. Discrepancies are recorded and if corrective measure is necessary, that action is also documented.

7. Comply with the State Officials and Employees Ethics Act and require that employees periodically submit time sheets documenting the time spent each day on official State business.

Findings: The Board did not require its employees to periodically submit time sheets documenting the time spent each day on official State business. The Board only required employees to submit leave requests documenting time taken (negative reporting) instead of documenting the time spent on official State business (positive timekeeping).

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

Updated Response: Accepted and Implemented. All employees now maintain weekly certifications of time on Official State Business to be submitted in accordance with the State Officials and Employees Ethics Act.

8. Strengthen controls to ensure that contractual agreements are approved prior to the performance of services and filed with the Office of the State Comptroller timely. Strengthen controls to ensure that all documents regarding contracts are completed accurately.

Findings: The Board did not exercise adequate controls over its contractual services agreements. The Board entered into two contractual agreements for professional services totaling $12,000 and $14,500 in FY05 and FY06, respectively. However, services began 30 days before the written contract was approved, and the contract was filed with the Illinois Office of the State Comptroller 8 days late, and the contract obligation document was not properly completed.

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

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

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

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

<u>Updated Response:</u> Accepted. The Board maintains one contractual service agreement and that is for staff legal counsel. Any future contract for this or any other service will be maintained and filed in a timely manner in accordance with the Procurement Code. The related contract obligation documents will be handled in like fashion.

Emergency Purchases

The Illinois Purchasing Act (30 ILCS 505/1) states, "The principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts..." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies "involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records, or to avoid lapsing or loss of federal or donated funds. The Chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make 'quick purchases', including but not limited to items available at a discount for a limited period of time."

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption. During FY05 and FY06, the Board filed no affidavits for emergency purchases.

Headquarters Designations

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The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State office is required to file reports of all its officers and employees for whom official headquarters have been designated at any location other than that at which official duties require them to spend the largest part of their working time.

The TA-2 report filed by the Procurement Policy Board in September 2007 indicates that the Board had no employees assigned to locations other than that at which official duties required them to spend the largest part of their working time.