LEGISLATIVE AUDIT COMMISSION

Review of
Capital Development Board
Two Years Ended June 30, 1998

622 Stratton Office Building
Springfield, Illinois 62706
217/782-7097

REVIEW: 4093
CAPITAL DEVELOPMENT BOARD
TWO YEARS ENDED JUNE 30, 1998

FINDINGS/RECOMMENDATIONS - 4

UNDER STUDY - 1
PARTIALLY ACCEPTED - 1
ACCEPTED – 2

REPEATED RECOMMENDATIONS - 0

PRIOR AUDIT FINDINGS/RECOMMENDATIONS – 2

This review summarizes an audit of the Capital Development Board for the two years ended June 30, 1998, filed with the Legislative Audit Commission March 5, 1999. The auditors performed a financial and compliance audit in accordance with State law. The auditors stated that the financial statements of the Capital Development Board are fairly presented.

The Capital Development Board (CDB) was created by the Illinois General Assembly in July of 1972 to serve as the non-road, construction management arm of Illinois government. CDB provides a central agency dedicated to the professional supervision of the State's building construction and renovation projects. In addition to its obvious functions, CDB is responsible for the identification and removal of asbestos in State facilities, serve as a liaison between the State and Illinois' design and construction industries, and actively pursue recovery of assets through litigation of projects found to have design and construction defects.

Under the guidance of a seven-member board and an executive director, CDB manages a construction program for State agencies, community colleges, and higher education. The workload as of June 30, 1998 totaled 2,243 projects.

Kim Robinson became the Executive Director of CDB effective March 1, 1999. She had no prior service with the agency. Sam McGaw was the Executive Director during the audit period.

The average number of employees was:

Division	***1998***	***1997***	***1996***
Executive	55	56	52
Contract Administration	100	101	104
Legal/Contract Quality	6	6	6
TOTAL	**161**	**163**	**162**

Expenditures From Appropriations

Appendix A presents a summary of appropriations and expenditures for the period under review. The General Assembly appropriated a total of $1,145,758,793, including $10,186,000 for administrative activities and $1,135,572,793 for construction activities, during FY98. Total expenditures decreased from $305,109,696 in FY97 to $213,796,658 in FY98, a decrease of $91,313,038, or 29.9%. Administrative expenses accounted for 4.7% of CDB's expenditures in FY98, with construction expenditures accounting for 95.3%. Expenditures from the Capital Development Bond Fund decreased from $221,146,267 in FY97 to $165,508,502 in FY98. Expenditures from the Build Illinois Bond Fund decreased from $13,199,520 in FY97 to $4,297,596 in FY98. Expenditures from the School Construction Fund decreased from $16,853,458 in FY97 to $200,841 in FY98. Significant variances in expenditures are a function of construction activities.

Administrative expenditures increased from $9,545,251 in FY97 to $9,966,710 in FY98, an increase of $421,459, or 4.4%. Expenditures for electronic data processing increased by $54,437 from FY97 to FY98 because the Board implemented a new operating system.

Cash Receipts

Appearing in Appendix B is a summary of cash receipts of the Capital Development Board for FY96 through FY98. Cash receipts increased from $21,790,639 for the year ended June 30, 1996 to $24,056,412 for the year ended June 30, 1997, and then decreased to $14,270,688 for the year ended June 30, 1998. Receipts in the Response Contractors Indemnification Fund decreased from $519,101 in FY96 to $12,981 in FY98 because State law allows the Board to discontinue collecting the fees when there is more than $4,000,000 in the fund. Capital Development Board Revolving Fund increased by $20,986 from FY97 to FY98 because the Board provided a significant number of copies of manuals describing the construction requirements of the Americans with Disabilities Act. Revenues from elementary and secondary institutions and junior colleges decreased $12,007,067 from 1997 to 1998 in the CDB Contributory Trust Fund. Revenues from these sources are a function of construction activity.

Property and Equipment

Appearing in Appendix C is a summary of property and equipment transactions of the Capital Development Board during the period under review. The balance decreased from $82,517,000 as of July 1, 1996 to $58,287,000 as of June 30, 1998. Transfers out totaled $294,540,000 over the two-year period, which represent the transfer of costs incurred for capital projects to the agencies for which the capital projects were undertaken.

Performance Indicators

Appendix D provides a summary of performance indicators of the Capital Development Board. The average expenditure per project decreased from $151,169 in FY96, to $90,900 in FY98. CDB awarded 512 contractor contracts and 352 professional contracts in FY98. In FY96, 704 contractor contracts and 287 professional contracts were awarded.

Change Orders

Changes in certain capital project specifications are awarded in the form of change orders. Appendix E provides a summary of change orders awarded during FY98. This information has not been audited. The largest number of change orders issued (713) was due to user request. In FY97, there were 3,193 change orders awarded for $21,986,334.

Accountants' Findings and Recommendations

Condensed below are the four findings and recommendations presented in the audit report. There were no repeated recommendations. The following recommendations are classified on the basis of information provided by Kim Robinson, Executive Director, in a letter dated May 20, 1999.

Under Study

3. Enforce all provisions of the contract. Revise outdated clauses in the standard contract.

Findings: CDB did not enforce certain clauses of the contract related to vendor certification clauses on invoices. In five of 25 contractual services vouchers tested, the contract required the contractor to certify on the billing that services supplied and expenses incurred were in accordance with the provisions of the agreement. CDB did not adequately review vouchers to determine if the contract specifications had been met. CDB indicated that the standard contract has not been updated recently and contains several outdated clauses.

Agency officials indicated the certification clause requirements have not been enforced due to oversight and changes in requirement for billings to be submitted on C-13 forms. Payment should only be made upon proper fulfillment of all contract provisions.

Response: Vendor certification is not necessary as the appropriate agency personnel review the invoices to ensure that the services supplied and expenses incurred were in accordance with the provisions of the agreement. In the instances noted, CDB review was indicated by Agency Head signature on the vouchers and the appropriate personnel's

signature on either the voucher or invoice. Vendor certification does not provide further

Under Study - concluded

proof of services supplied and expenses incurred. CDB's Office of Legal Counsel will review whether vendor certification is legally required and, if not, will omit this clause with the next revision of these types of contracts.

Partially Accepted

4. **Implement procedures to ensure equipment purchases are properly reported by improving the reconciliation process, improving controls over deletions/dispositions of equipment, and improving the process by which items to be transferred to surplus are identified on a more timely basis.**

Findings: CDB did not properly record equipment in the property records or forward unused equipment to surplus. Auditors' testing noted the following:

- Nine items of EDP equipment were omitted from the Common Systems Inventory listing resulting in an understatement of $17,454;
- One item valued at $219, of 35 items selected for testing, could not be located;
- Two items of equipment valued at $3,281, had been taken out of service and remained in storage.

Response: CDB believes that controls over property are adequate. The understatement of inventory represented 0.2% of the total equipment total and therefore, CDB's asset value was not materially understated.

Three of the nine items omitted from the Common Systems Inventory listing were included on CDB's subsidiary listing. The nine items represent 0.6% of the total value of property as of June 30, 1998; therefore, the Common Systems Inventory listing was not materially understated. Regarding the one missing item and the two obsolete pieces of equipment, the total value of these items is also immaterial (0.2% of total property value).

As many of CDB's EDP equipment purchases involves computer components which are then used in upgrading a system or building a complete new system, it is difficult to assign these costs, and as stated in the finding, the Property Control Coordinator relies on the Office of Information Systems to provide this information. CDB will work towards establishing procedures which will enable these costs to be recorded more timely.

Accepted

1. **Implement adequate controls to ensure that all applicable procurement guidelines and requirements are followed and that the practice of stringing**

computer equipment purchases to circumvent procurement rules be discontinued.

Findings: During FY98, CDB was stringing purchases of computer equipment totaling $65,207 to avoid authorization/procurement processes and filing requirements. From July 1, 1997 to August 7, 1997, CDB placed 12 separate orders for computer equipment at an average order cost of $4,633. CDB also made purchases for computer equipment on April 13 and 14, 1998 of $4,875 and $4,740 respectively. All the purchases were placed directly with the same manufacturer. CDB did not solicit bids or obtain DCMS approval or file any required documents for any of the purchases.

1995 DCMS guidelines stipulated the processes to be followed for the procurement of computer equipment and prohibit the stringing of purchases. CDB was required to solicit bids from at least three vendors, submit an ordering agreement to DCMS, and submit an information summary form to DCMS. The State Comptroller Act required purchase orders in excess of $5,000 to be filed within 15 days.

CDB representatives said they were unaware of 1995 DCMS procurement guidelines and kept below $5,000 to avoid having to obtain DCMS authorization and having to file the purchase order with the Comptroller. CDB officials further stated that it was in their best interests to purchase all computer equipment from the manufacturer to ensure compatibility and interchangeability of components, to purchase only those components necessary, and to take advantage of warranties offered by that manufacturer.

Response: CDB purchased the computer components directly from a manufacturer to ensure compatibility, interchangeability and a two-year warranty. The components purchased were used to upgrade 41 existing systems and build another 39 computer units. CDB conservatively estimates it saved $18,328, or 22% of the cost of buying 80 new system units.

The $5,000 threshold was very restrictive, especially for EDP equipment, and limited CDB's ability to make cost effective purchases and maintain its equipment with a minimum of interruption. Recently the threshold was increased to $25,000.

CDB will work with the authorized DCMS representative to assure that the proper procedures are followed in the future.

2. Ensure that employee performance evaluations are completed annually.

Findings: Annual performance evaluations were not completed timely for five of 25 employees tested. Evaluations were three to nine months past due.

Response: CDB management recognizes the importance of timely evaluations, and issues reminders to supervisors of approaching evaluation dates. CDB management has

emphasized the importance of completing the evaluations and will strive to ensure that the evaluations are completed timely.

Emergency Purchases

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."

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 FY97 the Capital Development Board filed 40 affidavits for emergency purchases at an actual cost of $9,909,989.16. Emergency purchases of $250,000 or more were as follows:

- $820,789.79 to replace boiler tubes in a coal boiler at Menard Correctional Center;
- $401,855.31 to install a security system at Stateville Correctional Center;
- $885,613,14 for roof repair at Albion School in Edwards County;
- $619,741.00 to install a sprinkler system at Illinois Math and Science Academy;
- $3,602,788.50 to convert a cellhouse at Pontiac to a maximum segregation unit;
- $472,688.68 to replace the roof at the Museum Collection Center in Springfield;
- $416,431.00 to replace a 330' communications tower at State Police Headquarters in DuQuoin; and
- $415,000.00 to upgrade the wastewater treatment plant at Dwight Correctional Center.

During FY98, the Capital Development Board filed 19 affidavits for emergency purchases at an actual cost of $4,160,659.80. Emergency purchases of $250,000 or more were as follows:

- $584,233.00 to convert Menard Psychiatric Center to a segregation unit;

- $474,540.00 for repair of an emergency fire alarm system damaged by lightning at Vienna Correctional Center;
- $635,480.46 to replace water supply lines in a cellhouse at Menard Correctional Center;
- $375,466.68 to renovate seven cottages at Choate Mental Health Center; and
- $743,400.00 to construct a sludge holding basin and drying beds at Dwight Correctional Center. The wastewater treatment plant system exceeded EPA allowances.

Headquarters Designations

The State Finance Act requires all State agencies to make semi-annual 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.

The Capital Development Board indicated as of July 15, 1998 that 13 employees were assigned to locations other than official headquarters.