

# LEGISLATIVE AUDIT COMMISSION



Review of  
Department of Central Management Services  
Year Ended June 30, 2009

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**REVIEW: 4342**  
**DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**  
**YEAR ENDED JUNE 30, 2009**

**FINDINGS/RECOMMENDATIONS - 19**

**ACCEPTED - 13**  
**IMPLEMENTED - 5**  
**UNDER STUDY - 1**

**REPEATED RECOMMENDATIONS - 18**  
**PRIOR AUDIT FINDINGSS/RECOMMENDATIONS - 24**

This review summarizes the reports on the Department of Central Management Services for the year ended June 30, 2009, filed with the Legislative Audit Commission April 13, 2010. The auditors conducted a compliance examination and a financial audit in accordance with *Government Auditing Standards* and State law, and stated that the financial statements of the Department are fairly presented.

The Department of Central Management Services (CMS) provides a wide variety of centralized service for the operation of State Government. 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.

CMS is organized into eight major bureaus: Benefits, Communication and Computer Services, Information Services, Business Enterprise Program, Personnel, Property Management, Strategic Sourcing and Procurement and Administrative Operations. The current organizational structure 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.

The Director during the audit period and currently is Mr. James P. Sledge. He was appointed Director on August 25, 2008. Although not previously affiliated with CMS, Mr. Sledge, a former prosecutor, has served as Director of the Department of Employment Security and the Executive Director of the Human Rights Commission.

The average number of full-time equivalent employees appears on the next page.

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	<b>FY09</b>	<b>FY08</b>	<b>FY07</b>
Administrative Operations	163	145	150
Communications & Computer Services	674	710	752
Personnel	105	104	105
Benefits	89	90	82
Strategic Sourcing & Procurement	203	198	204
Property Management	326	319	313
Information Services	75	74	71
Business Enterprise for Minorities, Females & Persons with Disabilities	10	10	5
<b>TOTAL</b>	<b>1,645</b>	<b>1,650</b>	<b>1,682</b>

**Expenditures From Appropriations**

The General Assembly appropriated \$946,566,294 to the Department for the year ended June 30, 2009. Appendix A summarizes these appropriations and expenditures by fund for the period under review. Ordinary and contingent expenditures and all other expenditures are described by object in Appendix B.

Total expenditures of the Department were \$766,705,499 in FY09 compared to \$796,251,183 in FY08, a decrease of \$29.5 million, or 3.7%. The decrease was due primarily to a \$34.2 million decrease in operations across most lines with the exception of payments to SERS which increased \$4.9 million due to a difference in rate calculations between FY08 and FY09. Other changes were as follows:

- \$7.9 million decrease in Workers' Compensation claims;
- \$17 million increase in lump sum due to FY09 contractual services being reduced in a planned shift to the lump sum line; and
- \$10.4 million decrease in Education Technology due to a decrease in appropriations.

Lapse period spending in FY09 was 17%, or almost \$130.7 million. Funds were cash managed for the entire fiscal year, paying bills as receipts and cash was available. During the lapse period, there was a push to collect amounts from agencies and pay remaining fiscal year bills. Office of the Comptroller holds contributed to increased lapse spending.

**Cash Receipts**

Appearing in Appendix C is a summary of all cash receipts of the Department for FY09 and FY08. Total cash receipts decreased from \$1,479,900,212 in FY08 to \$1,375,212,920 in FY09, which is almost \$104.7 million, or 7%. A decrease in cash receipts was evident in almost every Fund. Some examples of significant variations in receipts from FY08 to FY09 included:

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- \$37.7 million decrease in the Facilities Management Revolving Fund due to a delay in the release of rental funds from the State Comptroller;
- \$13.7 million decrease in the Workers' Comp Revolving Fund due to no supplemental appropriation from GRF; and
- \$7.6 million decrease in the State Garage Revolving Fund due to decreased fuel prices.

### **Property and Equipment**

Appendix D provides a summary of property and equipment for FY09 and FY08. The balance as of the end of FY09 for property and equipment was \$697,978,000 compared to \$691,685,000 in FY08. In FY09, the majority of property and equipment (\$399 million) was comprised of buildings and building improvements.

### **Accounts Receivable**

According to the Department, net accounts receivable was about \$9 million as of June 30, 2009. The largest receivable was \$4.6 million for the Group Insurance Premium Fund. At the end of FY09, other State agencies and entities owed CMS internal service funds more than \$208 million.

### **Follow-up on Management Audit of 2008 Bulk Rock Salt Procurement**

As part of the FY09 financial audit and compliance examination of the CMS, auditors followed up on the status of the eight recommendations contained in the audit and found that seven of the eight recommendations were implemented. Only one recommendation which was partially implemented concerned the ability to conduct analysis of bids and work with local communities to make the most cost effective decisions in jointly procuring bulk rock salt. Currently the Department has no funds for a system upgrade.

### **Accountants' Findings and Recommendations**

Condensed below are the 19 findings and recommendations, 18 repeated, included in the audit report. The following recommendations are classified on the basis of updated information provided by the Department of Central Management Services in a memo received via electronic mail on November 3, 2010.

**Accepted, Implemented or Under Study**

1. **Implement procedures to ensure GAAP Reporting Packages are prepared in a complete and accurate manner and information provided to other agencies and the Office of the State Comptroller for financial reporting purposes is complete and accurate. (Repeated-2007)**

**Finding:** The Department's year-end financial reporting contained significant errors in the determination of certain year-end assets and liabilities. During testing of workers' compensation liability and automobile liability information, auditors noted material weaknesses and significant deficiencies resulting from the Department's failure to establish adequate internal control over the accumulation of information necessary for the proper determination of year-end liabilities as follows:

- The calculation for the Workers' Compensation program did not adequately recognize a liability for payments on two types of awards, pension and death benefit, that provide benefits for indefinite periods of time (Lifetime Awards) to be made beyond the succeeding five fiscal years. During FY09, the Department corrected the calculation and utilized life expectancies on a benefit specific basis and determined the liability at June 30, 2008 was understated by \$101 million in the General Revenue Fund and \$24 million in the Road Fund.
- During testing of the workers compensation liability, auditors noted an error in the calculation resulting in an overstatement of \$3.916 million in the General Revenue Fund and \$918,000 in the Road Fund. The FY09 financial statements were adjusted to correct the \$4.834 million overstatement.
- The Department is responsible for reporting liabilities arising from accidents involving State employees. While testing large (>\$25,000) Automobile Liability reserves at June 30, 2009, auditors noted a portion of a claim had been settled during the fiscal year leaving an estimated liability of approximately \$50,000. This outstanding claim was improperly excluded from the calculation of large Automobile Liability reserve for the Road Fund.
- During testing, auditors noted several other errors in the preparation of the Department's internal service fund financial statements. The errors included improperly calculating the amount reported as "invested in capital assets, net of related debt," overstating installment purchase liabilities due to a data entry error, and other misstatements of receivables, payables and capital assets. The errors noted were not individually significant to the financial statements taken as a whole.

**Response:** Accepted. The Workers Compensation liability calculation was revised in the current year to include full liability for lifetime awards. The new calculation contained a duplicate line creating an overstatement of the liability. The Department provided a revised liability calculation and required adjustments to the Office of the Comptroller. A revised liability calculation template is in place for next fiscal year.

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The Department is implementing an end-of-year review process for auto liability claims which will reduce the chance for error in estimating claim liabilities.

All financial reports will be more closely reviewed before transmission to the Office of the Comptroller so that adjustments are correct and amounts are recognized in the appropriate fiscal year for financial reporting.

**Updated Response:** Accepted and partially implemented. Improved processes for tracking GAAP entries and adjustments are being implemented during the current FY10 GAAP reporting period.

Ongoing adjustments to GAAP are reviewed by both IOC and OAG. The IOC has ultimate authority over how GAAP is reported through the CAFR. Differences of opinion frequently exist.

### **2. Comply with the provisions of OMB Circular A-87 by using an acceptable method for making adequate adjustments for excess retained earnings balances in internal service funds for each billed service. (Repeated-2006)**

**Finding:** The Department generated excess retained earnings balances for the Communications Revolving Fund and failed to make adequate adjustments as required by OMB Circular A-87.

Department officials stated that the existence of excess balances is a result of the Department not perfectly predicting rates, costs and usage of services. Department officials believe that the accumulation of excess balances is primarily due to the delay in federal review and negotiation of settlements. Further, officials stated that the majority of the accumulated balances referenced were for prior years (fiscal year 2006 to fiscal year 2008) which were the subject of prior year findings. Department officials stated that the elimination of these balances is still under negotiation with the U.S. Department of Health and Human Services.

**Response:** Accepted. The Department believes that its excess balance adjustment practices are compliant with OMB Circular A-87 guidelines. Negotiated settlements are an acceptable method of adjustment. The large accumulated outstanding balances for FY06-FY08 will be settled with the federal dept of HHS in April 2010. In addition, the Department has significantly reduced its exposure to new excess balances through aggressive rates realignments.

**Updated Response:** Accepted and partially implemented. The Department negotiated paybacks with the federal DHHS to close out FY06-08 balances in April 2010. We significantly reduced FY09 balances through rates adjustments, and are in the process of negotiating FY09 with the fed.

**Accepted, Implemented or Under Study – continued**

**3. Comply with the provisions of OMB Circular A-87 by reporting revenues and expenses in accordance with generally accepted accounting principles for federal purposes. (Repeated-2007)**

**Finding:** The Department recognized costs for federal reporting purposes different than reported in the Department's financial statements prepared in accordance with generally accepted accounting principles (GAAP), and unallowable costs were reported for federal purposes. Specifically, auditors noted the following during the review of FY08 reconciliations that were completed by the Department during the audit period (in March 2009) for the Statistical Services Revolving Fund (SSRF), Communications Revolving Fund (CRF), and the Facilities Management Revolving Fund (FMRF):

- Expenses in the SSRF totaling \$2,566,000 and in the FMRF totaling \$437,000 were properly accrued and reported in the FY08 GAAP basis financial statements, but were not accrued for federal purposes in FY08.
- Equipment totaling \$4,140,000 purchased in the CRF and \$1,453,000 purchased in the SSRF during the FY08 lapse period were reported as 2008 expenses for federal purposes, but were capitalized in the FY09 GAAP basis financial statements.
- Depreciation expense in the SSRF reported in 2008 for federal purposes was \$519,000 less than reported in the 2008 GAAP basis financial statements.
- Depreciation expense in the CRF reported in 2008 for federal purposes was \$1,537,000 less than reported in the 2008 GAAP basis financial statements.
- An increase in compensated absence liability in the SSRF totaling \$196,000, in the CRF totaling \$76,000, and in the FMRF totaling \$217,000, were reported as 2008 expenses for the GAAP basis financial statements, but were not accrued for federal purposes in FY08.

The reconciling items noted above have not been associated with specific individual billed services and, as such, auditors were unable to determine whether the items would impact the determination of the federal share of an excess retained earnings balance.

Department officials stated that timing differences exist between the GAAP basis and federal reporting due to required filing deadlines and as a result of past practices and related acceptance by federal Department of Health and Human Services.

**Response:** Accepted. CMS continues to adjust its accounting practices to reduce reconciling items.

**Updated Response:** Accepted and partially implemented. Improved processes for identifying and correcting GAAP timing entries and reconciliations to internal

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financials/federal reporting are being implemented during the FY10 federal reporting period which ends in March 2011.

#### 4. Institute and implement comprehensive standards to effectively secure and control the midrange environment for the Department and consolidated agency systems.

Also, formally communicate with consolidated agencies to determine their specific security requirements, and develop and implement guidelines that outline both the agencies' and the Department's responsibilities. In addition, provide a means for consolidated agencies to verify that security and integrity controls in the midrange environment are suitable and meet specific application requirements. Specifically,

- Standardize password length and content requirements and ensure all accounts require a password.
- Update servers to current vendor recommended patch or service pack levels.
- Develop and implement an effective backup tracking process. (Repeated-2007)

**Finding:** The Department did not institute or implement comprehensive standards to effectively secure and control the midrange environment when consolidated Information Technology functions of the following agencies:

- Department of Agriculture;
- Department of Commerce and Economic Opportunity;
- Department of Employment Security;
- Department of Financial and Professional Regulation;
- Department of Healthcare and Family Services;
- Department of Human Services;
- Department of Natural Resources;
- Department of Public Health;
- Department of Revenue;
- Department of Transportation; and
- Environmental Protection Agency.

Although the consolidation was authorized in January 2005, the Department still did not maintain adequate security over the midrange environment. Specifically:

- Comprehensive standards to effectively secure and control the midrange environment had not been implemented across the midrange environment.
- Password length and content requirements were lacking.
- Some administrative and user accounts did not require passwords.
- Servers were not updated with the current vendor recommended patch or service pack levels.
- An effective backup media tracking process had not been established.

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Department officials stated in order to provide immediate benefit of physical environment control, the Department relocated the non-standard server platforms into its data center which led to the need to support multiple, non-standard environments. Many of the underlying causes are a result of the decision to immediately relocate servers prior to standardization of the server configuration.

Although the Department shares responsibility with consolidated agencies, the Department has the ultimate responsibility to effectively secure and control its midrange environment which supports agency applications and data.

**Response:** Accepted. The Department will continue to strive toward standardization and maturity in the midrange environment.

In order to provide immediate benefit of physical environment control, DCMS relocated the non-standard server platforms into its data center which led to the need to support multiple, non-standard environments. Many of the underlying causes are a result of the decision to relocate servers prior to consolidation.

The current Architectural Review Board, Service Engineering Unit, and I.T. Governance process will continue efforts to implement standards, establish appropriate documentation and guidelines, and communicate with agencies. The recent purchase and installation of a comprehensive compliance monitoring product will help control users with security administration authority; identify users that should be deactivated for non-use, and help DCMS track server patch and service pack levels. As staff resources and budgets permit, the Department plans to schedule an enterprise assessment of its security controls.

**Updated Response:** Accepted and partially implemented. The Department has a published the BCCS Credential Standard that identifies minimum password length, complexity, etc. The standard has been implemented in the Illinois.gov domain, and is in the process of being implemented in the legacy domains. Implementation should be complete by 9/1/2011.

The Department strives to maintain servers at current patch levels. Microsoft System Center Configuration Manager (SCCM) has been implemented, and is used to provide updates/patches on a monthly basis to Windows servers. Network Install Manager (NIM) has been implemented, and is used to provide updates to IBM AIX operating systems.

The Department is in process of developing an enterprise backup standard. In conjunction with the standard, processes and procedures will be developed to address items such as backup tracking. The Enterprise Capacity Planning and Storage Manager, John Livingstone, is responsible for the development and implementation of the standard, processes and procedures.

- 5. Ensure complete, accurate and detailed records are available to substantiate the midrange computer systems and equipment. (Repeated-2007)**

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**Finding:** The Department did not maintain complete, accurate, or detailed records to substantiate its current midrange computer system and equipment for the following agencies:

- Department of Agriculture;
  
- Department of Commerce and Economic Opportunity;
- Department of Employment Security;
- Department of Financial and Professional Regulation;
- Department of Healthcare and Family Services;
- Department of Human Services;
- Department of Natural Resources;
- Department of Public Health;
- Department of Revenue;
- Department of Transportation; and
- Environmental Protection Agency.

Although the consolidation was authorized in January 2005, the Department still did not maintain adequate records over the midrange environment. Specifically, during a review of approximately 1,300 servers, auditors noted 160 (12.3%) were not included in the Department listing. Due to the lack of complete and accurate information, the auditors were unable to conduct detailed testing.

Department officials stated the deficiency is a result of incomplete and inaccurate records inherited from the legacy agencies.

**Response:** Accepted. Many of the issues described are related to legacy environments, and these environments did not have adequate controls in place prior to moving the servers to the DCMS data center. Based on reviews of legacy agency prior audit reports, it is evident that these systems were not being effectively managed prior to their move and were at serious risk from an environmental and security perspective.

DCMS is currently pursuing the initiation of a project for a Configuration Management database. This database will replace the Technical Validation database, which represents all DCMS managed IT processing equipment. DCMS is also reconciling its databases against the legacy agency inventory systems to improve data integrity.

**Updated Response:** Accepted and partially implemented. Phase One of the development of the Configuration Management Database has been completed. This phase moved the information to a single data platform and eliminated redundant systems. Phase Two, which is developing automated feeds to the system, is underway, but not expected to be completed in FY11. A separate but related project to implement the Symantec Control Compliance Suite to better manage the environment is also under way, but also is not expected to be completed in FY11. These two projects will give the Department more accurate information regarding the environment and controls over

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changes to the systems. The major constraints are lack of staff and financial resources needed to complete these in a timelier manner.

### **6. Implement adequate controls and procedures to ensure property and equipment is properly safeguarded and records are complete and accurate, and properly complete and maintain supporting documentation for transfers. (Repeated-2002)**

**Finding:** The Department has not provided adequate control over property and equipment. Auditors tested the physical inventory and location of equipment and equipment transfers and deletions, and noted deficiencies as described below.

#### **Physical Inventory and Location of Equipment**

During testing of the physical inventory and location of equipment, auditors selected a sample of 60 items noting the following weaknesses in internal controls:

- Seven items valued at \$10,754 could not be located.
- A copier and a laminator valued at \$17,213 could not be located.
- Modular furniture valued at \$190,336 was not tagged sufficiently to ensure all items included in the property records could be physically accounted for.
- Four items valued at \$14,109 were found at locations other than the location listed in the property records.

Department officials have stated that field property control coordinators did not always process proper paperwork documenting equipment moves for submission to the Property Control Officer.

#### **Equipment Transfers**

During testing of transfers of property and equipment, auditors noted an item valued at \$19,676 was transferred to Surplus Property and listed as having a cost of \$1,400.

Auditors also noted weaknesses regarding the transfer of equipment to surplus property. Specifically, one item with an original cost of \$3,462 did not have the purchase price or purchase date included on the Surplus Property Delivery Form as required by the Illinois Administrative Code (44 Ill. Adm. Code 5010.310). In addition, two items with an original cost of \$16,992 had no Surplus Property Delivery Forms or other supporting documentation when sent to Surplus Property.

Department officials have stated that there is a lack of staff knowledge with procedures regarding proper documentation on the surplus property delivery forms.

**Updated Response:** Accepted. CMS recently received hand scanners, and printers from a bid that was awarded over several months ago. The software however is still on back order in which we hope to have before October 30, 2010. CMS anticipates testing and implementation with the Local office Property Control staff of this new tracking and inventory system on or before March 15<sup>th</sup>, 2011. In addition staff will provide training, properly transferring, and safeguarding records.

- 7. Ensure the necessary components (plans, equipment, and facilities) are available to provide for the continuation of the midrange environment in the event of a disaster.**

**Formally communicate with consolidated agencies to gain an understanding of their individual recovery requirements, and establish and document guidelines that outline both the agencies' and the Department's responsibilities. Coordinate with the agencies and help ensure that recovery tests of critical applications are conducted at least annually. (Repeated-2007)**

**Finding:** The Department did not have an adequately developed and tested disaster contingency plan for the midrange environment and the 11 agencies participating in the consolidation project. Additionally, the Department did not have an adequate satellite facility to meet the recovery needs of the midrange environment.

After the consolidation, there were 32 Category One applications (considered critical to the health and welfare of the Illinois citizens) which run on the Department's midrange environment. Department officials stated, currently no supported agency has identified and communicated a distributed application with the combined criticality of category 1 and stage 0. Based on a review of Department records, auditors were unable to determine if the decrease of critical applications from 32 to zero was based on changes in recovery needs or documentation formalities.

**Response:** The Department concurs, and in the past year has implemented the following:

1. Developed and exercised disaster contingency plans for the major components of the midrange environment.
2. Formally communicated on a quarterly basis – verbally and in writing – with the consolidated agencies to determine their individual recovery requirements.
3. Established and documented guidelines and policy on recovery roles and responsibilities.
4. Coordinated with the consolidated agencies to identify, plan, and test those critical midrange applications requiring disaster contingency plans. To date only one agency has submitted a request to develop recovery plans for a midrange application.

**Updated Response:** Accepted and partially implemented. As a continuation of last year's recovery infrastructure for the most common midrange systems, the Department has installed a new backup Storage Management System and its database in a Chicago area data center. The Department has moved standalone Storage Management Systems of several agencies to a Shared Storage Management System, and has been backing up the shared Storage Management Systems' databases to the one in the Chicago area.

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This will enable a quick identification of backup volumes and retrieve them quickly from the vault. The manager of the Storage Group has been managing this effort. The Department has been standardizing midrange server platforms using server virtualization. This will enable deployment of cost-effective recovery server infrastructure that can host multiple applications' environment without redesign. The Department has deployed a recovery infrastructure for some midrange systems at its newly commissioned alternate data center as part of its phase 1 deployment. The Department continues to work with its agency customers on coordinating and scheduling recovery exercises involving midrange systems.

### **8. Develop and implement an effective mechanism to routinely track, control, and monitor end-user software use. (Repeated-2007)**

**Finding:** Although the consolidation was authorized in January 2005, the Department still did not have an effective mechanism in place to track, control, and monitor end-user software use. The Department did not have an effective mechanism in place to track the number of vendor software licenses purchased versus the number of software copies deployed. The Department did have an automated inventory scanning tool, but had not conducted a self-audit of the number of software licenses being utilized.

Department officials stated this condition existed in the legacy agencies prior to consolidation. The agencies did not provide adequate records documenting the license usage.

**Updated Response:** Accepted and partially implemented. The Department has taken steps to identify inventory and to put processes in place to ensure license compliance for new software, moves, additions and changes. The next phase is to perform a comprehensive audit of all current software licenses and usage to ensure we are in compliance. A project plan has been developed to accomplish this, and a plan to secure a resource(s) is underway, but as of yet we have not been able to begin. The major constraint is personnel resources. Rich Fetter and Brian Bertrand are responsible for this project.

### **9. Continue to fully implement the remaining five management audit recommendations contained in the June 2006 Business Enterprise Management Audit that were either not implemented or were partially implemented. (Repeated-2007)**

**Finding:** In June 2006, the Office of the Auditor General released a management audit of the Department of Central Management Services' Administration of the Business Enterprise Program. Auditors determined that the Department has partially implemented four recommendations, and one of the recommendations has not been implemented. The following recommendation has not been implemented by the Department:

- **Ensure all certifications are completed within 60 days (Recommendation #7):** *CMS should ensure that all applicants for certification or recertification are processed in the required 60 days.* Out of a sample of 25 certifications selected for testing,

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eleven certifications were not processed within the 60 day processing criteria. In addition, there were twelve instances where tracking data contained in the Department's Certification Log did not agree with the documentation supporting the certification.

Department officials stated that resources and staff deficiencies as well as a change in administrations have contributed to this finding. The Department and the State of Illinois have new leadership that will address this deficiency.

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

- **Adequate Membership and regularly scheduled council meetings (Recommendation #1):** *CMS should ensure that the Business Enterprise Council has adequate membership and that the meetings are held on a regular basis. Out of a 19 member Council, three seats were vacant as of June 30, 2009.*

Department officials stated that the Department does not have the authority to appoint members to the Council.

- **Develop minimum training requirements and track training (Recommendation #3):** *CMS should establish minimum training requirements for certification staff and ensure that the required training is received. CMS should also track the training received by certification staff. Management has identified training it would like staff to attend and has set minimum training requirements for staff, including a monthly training requirement. However, staff did not receive the minimum training outlined in the BEP Policy and Procedure Manual. The Department provided evidence of four training classes, but did not provide evidence of any other regional or national training or certification other than the four classes above.*

Department officials stated that the Department implemented an overly aggressive training schedule with respect to Department resources that was not fully met due to time constraints.

- **Reciprocal Agreements with Agencies and Universities (Recommendation #4):** *CMS should develop written agreements with those entities that it accepts certifications from to ensure that those entities' requirements and procedures equal or exceed those in The Business Enterprise for Minorities, Females, and Persons with Disabilities Act and to ensure that vendors are eligible. Agreements should include requirements, procedures, and notifications of certification or denial or changes in requirements. The Business Enterprise Council should also approve all agreements. Management has developed a standard reciprocity agreement for the Agencies and Universities and has finalized the agreement with seven of the eight entities. Management is currently waiting for final legal review and signatures on the agreement with the City of Chicago.*

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Department officials stated that the Department is awaiting a response from the City of Chicago and that personnel continue to work aggressively towards finalizing the agreement.

- **Consider conducting site visits (Recommendation #6):** *CMS should consider conducting site visits of all applicants.* Management has defined a procedure that describes, in general terms, the circumstances under which a certification may require a site visit. Records provided by program management indicate that all 97 flagged files resulted in actual site visits during the fiscal year.

While the Department has implemented a procedure to define the site visit process, it has not identified and documented uniform criteria for all analysts and management to use in determining when a certification includes questionable content that should warrant a site visit.

In addition, the Department has not documented consideration of alternatives to performing site visits of all applicants, such as a cyclical methodology to cover a reasonable percentage of new applications and renewals each year.

Department officials stated that they believe the Department has addressed this recommendation by developing general guidelines for conducting site visits and by conducting all such visits as identified in the reporting period. Further documentation of this process has not been completed due to time constraints and resource shortages.

**Updated Response:** Accepted and partially implemented. The Deputy Director for the Business Enterprise Program will have the responsibility to implement these Recommendations:

### **Ensure all certifications are completed within 60 days (Recommendation #7):**

**Response:** BEP has instituted several mechanisms to streamline the application process. These methods include reducing the amount of required documentation and the number of days given to vendors to respond to a "Request for Information". These measures are ongoing as the department continues to review our process.

### **Adequate Membership and regularly scheduled council meetings (Recommendation #1):**

**Response:** The council has held regular scheduled meetings. Currently, BEP has five vacancies. The Director's office has designated legal counsel to serve as liaison and catalyst for these appointments. The liaison has been working with the Office of the Governor to fill the vacancies.

### **Develop minimum training requirements and track training (Recommendation #3):**

**Response:** BEP continues to revise its current certification training requirements and formulate training tracking procedures.

### **Reciprocal Agreements with Agencies and Universities (Recommendation #4):**

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**Response:** Reciprocal Agreements with Agencies and Universities have all been finalized. The City of Chicago signed the Agreement on 8/20/2010.

**Consider conducting site visits (Recommendation #6):**

**Response:** Although BEP is not statutorily required to conduct site visits, the Department diligently uses them to maintain the integrity of the program. BEP also conducts desk interviews for vendors outside the State.

**10. Complete the implementation of the centralized inventory system software. Establish an effective inventory control system and 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. (Repeated-2004)**

**Finding:** The Department's Division of Property Management State Surplus Warehouse has not implemented an adequate inventory control system. A paper listing of surplused property submitted by agencies with the delivery of items to the warehouse was the only record of surplused inventory.

One method of disposal under the Illinois Administrative Code 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.

Instead of accounting for every item listed on the delivery form, Surplus personnel would do a spot check, comparing some items listed on the delivery form with the items physically delivered. If the spot check resulted in no errors, the Surplus personnel would then sign the delivery form indicating that all of the property was received.

Department personnel have represented the continued weaknesses in the inventory control system are the result of a delay in the implementation of a more effective inventory system. Per discussion with Department personnel, the new system had been designed and was in the testing phase, with an anticipated fully functioning roll-out target of May 2010.

**Response:** Accepted. The Department is in the implementation phase of a new integrated surplus property control system which is expected to go on-line in the spring of 2010. This system and the associated procedures will address the audit recommendations.

**Updated Response:** Accepted. The necessary equipment resources (hand scanners, printers, etc.) for the new inventory management system were bid and awarded; however, the winning vendor had a back-order from its supplier for several months delaying receipt of equipment and CMS' testing and implementation. The equipment was

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received in early August 2010 and CMS is currently executing the change roll-out of the new system to users.

**11. Take the necessary steps to ensure contracts and leases are filed with the State Comptroller within 15 days after the execution of the agreement. (Repeated-2006)**

**Finding:** The Department was not timely in filing contracts in excess of \$10,000 with the Comptroller. In six of 12 contracts totaling \$155 million, the Department did not file the contract with the Comptroller within 15 days of the execution date of the contract, as required by the Illinois Procurement Code. One of 12 contracts was filed with the Comptroller greater than 30 days after the execution date, thereby requiring a late filing affidavit.

Department officials stated that the volumes of contract and amendment activities delay the filings.

**Updated Response:** Implemented. Corrective action has been implemented in the form of Bureau training, but there will always be late contracts.

**12. Comply with the Illinois Procurement Code and submit to the General Assembly and Governor all required reports on a timely basis or seek legislative remedy to have the statutory requirement removed. (Repeated-2008)**

**Finding:** The Department failed to report to the General Assembly and Governor as required by the Illinois Procurement Code.

Reports concerning the activities undertaken to hire qualified veterans and ex-offenders were filed with the General Assembly and the Governor 127 days late. A third report concerning contracts performed outside the United States still has not been completed and filed with the General Assembly.

Department officials stated that, with respect to the late reports, originally the Department took the position that no reports were due because the legislature had not named a committee for the Department to work with on these issues, as provided in statute. Subsequently, the Department determined to file the reports on its own and did so after the due date. With respect to the report not filed, Department officials stated that, at the time the report was required, the Department determined that available data was limited and its impact would not be significant. Department officials believe that the required report was time sensitive and was required during a period that is now closed.

**Updated Response:** Implemented during FY10.

**13. Enforce procedures requiring the approval or disapproval of vouchers within 30 days of receipt and comply with the payment of vouchers within 60 days of physical receipt, as required by the Illinois Administrative Code. (Repeated-2004)**

**Finding:** The Department did not process invoice vouchers in a timely manner as required by the Illinois Administrative Code. During testing of 60 vouchers, auditors noted 21 vouchers were not approved in a timely manner, ranging two to 95 days late. Also 20 of the 60 vouchers were not paid within 60 days of receipt. During FY09 the Department made interest payments for late payment of vouchers totaling \$426,957.

Department officials stated that the exceptions related to late approval were the result of delays in processing due to limitations of fiscal staffing and resources. Complexities of managing cash flows, vendor accounts and vendor communications in the current financial position of the State's funds created significant lag in invoice approvals. Department officials also stated that the State's financial position and lack of cash caused the delay in payments. The revolving funds must hold invoices until there is sufficient cash available to pay them.

**Updated Response:** Accepted and partially implemented. Procedures for timely approval of payments have been reinforced. However, as stated, the Department has no control over cash availability to pay vouchers, and it never will.

**14. Establish an appropriate mechanism that will enable all employees to maintain time sheets in compliance with State law. (Repeated-2004)**

**Finding:** The Department is not maintaining time sheets for its employees in compliance with the State Officials and Employees Ethics Act. Auditors noted that only 125 of the 1,645 Department employees maintained time sheets in compliance with the Act. Most employees' time is generally tracked using 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.

Department personnel stated the current system does not accommodate positive-entry timekeeping. In the interim while a new timekeeping system is being developed, a recap of monthly hours accumulated from the negative timekeeping system is generated and the Department requires non-management employees to sign off that all time recapped as worked was spent on State business.

**Updated Response:** Implemented. Implemented November 2009

**Accepted, Implemented or Under Study – continued**

**15. Develop the necessary rules affecting the State employees' group insurance program in accordance with the Illinois Administrative Procedure Act. (Repeated-2006)**

**Finding:** The Department has not developed rules or policies describing the State employees' group insurance program as requested by the Joint Committee on Administrative Rules. The Department has indicated to JCAR on more than one occasion that rules for this program were being drafted and that a submission of them would be forthcoming. The Department has not completed or submitted those rules to JCAR for their consideration nor is there a target date for the submission of these rules.

**Response:** Accepted. The Department has rules established for 5 of the 6 programs under the Group Insurance Act, and the Bureau of Benefits had been drafting rules for the State Employees Group Health Program. Due to the changing guidelines for the program, particularly those associated with pending federal legislation, union agreements and the expansion of coverage under Public Act 095-0958, the Bureau delayed finalizing and submitting these rules until these important program changes can be incorporated.

**Updated Response:** Accepted and partially implemented. Rules have been drafted and will be submitted to JCAR in the next few months.

**16. Ensure all interagency agreements are approved by an authorized signer prior to the effective date of the agreement and executed prior to the commencement of services. (Repeated-2006)**

**Finding:** The Department's process to monitor interagency agreements was inadequate. Auditors tested 25 interagency agreements between the Department and other State agencies and noted nine of 25 were not signed by all necessary parties before the effective date. These agreements were between 2 and 117 days late.

**Response:** Accepted. The Department concurs that signing of the agreements by all parties needs to be completed in a more timely fashion, and has developed a tracking/approval system to facilitate this effort.

**Updated Response:** Partially Implemented. The Department has implemented an IGA review and approval process and continues to try to enforce compliance by entities with whom we contract.

**17. Continue efforts in reducing the number of leases in holdover status.**

**Finding:** The Department is not actively managing its leased space or occupancy, nor bidding and renewing, or consolidating its existing leases resulting in a substantial number of leases that have not been timely renewed or terminated. The Department has procured

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525 property leases of which 116 were in holdover status.

Leases in holdover status represent leases for which the contractual term of the lease has expired but the State continues to occupy space in the building and pay on a month-to-month basis under the previous terms of the lease. Many of these leases have been in this status for over 5 years as noted in the table below. The Department has not assessed effective utilization of the space and has not negotiated terms that may be more favorable to the State.

Lease Expired During Fiscal Year	Number of Leases in Holdover Status at June 30, 2009
1998	2
1999	1
2000	2
2001	4
2002	9
2003	15
2004	12
2005	12
2006	16
2007	9
2008	15
2009	19
<b>Total</b>	<b>116</b>

Department officials stated that since 2006, when the Department had over 300 holdover leases, it has worked diligently to eliminate existing holdover leases while also dealing with approximately 150 additional leases expiring since 2006. The existing number of holdover leases is due to staffing issues including, but not limited to, the retirement of experienced staff and the subsequent hiring of inexperienced staff.

**Response:** Accepted. The Department continues to utilize a wide variety of space management strategies and tools to determine the most cost effective alternatives not only for agencies occupying holdover lease facilities, but for all leased properties under the Department's purview.

**Updated Response:** Implemented. The Department eliminated all holdover leases prior to the effective date of PA 96-0795.

**Accepted, Implemented or Under Study – continued**

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**18. Follow the Illinois Procurement Code and use the emergency provisions of the Illinois Procurement Code only in true emergencies and not due to inadequate planning. (Repeated-2006)**

**Finding:** The Department filed emergency purchase affidavits for purchases which were not emergencies, in violation of the Illinois Procurement Code.

During testing of emergency purchase affidavits, auditors noted four affidavits were filed to renew cellular services for various regions of the State while waiting to procure a State-wide master contract for cellular services. The contracts with these vendors have been procured by emergency purchase annually since September 2005. During fiscal year 2009, all seven service region contracts were extended for a nine month period of January 1, 2009 to September 30, 2009. Also, push-to-talk services were under contract with a fourth vendor whose services were extended through emergency purchase for the same nine month period as above.

In addition, one affidavit was filed to extend telecommunications network services for the State for a twelve month period from December 15, 2008 to December 14, 2009. The total estimated expenditures for the extension period were approximately \$35.6 million. The original contract, including allowable renewal periods, expired on September 30, 2008. The Illinois Administrative Code allows for the extension of an indefinite quantity contract for a period of 90 days. The network services contract was extended beyond September 30, 2008 date for 90 days with a new contract end date of December 14, 2008. An additional twelve month extension was then procured through the emergency purchase method to allow for continued services while a request for proposal was conducted to establish a replacement contract.

Department officials stated the original competitive procurement for cellular services had to be cancelled, substantially revised to meet issues raised in a protest, and re-issued, which resulted in the reliance on additional emergency procurements to provide the services. Similarly for telecommunication network services, the review, approval and re-issuing of the competitive procurement for replacement contract(s) also required the Department to procure an additional twelve month extension through the emergency purchase method to avoid a lapse in mission critical communications services.

The Department's inability to procure a master contract for cellular services and telecommunication network services has created the emergency situation. Proper planning and foresight would have allowed for these services to be competitively bid. As a result, the Department circumvented the bidding process mandated by the Illinois Procurement Code and spent \$5,740,528 on cellular services from January 1, 2009 to September 30, 2009 and \$33,579,095 for telecommunications network services from December 15, 2008 to December 14, 2009. These services should not have been an emergency and should have been competitively procured.

**Response:** Accepted. The two contracts in question will be awarded and implemented in FY10. The Department has taken steps to minimize the use of emergency contract

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extensions by proactively managing complex procurements earlier in the procurement cycle.

**Updated Response:** Implemented. The Procurement Code has been amended to limit the use of emergency contracts. Emergency contracts are limited to terms of 90 days. If a need arises to extend past a review is performed by the new independent Chief Procurement Officer (CPO). If the CPO determines additional time is necessary he must hold a public hearing and provide a written justification for all emergency contracts.

Requests to extend emergency contracts now must be provided to the Procurement Policy Board at least 14 days before the public hearing. Following the amended procurement code and proactively managing Complex Procurements earlier in the procurement cycle.

Also under the amended procurement code there are new procurement reviews that are not associated with the Agency. There is now a new Chief Procurement Officer, State Purchasing Officer and Procurement Contract Monitor that will monitor the procurement process to ensure compliance with the procurement code and establishing procurement policies to be followed by all State Agencies.

### **19. Ensure that audits of all major systems of internal accounting and administrative control are conducted at least once every two years as required by the Fiscal Control and Internal Auditing Act. Improve documentation of the risk assessment process to more clearly associate the internal audit effort with identified/assessed risks. (Repeated-2006)**

**Finding:** The Department's Illinois Office of Internal Audit (IOIA) did not comply with the Fiscal Control and Internal Auditing Act that requires audits of major systems of internal accounting and administrative control.

The Act requires the internal auditing program to 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. IOIA made improvements in the number of audits performed during fiscal years 2008 and 2009. However, IOIA did not ensure that audits of major systems were being completed once every two years as required by the Act as follows.

- The FY09 IOIA audit plan identified 139 high risk audits that needed to be performed. IOIA postponed or cancelled 72 high risk audits (52%). As a result, IOIA did not complete approximately 13,000 of 28,000 (46%) budgeted hours of planned high risk audits.
- IOIA could not demonstrate that they were addressing the additional risks associated with the agencies which had a greater impact on one of the eleven major transaction/event cycles in accordance with SAMS.

**Accepted, Implemented or Under Study – concluded**

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Internal audits were completed in the eleven major transaction/event cycles set forth in the SAMS; however, the extent of testing performed in four of the cycles did not provide coverage commensurate with assessed risk on a state-wide basis.

- The following table, summarized from the IOIA 2009 annual report, demonstrates the results of the internal audit effort for fiscal year 2009 compared to the planned internal audit effort. In addition to the planned 2009 audits, IOIA completed 16 audits that were started in fiscal year 2008.

<u>From 2009 Plan</u>	<u>Number</u>	<u>Percent</u>
Audits Completed	113	35%
Audits in Draft Stage at June 30, 2009	37	12%
Audits in Progress at June 30, 2009	21	7%
Audits Postponed to Fiscal Year 2010-2011	97	30%
Audits Cancelled	51	16%
Total	319	100%

Department officials stated that some audits in FCIAA areas were not conducted due to extenuating circumstances at agencies such as office closures or other factors, management's judgment, and the allocation of scarce resources. A major factor in FY09 was the passage of the American Recovery and Reinvestment Act. IOIA devoted substantial resources on this project as it was deemed high risk.

**Response:** Annually, IOIA identifies major FCIAA categories for the 38 agencies it audits. We perform a risk assessment in accordance with the Institute of Internal Audit standards to determine audit coverage for the year, track FCIAA coverage for all audits performed and monitor status continually throughout the year. Changes to the annual audit plan are documented using an "Audit Change Form" or an "Add Audit or Activity to Plan Form". A major consideration specific to the FY09 plan was the American Recovery and Reinvestment Act (ARRA). A considerable amount of time was necessary to research and determine the impact to the State of Illinois. In FY10, ARRA is a component in the annual audit plan. We will continue to assess our operations and implement improvements as needed.

**Updated Response:** Under Study. CMS Internal Audit is currently conducting the risk assessment for the current fiscal year based on the guideline established by the IIA. The audit plan, staffing, and other resource decisions will be based on the results of the risk assessment. SB51 has created significant changes to the audit function within CMS and we are currently working through the implications of deconsolidation.

The Chief Internal Auditor is responsible for making sure that CMS Internal Audit is in compliance with all aspects of FCIAA. A formalized risk assessment will be completed by Sept 30, 2010 and the revised audit plan will be submitted to the Director at that time. Staffing turnover and additional responsibilities for implementing SB51 may divert resources from achieving our goals.

### Emergency Purchases

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The Illinois Purchasing Act (30 ILCS 505/1) states that “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 FY09, the Department spent \$48,773,499.26 for 12 emergency purchases as follows:

- \$33,579,095.22 for telecommunication service;
- \$8,597,382.32 for rock salt procurement;
- \$5,740,528.49 for cellular service;
- \$500,000.00 for consulting services for a statewide audit risk assessment;
- \$164,798.00 for repairs;
- \$154,320.31 for legal services; and
- \$37,374.92 for equipment.

### **Headquarters Designations**

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to 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.

Central Management Services indicated as of July 6, 2009 the Department had 45 employees assigned to locations other than official headquarters.