LEGISLATIVE AUDIT COMMISSION

Review of
Medical District Commission
Two Years Ended June 30, 2004

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REVIEW: 4227
MEDICAL DISTRICT COMMISSION
TWO YEARS ENDED JUNE 30, 2004

FINDINGS/RECOMMENDATIONS - 10

IMPLEMENTED - 10

REPEATED RECOMMENDATIONS - 4

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 6

This review summarizes the auditors' report on the Medical District Commission for the two years ended June 30, 2004, filed with the Legislative Audit Commission March 31, 2005. The auditors performed a financial audit and compliance examination in accordance with State law and *Governmental Auditing Standards.* The auditors stated the financial statements are fairly presented.

The Medical District Commission was created July 1, 1941, by the authority of the Medical Center District Act. The Medical Center District was created to provide assembled development sites and to facilitate and coordinate the resources of diverse educational, research and governmental medical institutions and to enable such institutions to provide low cost medical care, accelerate scientific research, improve diagnostic methods, and train health care professionals. The Commission has been given the responsibility to administer and exercise authority with respect to the development and operation of the Chicago Technology Park.

The Commission is directed by seven members (Commissioners) of which four are appointed by the Governor, two by the Mayor of Chicago, and one by the President of the Cook County Board. The Commissioners serve a five-year appointment. Mr. David Livingston was the Commission's Executive Director from July 1, 2002 through July 15, 2003. Mr. George Davis was the Executive Director from July 16, 2003 through February 29, 2004. Mr. Samuel Pruett was the Interim Executive Director from March 1, 2004 through June 30, 2004. He currently serves as the Executive Director. The Commission's office is located at 600 South Hoyne, Chicago. The Chicago Technology Park is located at 2201 West Campbell Park, Chicago.

The average number of employees was:

2004 - 24; 2003 - 24; 2002 - 28.

The above schedule includes all employees of the Commission and certain professional, maintenance and clerical positions paid on a contractual basis.

Expenditures From Appropriations

Appendix A presents a summary of appropriations and expenditures for the period under review. The General Assembly appropriated a total of $4,213,040 ($500,000 from the General Revenue Fund and $3.75 million from the Capital Development Fund) in FY04. Total expenditures were $3,719,433 in FY04 compared to $5,427,365 in FY03, a decrease of about $1.7 million, or 31%. According to Commission officials, appropriations to the Commission have decreased over the years as the Commission becomes more self-sustaining through grants and rentals.

During FY04, the Commission had lapse period expenditures of $61,237, or 1.6%. Also during FY04, CMS billed the Commission a total of $38,395 for savings from procurement efficiencies and information technology. The Commission paid the bill from a line item designated for lump sum purposes. Paying for the savings from this line item was the basis for the finding in Recommendation No. 1.

Locally Held Funds

The Commission has seven locally held funds which are as follows:

Property Management Fund: Revenue is derived from the management of real property and ancillary services, parking, as well as payment from an installment sale agreement from the University Of Illinois. Expenditures are for the maintenance of the property and for related administration costs. The Fund is a non-appropriated, locally administered fund.

Chicago Technology Research Center: Revenue is received from rental income from the rental of lab space and the Research Center Incubator facilities. Expenditures are for the maintenance of the rental property and for related administrative costs of the facilities. The Fund is a non-appropriated, locally administered fund.

***Chicago Technology Park*:** Revenue is received from rental of space within the two Enterprise Centers and other park facilities. Expenditures are for the maintenance of the properties and for related administrative costs. The Fund is a non-appropriated, locally administered fund.

Chicago Technology Park Corporation: Is an Illinois not-for-profit corporation that was organized to directly or indirectly assist the Illinois Medical District Commission with its statutory mission of developing and maintaining the Chicago Technology Park. It primarily receives grant funding for programs operated by the Commission. This is a non-appropriated, locally administered fund.

IMD Revolving Fund: This fund was established to enable the prompt payment of relocation and related costs for the District Development Project and is generally used to immediately pay invoices and later be reimbursed from the Capital Development Fund appropriation. Revenue includes reimbursements from the State and tax and other credits collected in property closings. Expenditures are for expenses of the District Development Project and rehabilitation projects within the District. The Fund is a non-appropriated, locally administered fund.

IMD Restricted Fund: Revenue is received from the sale of land held by the Commission; or from the Commission or third parties in accordance with other agreements or capital projects entered into by the Commission. Expenditures are generally capital asset acquisitions. In accordance with the agreements, each of these accounts is held in escrow accounts at Chicago Title and Trust. The Fund is a non-appropriated, locally administered fund.

District Member Council Fund: This fund was established to segregate funds for projects agreed upon by the District member Council (Representatives of the four major institutions in the Illinois Medical District) for which contributions are made by the institutions to cover costs. Projects to date have included joint marketing materials, banners and landscaping in specific areas. The Fund is a non-appropriated, locally administered fund.

Revenues for the seven locally held funds were almost $14.4 million in FY04 compared to $5.3 million in FY03. Expenditures from the funds were $6.44 million in FY04 and $3.59 million in FY03.

Appendix B presents the statement of net assets for the seven locally held funds, the General Revenue Fund and the Capital Development Fund. Total assets in the statement of net assets is $50.2 million and includes almost $31.5 million in capital assets, net of accumulated depreciation.

Appendix C presents a summary of the statement of activities for all funds for FY04 and FY03. The change in fund balances/net assets was $9.67 million in FY04 compared to $5.85 million in FY03.

Accounts Receivable

Accounts receivable totaled $172,024 as of June 30, 2004, of which $105,030 is over 360 days outstanding. The amount considered uncollectible is $106,850, all from the Chicago Technology Park Research Center Fund.

Property and Equipment

Appearing in Appendix D is a summary of property and equipment transactions of the Commission during the two-year period under review. The balance increased from $30,095,996 as of July 1, 2002, to $33,361,350 as of June 30, 2004 largely due to additions in land and land improvements. Reconciliation problems were reported as audit findings in Recommendation No. 4.

Accountants' Findings and Recommendations

Condensed below are the ten findings and recommendations presented in the audit report. There were four repeated recommendations. The following recommendations are classified on the basis of information provided by Paula Philbrook, Chief Fiscal Officer, via email dated July 11, 2005.

Implemented

1. **Only make payments for efficiency initiative billings from line item appropriations where savings would be anticipated to occur. Further, the Commission should seek an explanation from the Department of Central Management Services as to how savings levels were calculated, or otherwise arrived at, and how savings achieved or anticipated impact the Commission's budget.**

Findings: The Commission made savings payments for efficiency initiative billings without documentation of the nature or amount of savings that the commission had realized. The payments resulted in revenue shortfalls that the Commission had to cover using a locally held fund. During FY04, the Commission received two billings totaling $38,395 from CMS for savings from procurement and information technology efficiency initiatives.

The Commission did not receive guidance or documentation with the billings from CMS detailing from which line item appropriations savings were anticipated to occur. Additionally, Commission staff indicated that no savings had been evident to date. Further, the Commission reported it does not use CMS for any procurement services. The Lump Sum GRF appropriation was used to make payments for the efficiency initiatives. Use of appropriations unrelated to the cost savings initiatives results in non-compliance with the State Finance Act.

Response: The IMD receives only one GRF line item appropriation, and made the efficiency initiative payments out of that line item. The IMD is unaware of what other line item appropriation would be appropriate for making these payments. Based upon the statement by the auditors that "the CMS billings directed the Commission to make payment from General Revenue Funds" it does not appear that any other line item would be appropriate.

The IMD has requested clarification from CMS as to how the efficiency initiative billings were calculated.

Auditor Comments: As noted in the finding, while the Commission only had one GRF appropriation, the Commission reported **it does not use** CMS for any procurement services. The State Finance Act, and not CMS, requires agencies to make payments from line item appropriations where savings are anticipated to occur. Yet the Commission used the lump sum GRF appropriation to pay for procurement savings that it had not, and would not, experience.

Updated Response: Implemented.

2. Develop procedures to ensure that all acquisitions and sales of capital assets are promptly recorded and properly reported. (Repeated-2002)

Findings: The Commission failed to record and report certain capital expenditures on its property records, its Agency Report of State Property (Form C-15), and on its GAAP package.

The auditors examined 66 equipment and permanent improvement expenditures totaling $3,660,910 and noted 20 totaling $809,426 were not recorded on the Agency's property control records or its Form C-15s. However, four of these expenditures totaling $114,503 were recorded on a "not-owned" property list that the Commission was tracking to be added to the property control records in the future. The Commission also acknowledged that they had failed to record several transactions for the sale of real property. These transactions included net sales in excess of $6.5 million for assets sold through escrow accounts. The auditors also noted two of four capital leases with a cost of $87,900 that had not been recorded.

Response: The Commission agrees that it has been lax, under the prior administration, in the proper recording of fixed assets during the past. It has spent significant time and money with its staff and outside consultants since June 2004 to reflect the activities related to its fixed assets and to properly report such activities. The Commission has established procedures within its accounting, legal and operations departments to ensure that fixed assets are recorded promptly and accounted for at all times.

Updated Response: Implemented.

3. Implement procedures to ensure that accounting records are appropriately maintained in accordance with generally accepted accounting principles. (Repeated-2002)

Findings: The Commission did not have adequate controls to ensure that accounts payable and notes receivable were properly recorded. The Commission also did not properly record several non-routine transactions.

The auditors reviewed a sample of payments made subsequent to year end for FY04 and FY03 to determine if accounts payable had been properly recorded. Of the 25 payments reviewed for FY04, nine payments totaling $93,148 were determined to be liabilities of FY04, which had not been recorded. Of the 25 payments selected for FY03, five payments totaling $26,337 were determined to be liabilities of FY03, which had not been recorded.

The Auditors also noted that the Commission did not record certain transactions from prior years related to the issuance of certificates of participation (conduit debt for the University of Illinois) in the amount of $30,625,000, an installment sale contract for almost $6.5 million and various escrow accounts that related to other sales, purchases and projects.

The Commission had reported a prior period adjustment in the amount of $7.5 million to record these transactions. These transactions were also not reported on the Commission's FY02 or FY03 GAAP reports submitted to the State Comptroller.

Response: The Commission is aware of its responsibility with regards to financial reporting. It concurs with the Findings and, in conjunction with the actions addressing Finding 04-2 above, has rectified the past omissions. Proper recording methods and instructions have been given to staff members responsible and/or involved in financial reporting.

Updated Response: Implemented.

4. Implement procedures to ensure that the property and equipment records are properly maintained. (Repeated-2000)

Findings: The Commission's property control records and its reporting of State property were inaccurate. The auditors tested 35 equipment items totaling $47,713 and noted the following:

- Four of 35 items selected did not have a purchase date recorded on the property control records.
- One item, a laptop computer with a cost of $2,244 could not be located.

In addition, the auditors noted the following:

- Six of 10 equipment additions tested were recorded incorrectly resulting in a $5,524 understatement of the cost of these items.
- Three deletions (totaling $8,591) of nine deletions tested lacked documentation related to the deletion.

Response: The Commission agrees with these remarks. The Commission has put forth time and money to improve the condition of the fixed asset control records. A new fixed asset database, along with new reporting and reconciling procedure, will allow the Commission to maintain a current and accurate record of these assets.

Updated Response: Implemented.

5. Implement procedures to ensure that travel regulations are adhered to. (Repeated-2002)

Findings: The Commission's controls over travel expenditures were inadequate. The auditors reviewed 21 expenditures for travel reimbursement (Form C-10) requests and noted the following:

- For seven vouchers, the purpose of travel was not indicated on the travel voucher;
- For seven vouchers, the date the voucher was approved by the Agency head was not indicated on the voucher;
- For 11 vouchers, the date the traveler signed the voucher was not indicated;
- For two vouchers, the traveler did not turn in receipts for expenditures;
- For three vouchers, the traveler charged marketing expenses totaling $557 to travel;
- For one voucher, the departure and arrival time for a return trip from Washington, DC was not included, which precluded determining the correct per diem.

The Commission could not locate its Headquarters Reports filed for FY04.

Response: The Commission agrees that travel expenditures need to be monitored and have the appropriate documentation. Staff training sessions will be scheduled to review the State Travel Regulations (80 Ill. Admin. Code 2800-240) (80 Ill. Admin. Code 3000-620). These training sessions will be conducted semi-annually and will note the distinction between travel and marketing expenses, for which, a new form has been prepared.

Updated Response: Implemented.

6. Review procurement procedures to ensure contracts are not awarded to vendors without required disclosures.

Implemented - concluded

<u>Findings:</u> Certain contractual agreements entered into by the Commission did not include complete disclosures by the contractors. The auditors examined 50 Commission contracts for items such as demolition services, legal and professional services, building engineer services, construction contracts, and several other acquisitions and services. Some contracts were based on hourly rates, others were for a specified maximum fee. The auditors noted the following exceptions:

- One professional and artistic contract (estimated value $220,000 per year) did not included the signature of the vendor on the financial interest, conflict of interest and other contract disclosure pages.
- Six contracts (estimated value $238,000) did not include vendor answers to questions regarding the financial interest, potential conflicts of interest, or other contracts they had with the State.

<u>Response:</u> The Commission understands the seriousness of any conflict of interest that might exist with a vendor. It has reviewed with the appropriate staff personnel to ensure the required information is obtained in the future.

<u>Updated Response:</u> Implemented.

7. Obtain sufficient collateral to cover all deposits in financial institutions.

<u>Findings:</u> The Commission maintained deposits in excess of FDIC and additional pledged collateral. The Commission's deposits in financial institutions totaled more than $3 million in FY03, and $3.8 million in FY04. However, FDIC plus pledged collateral coverage for these accounts totaled about $2.6 million and $3.3 million as of June 30, 2003 and 2004, respectively.

<u>Response:</u> The Commission agrees that it needs to safeguard its assets, especially cash, with the utmost protection. In that vein, it has adopted the policy that collateral agreements will be required of any bank holding amounts greater than the FDIC maximum, and if a bank does not provide such an agreement, then all deposits will be removed from the respective bank.

<u>Updated Response:</u> Implemented.

8. Obtain the proper registration plate for all vehicles in the Commission's fleet in order to comply with the State Vehicle Identification Act.

<u>Findings:</u> The Commission had four vehicles in service during the audit period. Of those four vehicles, one had a State license plate, and the other three had standard issued license plates, which conflicts with statute.

Response: The Commission is proceeding with the conversion of the two conventional plates to State license plates, in order to comply with the State Vehicle Identification Act.

Updated Response: Implemented.

9. Publish notice of public hearings in a newspaper of general circulation in the City of Chicago at least ten days prior to the date of such hearings.

Findings: The Commission did not publish notification of certain public hearings in accordance with State law. The auditors requested documentation of notifications of public hearings held by the Commission relating to construction of real property with the Medical District and the District Development area. The Commission did not publish notices of such meetings.

Response: The Commission admits its interpretation of The Illinois Medical District Act (70 ILCS 915/4) was different, and thus, did not follow the ten-day notice in every case. For future hearings, a notice will be published ten days prior to the hearing.

Updated Response: Implemented.

10. Implement procedures to ensure that deposits are made within a reasonable period of time after receipt, and that documents are maintained, including indication of the date received.

Findings: The Commission did not deposit Commission funds timely and could not locate records related to other deposits. The auditors noted that 16 receipts, totaling $167,855, of the 54 receipts tested were not deposited timely. Two refunds, totaling $2,985, of the eight refunds tested were not deposited timely. The deposits were made between 13 and 65 days after the date on the check.

Funds should be deposited into the State Treasury on the day of receipt for a single receipt over $10,000, within 24 hours for an accumulation of receipts over $10,000, and within 48 hours for an accumulation of receipts between $500 and $10,000. Agencies must maintain documentation of all receipts showing the date of receipt, the payer, purpose, and amount.

Response: The Commission agrees with the finding and has implemented new procedures for the proper and timely handling of deposits and retention of the necessary documentation.

Updated Response: Implemented.

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. 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 FY03 and FY04 the Commission filed no affidavits for emergency purchases.

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 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 Commission filed only one of four headquarter reports during the audit period. The report filed in January 2003 indicated that no employees were assigned to locations other than official headquarters.