STATE OF ILLINOIS
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

For the Two Years Ended June 30, 2005

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GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET
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AGENCY OFFICIALS

Director	Mr. John Filan
Operations Director (effective 11/3/03)	Mr. Marcelino Garcia
Staff Director (7/1/03 – 11/3/03)	Mr. Carl Lingenfelter
Communications Director (effective 2/3/04)	Ms. Becky Carroll
Legal Counsel (effective 4/13/05)	Mr. Kevin Connor
Legal Counsel (7/7/03 – 4/12/05)	Mr. Michael Lurie
Fiscal Officer (effective 10/01/04)	Ms. Charla Luckey

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and

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STATE OF ILLINOIS
EXECUTIVE OFFICE OF THE GOVERNOR
GOVERNOR'S OFFICE OF MANAGEMENT & BUDGET
108 Statehouse • Springfield, IL 62706

ROD R. BLAGOJEVICH
GOVERNOR

October 26, 2005

Honorable William G. Holland
Auditor General
State of Illinois
Iles Park Plaza
740 East Ash
Springfield, IL 62703-3154

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Agency. We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the Agency's compliance with the following assertions during the two-year period ended June 30, 2005. Based on this evaluation, we assert that during the years ended June 30, 2005 and June 30, 2004, the Agency has materially complied with the assertions below.

A. The agency has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The agency has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. The agency has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. The State revenues and receipts collected by the agency are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

E. The money or negotiable securities or similar assets handled by the agency on behalf of the State or held in trust by the agency have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

Governor's Office of Management and Budget

John B. Filan, Director

Marcelino Garcia, Director of Operations

Kevin Connor

Kevin Connor, Chief Legal Counsel

Carol A. Kraus

Carol A. Kraus, CPA
Associate Director

COMPLIANCE REPORT

SUMMARY

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

AUDITORS' REPORTS

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

Number of	This Report	Prior Report
Findings	7	3
Repeated findings	1	0
Prior recommendations implemented or not repeated	2	0

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

SCHEDULE OF FINDINGS

CURRENT FINDINGS (STATE COMPLIANCE)

Item No.	Page	Description
05-1	11	Efficiency Initiative Payments
05-2	14	Contracts not approved and filed in a timely manner
05-3	16	Contracts not let out for bid
05-4	18	Property control and reporting weaknesses
05-5	20	Incomplete personnel files
05-6	21	Inadequate control over travel expenditures
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PRIOR FINDINGS NOT REPEATED (STATE COMPLIANCE)

05-8	24	Inaccurate GAAP reporting
05-9	24	Lack of documentation regarding the Cash Management Improvement Act

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Agency personnel at an exit conference on March 7, 2006. Attending were:

Governor's Office of Management and Budget
Carol Kraus, Director of Revenue and Capital
Marcelino Garcia, Director of Operations

Office of the Auditor General
Jane Clark, Audit Manager
Courtney Dzierwa, Audit Supervisor

Responses to the recommendations were provided by Carol Kraus on March 21, 2006.

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

INDEPENDENT ACCOUNTANTS' REPORT ON STATE COMPLIANCE, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

We have examined the State of Illinois, Governor's Office of Management and Budget's compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the years ended June 30, 2005 and June 30, 2004. The management of the State of Illinois, Governor's Office of Management and Budget is responsible for compliance with these requirements. Our responsibility is to express an opinion on the State of Illinois, Governor's Office of Management and Budget's compliance based on our examination.

A. The State of Illinois, Governor's Office of Management and Budget has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The State of Illinois, Governor's Office of Management and Budget has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. The State of Illinois, Governor's Office of Management and Budget has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. The State revenues and receipts collected by the State of Illinois, Governor's Office of Management and Budget are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

E. Money or negotiable securities or similar assets handled by the State of Illinois, Governor's Office of Management and Budget on behalf of the State or held in trust by the State of Illinois, Governor's Office of Management and Budget have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, including examining, on a test basis, evidence about the State of Illinois, Governor's Office of Management and Budget's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the State of Illinois, Governor's Office of Management and Budget's compliance with specified requirements.

In our opinion, the State of Illinois, Governor's Office of Management and Budget complied, in all material respects, with the aforementioned requirements during the years ended June 30, 2005 and June 30, 2004. However, the results of our procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State findings as findings 05-1, 05-2, 05-3, 05-4, 05-5, 05-6, and 05-7. As required by the Audit Guide, immaterial findings relating to instances of noncompliance excluded from this report have been reported in a separate letter.

Internal Control

The management of the State of Illinois, Governor's Office of Management and Budget is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations. In planning and performing our examination, we considered the State of Illinois, Governor's Office of Management and Budget's internal control over compliance with the aforementioned requirements in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General.

Our consideration of internal control over compliance with the aforementioned requirements would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to one or more of the aforementioned requirements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance that we consider to be material weaknesses. However, the results of our procedures disclosed other matters involving internal control which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State findings 05-1, 05-2, 05-3, 05-4, 05-6, and 05-7. As required by the Audit Guide, immaterial findings relating to internal control deficiencies excluded from this report have been reported in a separate letter.

Supplementary Information for State Compliance Purposes

Our examination was conducted for the purpose of forming an opinion on compliance with the requirements listed in the first paragraph of this report. The accompanying supplementary information as listed in the table of contents as Supplementary Information for State Compliance Purposes is presented for purposes of additional analysis. We have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the 2005 and 2004 Supplementary Information for State Compliance Purposes, except for information on the Service Efforts and Accomplishments on which we did not perform any procedures. However, we do not express an opinion on the supplementary information.

We have not applied procedures to the 2003 Supplementary Information for State Compliance Purposes, and accordingly, we do not express an opinion thereon.

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

Bruce L. Bullard
BRUCE L. BULLARD, CPA
Compliance Audit Director

October 26, 2005

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable William G. Holland
Auditor General
State of Illinois

We have audited the Build Illinois Bond Retirement and Interest Fund of the State of Illinois, Governor's Office of Management and Budget, as of and for the years ended June 30, 2005 and June 30, 2004, and have issued our report thereon dated October 26, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Illinois, Governor's Office of Management and Budget's internal control over financial reporting of the Build Illinois Bond Retirement and Interest Fund in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the Build Illinois Bond Retirement and Interest Fund's financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain deficiencies in the design or operation of internal control over financial reporting which do not meet the criteria for reporting herein and which are reported as State compliance findings in the schedule of findings. We also noted certain immaterial instances of internal control deficiencies, which we have reported to management of the State of Illinois, Governor's Office of Management and Budget in a separate letter dated October 26, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Governor's Office of Management and Budget's Build Illinois Bond Retirement and Interest Fund financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which are reported as State compliance findings in the schedule of findings. We also noted certain other matters which we have reported to management of the State of Illinois, Governor's Office of Management and Budget in a separate letter dated October 26, 2005.

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

Bruce L. Bullard
BRUCE L. BULLARD, CPA
Compliance Audit Director

October 26, 2005

05-1. **FINDING** (Efficiency Initiative Payments)

The Governor's Office of Management and Budget (Office) made payments for efficiency initiative billings from improper line item appropriations.

Public Act 93-0025, in part, outlines a program for efficiency initiatives to reorganize, restructure and reengineer the business processes of the State. The State Finance Act details that the amount designated as savings from efficiency initiatives implemented by the Department of Central Management Services (CMS) shall be paid into the Efficiency Initiatives Revolving Fund. **"State agencies shall pay these amounts…from the line item appropriations where the cost savings are anticipated to occur."** (30 ILCS 105/6p-5)

Two FY04 billings to the Office from CMS for savings from efficiency initiatives totaled $96,014. While many agencies were billed for efficiency initiative savings in FY05, the Governor's Office of Management and Budget was not. The initiatives and amounts billed to the Office for FY04 were:

INVOICE BILLING DATE	INITIATIVE	BILLED AMOUNT
9/19/03 (1)	Procurement Efficiency	$ 86,092
9/19/03 (1)	Information Technology	$ 9,922
	Total:	$ 96,014

Note: (1) Date stamp from Governor's Office of Management and Budget showed receipt on November 12, 2003

Officials in the Governor's Office of Management and Budget reported that CMS had provided guidance, in March 2005, for the FY05 billings in the procurement initiative outlining what categories and proportionate agency savings were billed. However, the Governor's Office of Management and Budget **was not billed** for any initiatives in FY05 – only in FY04. We found no written evidence to show that CMS provided guidance or documentation with the FY04 billings detailing from which line item appropriations savings were anticipated to occur. The only guidance indicated on the billing invoices was the amount of payments that should be taken from General Revenue Funds (GRF) versus Other Funds for the billings.

The Governor's Office of Management and Budget reported they had experienced many benefits from the savings initiatives but did not provide any specific details. Office staff did provide an "Overall Savings Analysis" that showed $621 million in FY04/05 total spending reductions statewide.

Based on our review, we question whether the appropriate appropriations, as required by the State Finance Act, were used to pay for the anticipated savings. We found that the Governor's Office of Management and Budget made payments for these billings **not** from line item appropriations where the cost savings were anticipated to have occurred but from line items where they had determined a majority of their expenditures occurred – the EDP line. However, without specific guidance from CMS regarding the nature and type of savings initiatives, it is unclear whether this was the appropriate line from which to make procurement savings payments.

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

FUND	LINE ITEM APPROPRIATION	AMOUNT PAID	TOTAL APPROPRIATION FOR LINE ITEM	EFFICIENCY INITIATIVE: PROCUREMENT	EFFICIENCY INITIATIVE: INFORMATION TECHNOLOGY
FY04					
GRF	For Electronic Data Processing	$ 96,014	$ 172,751	✓	✓

Use of appropriations unrelated to the cost savings initiatives results in non-compliance with the State Finance Act. Furthermore, use of appropriations for purposes other than those authorized by the General Assembly effectively negates a fundamental control established in State government. Finally, use of funds unrelated to the savings initiative may result in an adverse effect on services the Office provides. (Finding Code No. 05-1)

RECOMMENDATION

We recommend that the Office only make payments for efficiency initiative billings from line item appropriations where savings would be anticipated to occur. Further, the Office 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 Office's budget.

OFFICE RESPONSE

We agree. In the event that future efficiency billings are received from CMS, the Office will request additional documentation from CMS and will review this documentation to ensure that savings payments are made from the appropriate appropriations line.

05-2. **FINDING** (Contracts not approved and filed in a timely manner)

The Governor's Office of Management and Budget (Office) did not approve contractual agreements prior to services being provided under the contract. In addition, the Office did not reduce these contracts to writing and file them with the State Comptroller's Office in a timely manner.

We noted 1 of 6 (17%) contract obligation documents, totaling $1,476, was filed 105 days after approval of the contract. In addition, we noted 5 of 6 (83%) contractual agreements, totaling $224,588, in which services began 25 to 211 days before the written contracts were approved and subsequently submitted to the State Comptroller's Office.

Good business practices require all contracts entered into be executed by all involved parties prior to the beginning of services. In addition, the Illinois Procurement Code (Code) (30 ILCS 500/20-80) requires State agencies to reduce to writing contractual liabilities involving expenditures of more than $10,000 and file them with the Office of the State Comptroller within 15 days. The Code also requires professional and artistic services contracts involving expenditures of more than $5,000 be filed with the Office of the State Comptroller before payment of services can occur.

Office personnel stated untimely approval of contracts resulting in contracts not being reduced to writing and filed timely with the State Comptroller's Office was due to administrative delays.

Failure to approve and reduce to writing contractual agreements prior to the performance of services may result in loss of State funds and may subject the State to unnecessary legal risks. In addition, in accordance with the Illinois Procurement Code, the State Comptroller will refuse to issue a warrant for payment for contractual agreements not filed appropriately with their office. (Finding Code No. 05-2, 03-3)

RECOMMENDATION

We recommend the Office strengthen controls to ensure contractual agreements are approved prior to the beginning of services and that contracts are reduced to writing and filed with the State Comptroller's Office in a timely manner.

OFFICE RESPONSE

We agree. The Office has reiterated to staff the importance that contracts are properly completed prior to the start of services. A total of 63 out of 64 contracts during the audit period were filed on a timely basis with the Comptroller. We have also taken the steps to strengthen the controls to ensure that contracts are filed with the State Comptroller's Office in a timely manner.

05-3. **FINDING** (Contracts not let out for bid)

The Governor's Office of Management and Budget (Office) did not bid out professional services contracts in excess of $20,000.

The Office awarded three contracts totaling $154,220 for budget advisory services without soliciting competitive bids for the services. The Office also failed to publish its notices of intent to enter into sole source contracts in the Illinois Procurement Bulletin.

The Illinois Procurement Code (Code) (30 ILCS 500/35-35) requires all professional and artistic contracts of $20,000 or more be subject to a competitive request for proposal process prior to the contract being awarded. The Code (30 ILCS 500/20-25) also states contracts may be awarded without the use of a competitive process when there is only one economically feasible source for the item. The Code further states at least 2 weeks before entering into a sole source contract, the purchasing agency shall publish a notice of intent to do so along with a description of the item to be procured and the intended sole source contractor in the Illinois Procurement Bulletin.

The Office deemed the vendor for these contracts to be the sole economically feasible source for the services needed because of the individual's unique combination of skills, "on call" availability and lower than market hourly rate paid under the contract.

Failure to bid out contracts is noncompliance with the Illinois Procurement Code and could lead to the inefficient use of State resources. (Finding Code No. 05-3)

RECOMMENDATION

We recommend the Office bid out contracts in accordance with the Illinois Procurement Code and publish its notice of intent to enter into a sole source contract in the Illinois Procurement Bulletin.

OFFICE RESPONSE

We partially agree. The Office will ensure a notice of intent to enter into a sole source contract is published in the Illinois Procurement Bulletin in accordance with the Illinois Procurement Code.

Given the frequently very technical and specific nature of OMB's work we often retain individual practitioners because of their individual expertise in Illinois government accounting and finance. The Office believes that the contracts noted in the finding meet the criteria as defined in the Procurement Code that allows contracts to be awarded without the use of a competitive process when there is only one economical feasible source. The contracts in question are for highly technical specialized services in a wide variety of areas pertaining to State of Illinois accounting and reporting, budgeting, revenue projections and bond related issues as well as Illinois statutory requirements pertaining to those items, which limits the number of potential contractor candidates with this specialized skill set. In addition, the contractor must be available to provide consultative services on an "on-call" basis at numerous times throughout the fiscal year including weekends and holidays due to the nature of OMB's responsibilities and deadlines. Finally, the hourly rate paid to the contractor is well below the "market rate" for the specialized skill set required under the contract. Therefore, we believe this type of contract qualifies for exemption as an economically feasible sole source contract as defined in the Procurement Code.

AUDITOR COMMENT

The Procurement Code requires notice of intent to enter into a sole source contract to be published in the Illinois Bulletin at least two weeks before entering into such a contract (30 ILCS 500/20-25). The purpose of the notices is to allow potential vendors the opportunity to protest the designation of the procurement as sole source (44 Ill. Adm. Code 1.2025). Since the Office did not publish the required notice before entering into these three contracts, it is unknown whether other vendors could, in fact, have provided these services at an economical rate.

05-4. **FINDING** (Property control and reporting weaknesses)

The Governor's Office of Management and Budget (Office) did not maintain sufficient controls over the recording and reporting of State property. We noted the following:

- Shipping and handling charges, totaling $1,062, were not added to the value of equipment resulting in the Office's equipment records being understated. Generally accepted accounting principles require assets to be recorded at cost, including purchase price, freight, and transportation costs.

- Five of 72 (7%) equipment items acquired during the examination period, totaling $3,654, were not tagged or added to the inventory listing within 30 days of acquisition. The Illinois Administrative Code (44 Ill. Adm. Code 5010.400) requires agencies to adjust property records within 30 days of acquisition, change, or deletion of equipment items.

- Two computers, totaling $4,356, could not be located during fieldwork. Subsequent to fieldwork however, Officer personnel provided evidence that one computer was located. The State Property Control Act (30 ILCS 605/4 and 6.02) requires the Office be accountable for the supervision, control, and inventory of all property under its jurisdiction and control.

- One item was improperly valued and reported. The item was acquired for $6,000; however, the item was recorded and reported at $6,409 in the Office's property records and C-15 reports. Good business practices require an agency to review all reported information for accuracy before submission.

- A copier, totaling $11,035, was reported on the Office's C-15 as being transferred to surplus, but was actually transferred to the Secretary of State. Good business practices require an agency to review all reported information for accuracy before submission.

- The Office prepared the SCO-537 based upon incorrect C-15 amounts. The above exceptions noted resulted in a $4,307 understatement of the equipment balance on the June 30, 2005 C-15 report. Accordingly, 3 of the amounts on the Office's Fiscal Year 2005 SCO-537 were incorrect by $4,307 each. Good business practices require an agency to review all reported information for accuracy before submission.

Office personnel stated the errors listed above were due to oversight by the persons responsible for these functions.

Failure to maintain accurate property control records increases the potential for fraud and possible loss or theft of State property. In addition, inaccurate property reporting reduces the reliability of Statewide capital asset information. (Finding Code No. 05-4)

RECOMMENDATION

We recommend the Office ensure all equipment is accurately and timely recorded on the Office's property records and properly tagged. In addition, we recommend the Office thoroughly review all reports prepared from internal records for accuracy before submission to other agencies.

OFFICE RESPONSE

We agree. The Office has strengthened internal controls to ensure that all equipment is properly recorded, inventory ledgers are updated and equipment is tagged on a timely basis. In addition, we have added an additional level of supervisory review to ensure the accuracy of quarterly fixed asset reports.

05-5. **FINDING** (Incomplete personnel files)

The Governor's Office of Management and Budget (Office) personnel files did not contain all required information. We noted the following:

- Performance evaluations were not documented for 6 of 13 (46%) employees tested. The Office's Rules and Policies state each employee shall be evaluated after their first six months of probationary employment and at least on an annual basis thereafter.

- Job descriptions were not documented for 7 of 13 (54%) employees tested. Good business practices require clearly defined job descriptions be used to fix responsibilities within an agency.

Office personnel stated the evaluations were done verbally but the evaluation forms were not signed by the employee or Director. The signed forms were not maintained due to oversight.

Performance evaluations are a systematic and uniform approach used for the development of employees and communication of performance expectations to employees. Written performance evaluations should serve as a foundation for salary adjustment, promotion, demotion, discharge, layoff, recall, and reinstatement decisions. The lack of defined job descriptions could reduce the efficiency of the Office's operations. (Finding Code No. 05-5)

RECOMMENDATION

We recommend the Office annually document employee performance evaluations on a form prescribed by the Office's Director. We further recommend the Office develop and document specific job descriptions for all employees.

OFFICE RESPONSE

We agree. The Office has developed specific job descriptions for senior level staff. In addition, the Office has implemented procedures to ensure that annual evaluations of senior level employees are signed by both the employee and the Director to ensure adequate documentation of the process.

05-6. **FINDING** (Inadequate control over travel expenditures)

The Governor's Office of Management and Budget (Office) did not exercise adequate control over its travel expenditures. We noted the following:

- One employee incorrectly reported their residence. The employee resides in Chicago, yet reports a Springfield residence on travel vouchers. As a result, this employee was incorrectly reimbursed for per diem and transportation in and around their residence, totaling $8,474. Good business practices require a careful review of reported information for accuracy before vouchers are approved for reimbursement. According to Office personnel, the employee headquarters was designated as Springfield at the time the travel was reimbursed, although they maintained a permanent residence in Chicago. The agreement made when employment was offered included relocation to Springfield, with no lodging expense reimbursement.

- 11 of 25 (44%) travel vouchers tested, totaling $12,113, were not submitted by the traveler on a timely basis. Vouchers were submitted 9 to 70 days late. Office policies state employee travel vouchers should be prepared on a monthly basis and submitted for reimbursement no later than the 15th of the following month. Office personnel stated the late submission of the travel voucher was an oversight of the employee.

- 1 of 25 (4%) travel vouchers tested reimbursed the Air Transportation Revolving Fund for employee air travel, yet the departure and arrival dates did not match the employees' travel vouchers for 2 of the flights totaling $120 included on the air travel voucher. Good business practices require a careful review of vouchers and supporting documentation before vouchers are approved for reimbursement. Office personnel stated the voucher for the Air Transportation Revolving fund was received after the approval of the travel voucher.

Inadequate control over travel expenditures could result in overpayment to travelers and is an inefficient use of State resources. (Finding Code No. 05-6)

RECOMMENDATION

We recommend the Office enforce their policy for timely submission of travel vouchers. We further recommend the Office carefully review travel vouchers before approval and payment to minimize erroneous payments to travelers.

OFFICE RESPONSE

We partially agree. In the absence of rules or criteria established by the Travel Control Board and Governor's Travel Control Board by which an agency head must designate employees' headquarters, it was determined that client service needs, overall cost and the amount of time employees spent in each location were generally the most important factors in determining an employee's headquarters location. The Office closely and continuously monitors each employee's travel to determine whether the employee's headquarters is properly designated. The Office recognized the significant diseconomies of basing in Springfield, staff when travel is frequently required to Chicago and elsewhere. Designation of OMB's Springfield location as the headquarters location for such employees would significantly increase the cost of OMB's operations.

The headquarters location of the employee in question was correctly reported on the travel voucher at the time the travel occurred and was reimbursed. When the employee accepted a position in the Office, it was understood that she would be located at the Office's Springfield location. It was further understood that reimbursement for travel from Springfield (headquarters) to Chicago, would not include lodging expenses and that, while working in Chicago, the employee would be allowed reimbursement for per diem and transportation costs only. The Office subsequently determined that the need for the subject employee's services in Chicago would increase during the fiscal year. The employee's headquarters was then properly changed to Chicago, where the employee spends the majority of her time.

In addition, the Office is re-evaluating its policy regarding the submission and approval of travel vouchers to address the timing of receipt of invoices from the Transportation Revolving Fund. The review process will include reconciling the information included on the travel voucher to the invoice received from the Fund.

05-7. **FINDING** (Lack of documentation regarding the Regulatory Sunset Act)

The Governor's Office of Management and Budget (Office) did not formally document its consideration of specific factors in determining whether an agency or program should be recommended for termination or continuation. We noted the Office performed studies on nine agencies scheduled for repeal; however, the nine factors required to be considered by the Regulatory Sunset Act (Act) were not formally documented by the Office as being considered.

The Office is required by the Act (5 ILCS 80 et seq.) to conduct a study of the performance of each regulatory agency and program scheduled for termination under the Act. In conducting the study, the Office is required to consider nine specific factors in determining whether an agency or program should be recommended for termination or continuation.

Office personnel stated the nine factors were considered during their studies; however, the consideration of each individual factor was not formally documented.

Failure to formally document the consideration of the nine factors required by the Act results in inadequate evidence to determine compliance with the statute. (Finding Code No. 05-7)

RECOMMENDATION

We recommend the Office formally document its consideration of the factors required to be studied by the Regulatory Sunset Act.

OFFICE RESPONSE

We agree. We have taken many steps to improve the procedures since our last audit in fiscal year 2003 regarding our statutory responsibilities in conducting studies and providing recommendations to the Governor as required under the Sunset Act. We did implement additional procedures including interviewing key agency personnel and sending out detailed questionnaires surveying relevant agencies that included all 15 areas required to be reviewed under the Act and providing recommendations thereon. However, we agree that we did not always clearly document our conclusions based on our review of information obtained from surveys conducted. We are further enhancing our procedures to ensure we document our conclusions based on the information obtained from the surveys conducted with the relevant agencies.

PRIOR FINDINGS NOT REPEATED

For the Two Years Ended June 30, 2005

05-8. **FINDING** (Inaccurate GAAP reporting)

During the prior period, the Office did not correctly report financial information to the Office of the Comptroller through the GAAP reporting process. Specifically, the Office received $211,160,000 from the U.S. Department of the Treasury in accordance with the Federal Jobs and Growth Tax Relief Reconciliation Act of 2003. However, the Office failed to report this amount as a receivable from the federal government in its FY03 GAAP package for the General Revenue (001) Fund.

During the current period, we noted no significant errors in regard to the proper recording of receivables. (Finding Code No. 03-2)

05-9. **FINDING** (Lack of documentation regarding the Cash Management Improvement Act)

During the prior period, the Office did not maintain appropriate documentation to support its claim for direct costs and the State's net interest liability under the Cash Management Improvement Act (CMIA) and did not maintain documentation to support the filing of the FY01 and FY02 CMIA Annual Reports.

During the current period, the Office maintained documentation to support its claim for direct costs and the State's net interest liability under the CMIA. In addition, the Office maintained support of filing the FY04 and FY03 CMIA Annual Reports, however, the reports were filed 7 and 2 days late, respectively. This issue has been presented in the report of immaterial findings as finding IM05-10. (Finding Code No. 03-1)

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the Build Illinois Bond Retirement and Interest Fund of the State of Illinois, Governor's Office of Management and Budget was performed by the staff of the Office of the Auditor General.

Based on their audit, the auditors expressed an unqualified opinion on the agency's Build Illinois Bond Retirement and Interest Fund financial statements.

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland
Auditor General
State of Illinois

We have audited the accompanying financial statements of the Build Illinois Bond Retirement and Interest Fund of the State of Illinois, Governor's Office of Management and Budget, as of and for the years ended June 30, 2005 and June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the State of Illinois, Governor's Office of Management and Budget's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statements present only the Build Illinois Bond Retirement and Interest Fund and do not purport to, and do not, present fairly the financial position of the State of Illinois, Governor's Office of Management and Budget, as of June 30, 2005 and June 30, 2004, and its changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Build Illinois Bond Retirement and Interest Fund of the State of Illinois, Governor's Office of Management and Budget, as of June 30, 2005 and June 30, 2004, and the changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 26, 2005 on our consideration of the State of Illinois, Governor's Office of Management and Budget's internal control over financial reporting of the Build Illinois Bond Retirement and Interest Fund and on our tests of the State of Illinois, Governor's Office of Management and Budget's compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Bruce L. Bullard
BRUCE L. BULLARD, CPA
Compliance Audit Director

October 26, 2005

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET
INDIVIDUAL NONSHARED GOVERNMENTAL FUND
BALANCE SHEET
June 30, 2005
(expressed in thousands)

	Build Illinois Bond Retirement and Interest Fund (970 & 1231)
ASSETS	
Cash and cash equivalents	$25,784
Investments	121,533
Accrued interest receivable	631
Total Assets	$147,948
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable and accrued liabilities	$0
Total liabilities	0
Fund balances:	
Reserved for:	
Debt Service	147,948
Unreserved:	
Undesignated	0
Total fund balance	147,948
TOTAL LIABILITIES AND FUND BALANCES	$147,948

The accompanying notes to the financial statements are an integral part of this statement.

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET
INDIVIDUAL NONSHARED GOVERNMENTAL FUND
BALANCE SHEET
June 30, 2004
(expressed in thousands)

	Build Illinois Bond Retirement and Interest Fund (970 & 1231)
ASSETS	
Cash and cash equivalents	$49,897
Investments	91,136
Accrued interest receivable	596
Total Assets	$141,629
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable and accrued liabilities	$0
Total liabilities	0
Fund balances:	
Reserved for:	
Debt Service	141,629
Unreserved:	
Undesignated	0
Total fund balance	141,629
TOTAL LIABILITIES AND FUND BALANCES	$141,629

The accompanying notes to the financial statements are an integral part of this statement.

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET
INDIVIDUAL NONSHARED GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Year Ended June 30, 2005
(expressed in thousands)

	Build Illinois Bond Retirement and Interest Fund (970 & 1231)
REVENUES	
Interest and other investment income	$8,619
Total revenues	8,619
EXPENDITURES	
Current:	
General government	0
Debt service:	
Principal	99,208
Interest	121,529
Total expenditures	220,737
Excess (deficiency) of revenues over (under) expenditures	(212,118)
OTHER FINANCING SOURCES (USES)	
Transfers-in	266,084
Transfers-out	(47,647)
Total other financing sources (uses)	218,437
Net change in fund balance	6,319
Fund balance, July 1, 2004	141,629
FUND BALANCE, JUNE 30, 2005	$147,948

The accompanying notes to the financial statements are an integral part of this statement.

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET
INDIVIDUAL NONSHARED GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Year Ended June 30, 2004
(expressed in thousands)

	Build Illinois Bond Retirement and Interest Fund (970 & 1231)
REVENUES	
Interest and other investment income	$0
Total revenues	0
EXPENDITURES	
Current:	
General government	1,249
Debt service:	
Principal	96,029
Interest	108,658
Total expenditures	205,936
Excess (deficiency) of revenues over (under) expenditures	(205,936)
OTHER FINANCING SOURCES (USES)	
Transfers-in	255,053
Transfers-out	(45,978)
Total other financing sources (uses)	209,075
Net change in fund balance	3,139
Fund balance, July 1, 2003	138,490
FUND BALANCE, JUNE 30, 2004	$141,629

The accompanying notes to the financial statements are an integral part of this statement.

(1) Description of Funds

The Governor's Office of Management and Budget (Office) administers the nonshared governmental fund described below. A nonshared fund is a fund in which a single State agency is responsible for administering substantially all financial transactions of the fund.

The Build Illinois Bond Retirement and Interest Fund (970) was established during Fiscal Year 1986 to pay the debt service on outstanding bonds issued under the Build Illinois Bond Act. Even though the Treasurer shares in the activity of this fund, it is presented as a nonshared fund. The Treasurer's activity is limited to receiving interest income only and the Office is responsible for all other transactions. This fund is an appropriated fund. All cash deposits are held by a trustee in accordance with the Master Trust Indenture securing Build Illinois Bonds. The Build Illinois Bond Trustee Account Fund (1231), a non-appropriated non-budgeted locally held fund, is used to account for the deposits held by the trustee. The financial activity of the Build Illinois Bond Trustee Account Fund (1231) is collapsed and reported as part of the activity of the Build Illinois Bond Retirement and Interest Fund (970).

(2) Summary of Significant Accounting Policies

The financial statements of the individual nonshared governmental fund administered by the Office have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

(a) Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

(1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

(2) Fiscal dependency on the primary government.

Based upon the required criteria, the individual nonshared governmental fund does not have component units, nor is it a component unit of any other entity. However, because the individual nonshared governmental fund is not legally separate from the State of Illinois (State), it is included in the financial statements of the State as a governmental fund. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1871.

The financial statements present only the Build Illinois Bond Retirement and Interest Fund administered by the State of Illinois, Governor's Office of Management and Budget and do not purport to, and do not, present fairly the financial position of the State of Illinois, Governor's Office of Management and Budget as of June 30, 2005 and June 30, 2004, and changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

(b) Basis of Presentation

In government the basic accounting and reporting entity is a fund. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. A balance sheet and statement of revenues, expenditures, and changes in fund balance has been presented for the individual nonshared governmental fund administered by the Office.

(c) Basis of Accounting

The individual nonshared governmental fund is reported using the current financial resources measurement focus and the modified accrual basis of accounting.

Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year.

Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt are recorded only when payment is due.

Significant revenue sources of the individual nonshared governmental fund, which are susceptible to accrual, includes interest.

(d) Cash Equivalents

Cash and cash equivalents consist principally of deposits held in the State Treasury. Cash and cash equivalents also includes certificates of deposit, repurchase agreements and U.S. treasury bills.

(e) Interfund Transactions

The individual governmental nonshared fund has the following types of interfund transactions with other funds of the State:

> ***Transfers*** - flows of assets (such as cash) between funds without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers.

(f) Fund Balance

The individual nonshared governmental fund reports reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances represent tentative State plans that are subject to change.

(g) New Accounting Pronouncement

Effective for the year ending June 30, 2005, the Office adopted the provisions of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, *an amendment of GASB Statement No. 3.* This statement establishes and modifies disclosure requirements related to investment risks, such as credit risk, interest rate risk, and foreign currency risk. The financial statements of the individual nonshared governmental fund have been prepared in conformance with this Statement.

(3) Deposits and Investments

The Office has entered into an agreement with a trustee to invest funds for the Build Illinois Retirement and Interest Fund. The Master Trust Indenture for the Build Illinois Bonds authorizes the trustee to enter into the following types of qualified investments:

a) Federal Obligations;

b) Deposits in interest-bearing deposits or certificates of deposit or similar arrangements issued by any bank or national banking association, including a Fiduciary, which deposits, to the extent not insured by the Federal Deposit Insurance Corporation, shall be secured by Qualified Collateral having a current market value (exclusive of accrued interest) at all times at least equal to 102 percent of the amount of such deposits, and which Qualified Collateral shall have been deposited in trust by such bank or national banking association with the trust department of the Trustee or with a Federal Reserve Bank or branch, or with the written approval of the State and the Trustee, with another bank, trust company or national banking association for the benefit of the State and the appropriate Fund or Account as collateral security for such deposits;

c) Direct and general obligations of any state of the United States of America, any direct obligations of the State, or any direct obligations of any political subdivision of the State which, in each case, are rated not less than AA or Aa or their equivalents by two nationally recognized bond rating agencies;

d) Obligations issued by any of the following agencies: Banks for Cooperatives, Federal Intermediate Credit Banks, Federal Home Loan Banks System, Federal Land Banks, Export-Import Bank, Tennessee Valley Authority, Government National Mortgage Association, Farmers Home Administration, United States Postal Service, the Federal National Mortgage Association to the extent that such obligations are guaranteed by the Government National Mortgage Association, any agency or instrumentality of the United States of America, and any corporation controlled and supervised by, and acting as an agency or instrumentality of, the United States of America;

e) Repurchase agreements extending not beyond 30 calendar days with banks which are members of the Federal Reserve System having capital, surplus, and undivided profits of at least $100,000,000 or with government bond dealers having capital, surplus and undivided profits or net worth of at least $100,000,000 and recognized as primary dealers by the Federal Reserve Bank of New York that are secured by Federal Obligations having a current market value (inclusive of accrued interest) at all times at least equal to 102 percent of the full amount of the repurchase agreement, and which Federal Obligations shall have been deposited in trust by such banks or dealers with the trust department of the Trustee or with a Federal Reserve Bank or branch, or with the written approval of the State and the Trustee, with another bank, trust company or national banking association for the benefit of the State and the appropriate Fund or Account as collateral security for such repurchase agreements;

f) Public housing bonds issued by public housing authorities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America, or project notes issued by public housing authorities, or project notes issued by local public agencies, in each case fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America; and

g) Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality, or local governmental unit of any such state (i) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds or obligations for redemption on the date or dates specified in such instructions, (ii) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in the definition of Federal Obligation which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the redemption date or dates specified in the irrevocable instructions referred to in clause (i) of this paragraph (g), as appropriate, and (iii) as to which the principal of and interest on the bonds and obligations of the character described in the definition of Federal Obligation which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph (g) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in clause (i) of this paragraph (g), as appropriate.

Deposits

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. At June 30, 2005 and 2004, the bank balance and the carrying amount of cash on deposit with the State Treasurer for the Build Illinois Bond Retirement and Interest Fund (970) was $2,310,899 and $2,239,465, respectively. There are no cash deposits held outside the State Treasury.

Investments

At June 30, 2005 and 2004 in accordance with Governmental Accounting Standards Board Statement 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*, there is no custodial risk assumed by the individual nonshared governmental fund administered by the Office because the investments are represented by specific identifiable investment securities, are insured or registered, or are securities held by the fund's trustee in the name of the State or the individual nonshared governmental fund. The individual nonshared governmental fund had the following investments, stated at fair value, and maturities as of June 30: (amounts are in thousands)

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET
INDIVIDUAL NONSHARED GOVERNMENTAL FUND
NOTES TO THE FINANCIAL STATEMENTS
For the Two Fiscal Years Ended June 30, 2005

	2005			
	Less than 1 year	1-5 Years	6-10 Years	Total
U.S. Agency Securities	$69,049		$52,484	$121,533
Subtotal	69,049		52,484	121,533
Investment in Guaranteed Investment Contracts				23,474
Total Investments				$145,007

	2004			
	Less than 1 year	1-5 Years	6-10 Years	Total
U.S. Agency Securities		$40,380	$50,756	$91,136
Subtotal		40,380	50,756	91,136
Investment in Guaranteed Investment Contracts				47,658
Total Investments				$138,794

(4) Interfund Activity

Transfers to/from Other Funds

Interfund transfers in (amounts expressed in thousands) for the year ended June 30, 2005, were as follows:

Fund	Amount	Description
970	$ 266,084	Mandatory transfer of sales tax revenues per SAMS Procedure 27.50.50.
	$ 266,084	

Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2005, were as follows:

Fund	Amount	Description
970	$ 47,647	Transfer of excess debt service reserves to General Revenue (001) fund.
	$ 47,647	

Interfund transfers in (amounts expressed in thousands) for the year ended June 30, 2004, were as follows:

Fund	Amount	Description
970	$ 255,053	Mandatory transfer of sales tax revenues per SAMS Procedure 27.50.50.
	$ 255,053	

Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2004, were as follows:

Fund	Amount	Description
970	$ 45,978	Transfer of excess debt service reserves to General Revenue (001) fund.
	$ 45,978	

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

SUMMARY

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:

  Schedule of Expenditures of Federal Awards
  Notes to the Schedule of Expenditures of Federal Awards
  Schedule of Appropriations, Expenditures, and Lapsed Balances
  Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances
  Schedule of Efficiency Initiative Payments
  Comparative Schedule of Receipts, Disbursements, and Fund Balance (Cash Basis) – Locally Held Funds
  Schedule of Changes in State Property
  Comparative Schedule of Cash Receipts
  Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller
  Analysis of Significant Variations in Expenditures
  Analysis of Significant Variations in Receipts
  Analysis of Significant Lapse Period Spending

- Analysis of Operations:

  Agency Functions and Planning Program
  Average Number of Employees
  Cash Management Improvement Act
  Service Efforts and Accomplishments (Not Examined)
  General Obligation Bond Indebtedness Summary
  Build Illinois Bond Indebtedness Summary

The auditors' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states the auditors have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General, except for information on the Service Efforts and Accomplishments on which they did not perform any procedures. However, the auditors do not express an opinion on the supplementary information.

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30,
(expressed in thousands)

Federal Grantor/ Program Title	Federal CFDA Number	Federal Expenditures 2005	Federal Expenditures 2004
Jobs and Growth Tax Relief Reconciliation Act of 2003	21.XXX	$ -	$ 422,321

See accompanying notes to the Schedule of Expenditures of Federal Awards.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Two Years Ended June 30, 2005 and 2004

NOTE 1 – Significant Accounting Policies

A. Basis of Presentation

The Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of the State of Illinois, Governor's Office of Management and Budget (Office), for the years ended June 30, 2005 and June 30, 2004.

B. Basis of Accounting

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

NOTE 2 – Description of Grant Programs

The following is a brief description of the grant program included in the Schedule of Expenditures of Federal Awards:

Jobs and Growth Tax Relief Reconciliation Act of 2003 – CFDA #21.XXX

The Office received a one-time grant from the U.S. Treasury to be used for any governmental activity which (1) is not medical assistance or (2) is not already reimbursed by the Federal government.

NOTE 3 – Pass-Through and Subrecipient Awards

The Office received its assistance directly from the U.S. Treasury and does not provide any awards to subrecipients. As described in Note 2 above, the assistance received was used to offset costs already incurred by the State.

NOTE 4 – Noncash Awards

The Office does not receive any noncash assistance.

STATE OF ILLINOIS

GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES

For the Fiscal Year Ended June 30, 2005

P.A. 93-0842 FISCAL YEAR 2005	Appropriations (Net of Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to August 31	Total Expenditures 14 Months Ended August 31	Balances Lapsed August 31
<u>Appropriated Funds</u>					
General Revenue Fund - 001					
Personal Services	$ 2,112,000	$ 1,918,465	$ 0	$ 1,918,465	$ 193,535
Employee Retirement Contributions Paid by Employer	0	0	0	0	0
State Contribution to State Employees' Retirement System	340,200	308,877	0	308,877	31,323
State Contributions to Social Security	160,800	139,023	148	139,171	21,629
Contractual Services	240,690	126,988	113,702	240,690	0
Travel	86,400	80,380	5,836	86,216	184
Commodities	6,700	2,856	0	2,856	3,844
Printing	8,610	6,486	2,124	8,610	0
Equipment	4,910	2,654	863	3,517	1,393
Electronic Data Processing	122,090	24,870	28,502	53,372	68,718
Telecommunications	81,600	54,871	8,614	63,485	18,115
Total General Revenue Fund	$ 3,164,000	$ 2,665,470	$ 159,789	$ 2,825,259	$ 338,741
Illinois Civic Center Bond Retirement & Interest Fund - 105					
Principal, Interest and Premium on Limited Obligation Revenue Bonds	$ 14,000,000	$ 13,855,411	$ 0	$ 13,855,411	$ 144,589

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES

For the Fiscal Year Ended June 30, 2005

P.A. 93-0842 FISCAL YEAR 2005	Appropriations (Net of Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to August 31	Total Expenditures 14 Months Ended August 31	Balances Lapsed August 31
Appropriated Funds Continued					
Capital Development Fund - 141					
Expenses for the Sale of State Bonds	$ 1,384,600	$ 912,386	$ 16,430	$ 928,816	$ 455,784
School Infrastructure Fund - 568					
Operational Expenses	$ 113,400	$ 105,183	$ 0	$ 105,183	$ 8,217
Build Illinois Bond Retirement & Interest Fund - 970					
Trustee Payments Under Master Indenture as Defined by Build Illinois Bond Act	$ 255,000,000	$ 255,000,000	$ 0	$ 255,000,000	$ 0
Payments to Trustee	11,084,416	11,084,415	0	11,084,415	1
Total Build Illinois Bond Retirement & Interest Fund	$ 266,084,416	$ 266,084,415	$ 0	$ 266,084,415	$ 1
Build Illinois Bond Fund - 971					
Expenses for the Sale of State Bonds	$ 425,000	$ 178,007	$ 43	$ 178,050	$ 246,950
Transfer to Escrow Agency	0		0		0
	$ 425,000	$ 178,007	$ 43	$ 178,050	$ 246,950
Total All Appropriated Funds	$ 285,171,416	$ 283,800,872	$ 176,262	$ 283,977,134	$ 1,194,282

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
For the Fiscal Year Ended June 30, 2005

P.A. 93-0842 FISCAL YEAR 2005	Appropriations (Net of Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to August 31	Total Expenditures 14 Months Ended August 31	Balances Lapsed August 31
Non-Appropriated Funds					
Federal Financing Cost Reimbursement Fund - 212					
Payment of Net State Liability to U.S. Department of the Treasury per the Cash Management Improvement Act		$ 486,001	$ 0	$ 486,001	
Total All Non-Appropriated Funds		$ 486,001	$ 0	$ 486,001	
GRAND TOTAL ALL FUNDS		$ 284,286,873	$ 176,262	$ 284,463,135	

Note: Appropriations, expenditures and lapsed balances were obtained from Agency records and have been reconciled to records of the State Comptroller.

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
For the Fiscal Year Ended June 30, 2004

P.A. 93-0091 FISCAL YEAR 2004	Appropriations (Net of Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to August 31	Total Expenditures 14 Months Ended August 31	Balances Lapsed August 31
Appropriated Funds					
General Revenue Fund - 001					
Personal Services	$ 2,200,000	$ 1,923,786	$ 0	$ 1,923,786	$ 276,214
Employee Retirement Contributions Paid by Employer	90,000	0	0	0	90,000
State Contribution to State Employees' Retirement System	302,400	184,108	0	184,108	118,292
State Contributions to Social Security	139,907	139,906	0	139,906	1
Contractual Services	210,869	130,561	80,307	210,868	1
Travel	79,356	65,256	14,099	79,355	1
Commodities	3,026	2,855	171	3,026	0
Printing	25,319	24,896	422	25,318	1
Equipment	4,372	3,539	832	4,371	1
Electronic Data Processing	172,751	137,514	29,884	167,398	5,353
Telecommunications	76,000	59,668	11,224	70,892	5,108
Total General Revenue Fund	$ 3,304,000	$ 2,672,089	$ 136,939	$ 2,809,028	$ 494,972
Capital Development Fund - 141					
Expenses for the Sale of State Bonds	$ 1,384,600	$ 1,253,532	$ 37,330	$ 1,290,862	$ 93,738

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
For the Fiscal Year Ended June 30, 2004

P.A. 93-0091 FISCAL YEAR 2004	Appropriations (Net of Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to August 31	Total Expenditures 14 Months Ended August 31	Balances Lapsed August 31
Appropriated Funds Continued					
School Infrastructure Fund - 568					
Operational Expenses	$ 113,400	$ 112,776	$ 0	$ 112,776	$ 624
Build Illinois Bond Retirement & Interest Fund - 970					
Trustee Payments Under Master Indenture as Defined by the Build Illinois Bond Act	$ 260,000,000	$ 255,053,511	$ 0	$ 255,053,511	$ 4,946,489
Build Illinois Bond Fund - 971					
Expenses for the Sale of State Bonds	$ 425,000	$ 275,408	22,247	$ 297,655	$ 127,345
Transfer to Escrow Agency	0		0		0
	$ 425,000	$ 275,408	$ 22,247	$ 297,655	$ 127,345
Total All Appropriated Funds	$ 265,227,000	$ 259,367,316	$ 196,516	$ 259,563,832	$ 5,663,168

STATE OF ILLINOIS

GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES

For the Fiscal Year Ended June 30, 2004

P.A. 93-0091 FISCAL YEAR 2004	Appropriations (Net of Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to August 31	Total Expenditures 14 Months Ended August 31	Balances Lapsed August 31
Non-Appropriated Funds					
Federal Financing Cost Reimbursement Fund - 212					
Payment of Net State Liability to U.S. Department of the Treasury per the Cash Management Improvement Act		$ 1,177,214	$ 0	$ 1,177,214	
Total All Non-Appropriated Funds		$ 1,177,214	$ 0	$ 1,177,214	
GRAND TOTAL ALL FUNDS		$ 260,544,530	$ 196,516	$ 260,741,046	

Note: Appropriations, expenditures and lapsed balances were obtained from Agency records and have been reconciled to records of the State Comptroller.

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
For the Fiscal Years Ended June 30,

	Fiscal Year		
	2005	2004	2003
	P.A. 93-0842	P.A. 93-0091	P.A. 92-0538
General Revenue Fund - 001			
Appropriations (Net of Transfers)	$ 3,164,000	$ 3,304,000	$ 3,652,600
Expenditures			
Personal Services	$ 1,918,465	$ 1,923,786	$ 2,502,232
Employee Retirement Contributions Paid by Employer	0	0	80,149
State Contribution to State Employees' Retirement System	308,877	184,108	257,842
State Contributions to Social Security	139,171	139,906	186,237
Contractual Services	240,690	210,868	127,439
Travel	86,216	79,355	38,998
Commodities	2,856	3,026	4,784
Printing	8,610	25,318	24,936
Equipment	3,517	4,371	4,171
Electronic Data Processing	53,372	167,398	28,297
Telecommunications	63,485	70,892	44,319
Total Expenditures	$ 2,825,259	$ 2,809,028	$ 3,299,404
Lapsed Balances	$ 338,741	$ 494,972	$ 353,196
Illinois Civic Center Bond Retirement & Interest Fund - 105			
Appropriations (Net of Transfers)	$ 14,000,000	$ 0	$ 0
Principal, Interest and Premium on Limited Obligation Revenue Bonds	$ 13,855,411	$ 0	$ 0
Lapsed Balances	$ 144,589	$ 0	$ 0
Capital Development Fund - 141			
Appropriations (Net of Transfers)	$ 1,384,600	$ 1,384,600	$ 1,000,000
Expenses for the Sale of State Bonds	$ 928,816	$ 1,290,862	$ 863,605
Lapsed Balances	$ 455,784	$ 93,738	$ 136,395
School Infrastructure Fund - 568			
Appropriations (Net of Transfers)	$ 113,400	$ 113,400	$ 0
Operational Expenses	$ 105,183	$ 112,776	$ 0
Lapsed Balances	$ 8,217	$ 624	$ 0

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
For the Fiscal Years Ended June 30,

	Fiscal Year		
	2005	2004	2003
	P.A. 93-0842	P.A. 93-0091	P.A. 92-0538
Build Illinois Bond Retirement & Interest Fund - 970			
Appropriations (Net of Transfers)	$ 266,084,416	$ 260,000,000	$ 262,000,000
Trustee Payments Under Master Indenture as Defined by Build Illinois Bond Act	$ 255,000,000	$ 255,053,511	$ 243,417,838
Payments to Trustee	11,084,415	0	0
Total Expenditures	$ 266,084,415	$ 255,053,511	$ 243,417,838
Lapsed Balances	$ 1	$ 4,946,489	$ 18,582,162
Build Illinois Bond Fund - 971			
Appropriations (Net of Transfers)	$ 425,000	$ 425,000	$ 138,776,231
Expenses for the Sale of State Bonds	$ 178,050	$ 297,655	$ 329,541
Transfer to Escrow Agency	0	0	138,351,231
Total Expenditures	$ 178,050	$ 297,655	$ 138,680,772
Lapsed Balances	$ 246,950	$ 127,345	$ 95,459
GRAND TOTAL - ALL APPROPRIATED FUNDS			
Appropriations (Net of Transfers)	$ 285,171,416	$ 265,227,000	$ 405,428,831
Total Expenditures	$ 283,977,134	$ 259,563,832	$ 386,261,619
Lapsed Balances	$ 1,194,282	$ 5,663,168	$ 19,167,212
NON-APPROPRIATED FUND			
Federal Financing Cost Reimbursement Fund - 212			
Payment of Net State Liability to U.S. Department of the Treasury per the Cash Management Improvement Act	$ 486,001	$ 1,177,214	$ 378,587

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET
SCHEDULE OF EFFICIENCY INITIATIVE PAYMENTS
For the Two Years Ended June 30, 2005

		FY05	FY04
Procurement Efficiency Initiative			
General Revenue Fund - 001			
Electronic Data Processing		$ 0	$ 86,092
	Sub-Total	$ 0	$ 86,092
Information Technology Initiatives			
General Revenue Fund - 001			
Electronic Data Processing		$ 0	$ 9,922
	Sub-Total	$ 0	$ 9,922
	Grand Total	$ 0	$ 96,014

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

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET
COMPARATIVE SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE (CASH BASIS) – LOCALLY HELD FUNDS
For the Fiscal Years Ended June 30,

	Fiscal Year	
Series FY95A COP Capital Projects Fund - 1319	2005	2004
Beginning Cash Balance	$ 5,634	$ 5,586
Cash Receipts:		
Interest Income	86	48
Transfers from Other Funds		3,978
Cash Disbursements:		
Debt Service Payments		
Contractual Services		3,978
Ending Cash Balance	$ 5,720	$ 5,634

Series FY95A COP Debt Service Fund - 1320	2005	2004
Beginning Cash Balance	$ 1,281,834	$ 1,259,893
Cash Receipts:		
Interest Income	339	834
Transfers from Other Funds	437,924	1,730,891
Cash Disbursements:		
Debt Service Payments	1,710,819	1,709,784
Transfers to Other Funds		
Contractual Services		
Ending Cash Balance	$ 9,278	$ 1,281,834

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET
COMPARATIVE SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE (CASH BASIS) – LOCALLY HELD FUNDS
For the Fiscal Years Ended June 30,

	Fiscal Year	
Series FY96A COP Capital Projects Fund - 1323	2005	2004
Beginning Cash Balance	$ 992	$ 986
Cash Receipts:		
Interest Income	15	6
Transfers from Other Funds		
Cash Disbursements:		
Debt Service Payments		
Contractual Services		
Ending Cash Balance	$ 1,007	$ 992

Series FY96A COP Debt Service Fund - 1324	2005	2004
Beginning Cash Balance	$ 1,122,790	$ 1,104,807
Cash Receipts:		
Interest Income	8,260	696
Transfers from Other Funds	2,852,767	1,557,961
Cash Disbursements:		
Debt Service Payments	1,538,953	1,540,674
Transfers to Other Funds		
Contractual Services		
Ending Cash Balance	$ 2,444,864	$ 1,122,790

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET
SCHEDULE OF CHANGES IN STATE PROPERTY
For the Two Years Ended June 30, 2005
(amounts expressed in thousands)

		Equipment
Balance at July 1, 2003	$	366
Additions		49
Deletions		29
Net Transfers		0
Balance at June 30, 2004	$	386
Balance at July 1, 2004	$	386
Additions		33
Deletions		7
Net Transfers		(13)
Balance at June 30, 2005	$	399

Note: The above schedule has been derived from Agency records which have been reconciled to property reports submitted to the Office of the Comptroller.

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET
COMPARATIVE SCHEDULE OF CASH RECEIPTS
For the Fiscal Years Ended June 30,

General Revenue Fund - 001	**2005**	**2004**	**2003**
Federal Receipts	$ 0	$ 422,320,694	$ 0
Telephone Reimbursements	1,145	849	352
Jury Duty	52	349	33
Prior Year Refunds	0	0	0
Miscellaneous	0	0	0
Total Receipts	$ 1,197	$ 422,321,892	$ 385

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET
RECONCILIATION SCHEDULE OF CASH RECEIPTS TO DEPOSITS REMITTED TO THE STATE COMPTROLLER
For the Fiscal Years Ended June 30,

General Revenue Fund - Fund 001	**2005**	**2004**
Receipts per Office Records	$ 1,197	$ 422,321,892
Add: Deposits in Transit, Beginning of Year	7	168
Less: Deposits in Transit, End of Year	804	7
Deposits Recorded by the Comptroller	$ 400	$ 422,322,053

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For the Two Fiscal Years Ended June 30, 2005

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN FISCAL YEARS 2004 AND 2005

General Revenue Fund (001)

State Contribution to the State Employees' Retirement System
The increase in the State's Contribution to the State Employees' Retirement System expenditures was due to an increase in the budgeted retirement rate from 13.44% in FY04 to 16.107% in FY05.

Printing
The decrease in printing expenditures was due to the FY05 Budget Book being printed by the State of Illinois print shop, which cost significantly less than the outside vendor used to print the FY04 Budget Book.

Electronic Data Processing
The decrease in electronic data processing expenditures resulted from no efficiency initiative payments made to CMS during FY05.

Illinois Civic Center Bond Retirement and Interest Fund (105)

Principal, Interest and Premium on Limited Obligation Revenue Bonds
The increase in expenditures from the Illinois Civic Center Bond Retirement and Interest Fund was due to the transfer of responsibility for the debt service on Illinois Civic Center Bonds from the Department of Commerce and Economic Opportunity to the Governor's Office of Management and Budget.

Capital Development Fund (141)

Expenses for the Sale of State Bonds
The decrease in the expenses for the sale of State Bonds was due to a decrease in the number of general obligation bonds issued during FY05.

Federal Financing Cost Reimbursement Fund (212)

Federal Financing Cost Reimbursement
The decrease in the federal financing cost reimbursement was due to a decrease in the interest owed to the federal government under the Cash Management Improvement Act.

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN FISCAL YEARS 2004 AND 2005, continued

Build Illinois Bond Fund (971)

Expenses for the Sale of State Bonds
The decrease in the expenses for the sale of State Bonds was due to a decrease in the number of Build Illinois bonds issued during FY05.

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN FISCAL YEARS 2003 AND 2004

General Revenue Fund (001)

Personal Services and Related Costs
The decrease in personal services expenditures and related costs was due to a headcount decrease from 57 at the end of fiscal year 2003 to 51 at the end of fiscal year 2004.

Contractual Services
The increase in contractual services expenditures was mainly due to legal expenses incurred in FY04 that were not incurred in FY03, including $67,424 for legal representation for the Illinois Clean Energy Community Trust litigation and $12,389 for legislative and budgetary matters.

Travel
The increase in travel expenditures was due to the legislative session's postponed adjournment from May 31 to July 31 due to legislative impasse.

Commodities
The decrease in commodities expenditures was due to fewer employees as well as the enhancement of the approval process for commodities purchases and increased control over the commodities inventory.

Electronic Data Processing
The increase in electronic data processing expenditures was due to the purchase of new computers and a server upgrade costing approximately $45,000. The Office also made Efficiency Initiative payments of $96,014 to the Department of Central Management Services.

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN FISCAL YEARS 2003 AND 2004, continued

General Revenue Fund (001), continued

Telecommunications
The increase in telecommunications expenditures was due to the statutory changes in the enabling legislation for the Governor's Office of Management and Budget, which has resulted in increased telephone communications with agencies.

Capital Development Fund (141)

Expenses for the Sale of State Bonds
The increase in expenses for the sale of State Bonds was due to a reallocation of personal services expenses as well as increased legal and professional expenses that did not occur in FY03.

Federal Financing Cost Reimbursement Fund (212)

Federal Financing Cost Reimbursement
The increase in federal financing cost reimbursement was due to an increase in the interest owed to the federal government under the Cash Management Improvement Act.

School Infrastructure Fund (568)

Operational Expenses
The increase in expenditures from the School Infrastructure Fund was due to the transfer of responsibility for this program from the Capital Development Board to the Governor's Office of Management and Budget.

Build Illinois Bond Fund (971)

Transfer to Escrow Agency
The decrease in the amount transferred to an escrow agency was due to the fact that prior to FY04, transfers were made from the Office's appropriation. In FY04 and FY05, these expenses were paid directly out of bond proceeds.

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET
ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS
For the Two Fiscal Years Ended June 30, 2005

General Revenue Fund (001)

Receipts routinely consist of telephone and jury duty reimbursements. In addition, the State received a one-time grant from the Federal government in 2004 under the Jobs and Growth Tax Relief Reconciliation Act of 2003.

ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING

For the Two Fiscal Years Ended June 30, 2005

FISCAL YEAR 2005

General Revenue Fund (001)

Contractual Services

Contractual Service expenditures totaling $113,702 were due to invoices for legal costs, consulting fees, and audit expenses received late in the fiscal year.

Printing

Printing expenditures totaling $2,124 were due to one large paper order placed for the Office during the end of the legislative session. The Office received a per-ream discount for placing a larger order.

Equipment

Equipment expenditures totaling $863 were due to two invoices received late in the fiscal year for legal books, including a subscription that the Office holds with West Publishing.

Electronic Data Processing

Electronic data processing expenditures totaling $28,502 consisted primarily of the purchase of a server and a development PC for the Office's technology manager. The order was placed late in the fiscal year.

FISCAL YEAR 2004

General Revenue Fund (001)

Contractual Services

Contractual services expenditures totaling $79,812 for two professional and artistic service contracts were not paid until the lapse period as the two contracts were not finalized before the fiscal year end due to administrative delays. The remaining expenditures totaling $495 was due to receiving vendor invoices late in the fiscal year.

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET
AGENCY FUNCTIONS AND PLANNING PROGRAM
For the Two Fiscal Years Ended June 30, 2005

Functions

The Governor's Office of Management and Budget (Office) is part of the Executive Office of the Governor. The Office's statutory responsibilities are contained in the Governor's Office of Management and Budget Act (20 ILCS 3005). The primary function of the Office is to review budget requests for the Governor and prepare an annual State budget that is both programmatically and fiscally balanced.

The statute creating the Office establishes several goals and mandates that require the Office to:

1) Provide assistance in submitting the annual budget, including estimated receipts and revenue to the General Assembly;

2) Perform studies of agencies to enable the Governor to determine what changes should be made in the existing organization, activities, and methods of business of such agencies so as to strengthen the State's management processes and bring about more efficient and economical conduct of State services;

3) Evaluate programs proposed by State agencies in terms of goals, costs, and relative priorities, keep the Governor informed of the programs and accomplishments of activities by State agencies, and coordinate the development and implementation of State programs to the end that the monies appropriated by the Legislature may be expended in the most economical manner possible with the least possible overlapping and duplication of effort;

4) Improve intergovernmental cooperation in developing policies, plans, and programs by cooperating with and coordinating Federal, State, and local fiscal relationships;

5) Prepare and submit an annual long-range capital expenditure plan for all State agencies;

6) Provide bond indentures to the Commission on Government Forecasting and Accountability no later than seven calendar days following the sale or issuance of any bonds; and

7) Distribute forms to all State agencies for preparation of budget estimates. The forms shall include requests for revenue and expenditures for the preceding fiscal year; appropriations for the preceding fiscal year, obligations incurred, and amounts unobligated and unexpended; an estimate of revenue and expenditures of the current fiscal year; and an estimate of the revenue and expenditures for the next fiscal year.

AGENCY FUNCTIONS AND PLANNING PROGRAM

For the Two Fiscal Years Ended June 30, 2005

The Office is organized into eight divisions, which are responsible for its various functions, which are:

Budget Operations Division - Staff in this division issue budget instructions and procedures, review legislation, and supervise the preparation, printing, and issuance of the annual budget books. This division manages the Office's internal operating affairs and maintains the Office's computer systems. This division is also responsible for drafting all appropriation bills, the electronic Personnel Acquisition Request (ePAR) system**,** out of state travel requests and Large Transaction Reports (LTR's).

Revenue and Capital - Analysts monitor the national economy, track receipts and spending of State funds, and estimate State revenue from a variety of sources, including State income and sales taxes, utility taxes, user fees, the lottery, and federal funds. Staff members also review economic trends to determine implications for State government. Staff members in this division manage the State's capital program, including the construction, repair, and renovation of State facilities and highways as well as conducts program reviews.

Debt Management Division - Staff issue and monitor the State's general obligations and Build Illinois Bonds as well as assist in the oversight of the State's bonding authorities, including the administration of the State's volume cap.

Strategic Management Unit (Performance and Planning) (SMU) –Staff members in this division are responsible for the strategic planning and performance management process for each agency, board and commission under the purview of the Governor. Staff members also monitor the performance measures of all agencies and relative programs to provide accountability and maximize efficiency in the delivery of services. They coordinate with all agencies in completing and submitting their Strategic Management Plan and Annual Management Plan. They ensure that the plans include the objectives and goals that support the agency's mission and vision in addition to the overall State strategic planning. This unit also assists agencies in developing and perfecting their measures as included in the strategic management plans. They provide agencies with criteria and examples of how to create and develop meaningful measures. They also do an evaluation of agency's annual measurement targets/estimates. Targets/estimates need to reflect historical data, trends and available resources. The SMU staffs use PBViews, a performance management software package, to track agency goals, objectives and performance measures. The agency schedules, organizes, and conducts training on the PBViews management software for all agencies, boards and commissions on a monthly basis.

Business Regulation; Health Care and Human Services; Education and Child Welfare; and Public Safety - Analysts in these divisions conduct budget and program reviews and analyses on the State agencies assigned to the divisions to determine the effectiveness of ongoing programs, personnel, and operating needs. They also evaluate new initiatives with respect to the Governor's programmatic and financial priorities. Negotiations between division staff and Office officials result in budget recommendations that are included in the Governor's budget. These divisions also review Office functions as applied to the Regulatory Office Sunset Act.

During fiscal year 2004, the office implemented monthly budget monitoring of all agencies under the Governor. The Budget Actual Variance (BAV) is completed by agencies on a monthly basis. Agencies are required to submit monthly, quarterly and year to date information. Any variances of 2% or more require a corrective action plan.

Planning Program

Since the Office is part of the Executive Office of the Governor, many of its short-term goals and objectives are requests and directives issued by the Governor. These requests are generally informal in nature and are subject to change with little notice. Progress towards implementation of short-term goals is not formally documented. As a result, the level of accomplishment pertaining to short-term goals cannot easily be determined.

The Office's long-term goals and objectives are established in general terms by the statutes that define its duties and responsibilities. Management has developed a planning document containing the Office's statement of purpose, its goals and statutory mandates (outlined above), and its strategies and schedules to achieve these goals. The Office reviews its progress toward these goals, at a minimum, on an annual basis.

The Division Directors meet weekly with the Director to plan strategies and evaluate progress toward accomplishing the Office's goals and objectives. Weekly divisional meetings provide a planning base for projects to be completed and for integration of divisional goals into the overall Office goals and objectives. Re-evaluation of goals and monitoring of programs take place regularly at every level within the Office.

Auditor's Assessment of Agency's Planning Program

The Office appears to have established adequate procedures to manage its statutory responsibilities, which facilitates the achievement of its goals.

AVERAGE NUMBER OF EMPLOYEES

For the Two Fiscal Years Ended June 30, 2005

AVERAGE NUMBER OF EMPLOYEES

The following table, prepared from Agency records, presents the average number of employees, by function, for the Fiscal Years ended June 30,

	2005	2004	2003*
Director's Office	6	6	5
Budget Operations	8	10	12
Capital & Revenue	8	15	8
Debt Management	3	4	4
Education & Child Welfare	4	4	4
Federal Funding & Public Safety	6	4	7
Business Regulation	2	1	1
Health Care & Human Services	6	6	8
Planning & Performance Review	3	2	2
Total average full-time employees	46	52	51

* In 2004 the Director of the Governor's Office of Management and Budget (Office) changed the structure of the Office. The 2003 information has been restated for comparative purposes.

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET
CASH MANAGEMENT IMPROVEMENT ACT

For Fiscal Years 2003 and 2004

The purpose of the Cash Management Improvement Act (CMIA) and 31 CFR Part 205 is to provide requirements for the timely transfer of funds between a Federal agency and a State, and for the exchange of interest where transfers are not made in a timely manner. It is also designed to encourage the development of efficient cash management systems and to ensure efficiency, effectiveness, and equity in the transfer of funds between the Federal Government and the States.

The first agreement between the U.S. Department of the Treasury and the State of Illinois, called the Treasury-State Agreement (TSA), was in effect for the State's fiscal year 1994 and covered 18 programs in nine different State agencies. The fiscal year 2003 TSA covered 20 programs in seven different State agencies and the fiscal year 2004 TSA covered 26 programs in eight different State agencies.

Each year the State must submit an annual report to the U.S. Department of the Treasury by December 31 for its most recently completed fiscal year. This report summarizes by program the interest due to or owed by the State. An authorized State official shall certify the accuracy of the State's annual report. In the State of Illinois, the Director of the Governor's Office of Management and Budget is the State official responsible for making this claim.

The Fiscal Year 2003 net State liability under the Treasury-State Agreement is as follows:

State Agency/Development	Total State Interest Liability	Total Federal Interest Liability	Direct State Costs	Net State Liability
State Board of Education	$ 77,681	$ 0	$ 2,690	$ 74,991
Department of Public Aid	364,979 *	0	873	364,106
Department of Commerce and Economic Opportunity	3,835	0	1,196	2,639
Department of Human Services	169,893	14,804	0	155,089
Department of Employment Security	154,275	0	7,652	146,623
Department of Children and Family Services	0	0	0	0
Department of Transportation	7,769	0	3,660	4,109
	$ 778,432	$ 14,804	$ 16,071	$ 747,557

* Includes prior year State Adjustment.

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET
CASH MANAGEMENT IMPROVEMENT ACT

For Fiscal Years 2003 and 2004

The Fiscal Year 2004 net State liability under the Treasury-State Agreement is as follows:

State Agency/Development	Total State Interest Liability	Total Federal Interest Liability	Direct State Costs	Net State Liability
State Board of Education	$ 74,553	$ 0	$ 2,690	$ 71,863
Department of Human Services	184,486	2,585	0	181,901
Department of Commerce and Economic Opportunity	1,772	0	645	1,127
Department of Employment Security	80,965	0	2,153	78,812
Department of Transportation	7,276	0	6,681	595
Environment Protection Agency	0	0	0	0
Department of Children and Family Services	0	0	0	0
Department of Public Aid	152,650	0	947	151,703
	$ 501,702	$ 2,585	$ 13,116	$ 486,001

Budget Process

Every year during November and December, the Office conducts a detailed financial and programmatic review of agency budgets and works with other agencies to develop a State budget. Once budget options are developed, they are presented to the Governor for his final decisions. The Governor then presents his recommended budget in the form of an appropriation bill to a joint session of the Illinois General Assembly. The recommended budget is then subject to hearings before the House and Senate appropriation committees and must be adopted by each committee before it moves to the full House or Senate for debate. Both legislative chambers must pass the appropriation bill before it returns to the Governor for his signature. The Office monitors each step of the legislative process and any amendments as well as substantive legislation to identify any potential fiscal impacts. In Fiscal Year 2005, the legislative chambers and the Governor approved the appropriation bills on May 31, 2005. In Fiscal Year 2004, the legislative chambers and the Governor approved the appropriation bills on July 24, 2004.

General Obligation and Build Illinois Bonds

As provided in the General Obligation Bond Act (Act), the Governor is authorized to issue general obligation bonds for specific purposes pursuant to the Act. The State issues these bonds from time to time in amounts as directed by the Governor upon recommendation from the Director of the Governor's Office of Management and Budget.

The Build Illinois Program was created to foster economic development and modernization of infrastructure and to provide for the financing thereof.

The related bond issues under the General Obligation Bond Act and the Build Illinois Program for Fiscal Years 2005 and 2004 are as follows:

Fiscal Year 2004

Issue	Amount	Date of Sale
Build Illinois Bonds – Series July 2003	$150,000,000	7/24/2003
General Obligation Bonds – Series A October 2003	$363,000,000	10/30/2003
General Obligation Bonds – Series B October 2003	$600,000,000	10/30/2003
Build Illinois Bonds – Series March 2004	$200,000,000	3/4/2004
General Obligation Bonds – Series A March 2004	$484,400,000	4/1/2004
General Obligation Refunding Bonds – Series B March 2004	$344,775,000	4/1/2004
Total	$2,142,175,000	

Fiscal Year 2005

Issue	Amount	Date of Sale
General Obligation Bonds – Series September 2004	$285,000,000	9/28/2004
General Obligation Bonds – Series November 2004	$275,000,000	11/10/2004
Build Illinois Bonds – Series February 2005	$75,000,000	2/17/2005
General Obligation Bonds – Series April 2005	$315,000,000	4/7/2005
Build Illinois Bonds – Series June 2005	$125,000,000	6/29/2005
Total	$1,075,000,000	

Short Term Borrowings

The State is authorized by the Short Term Borrowing Act (Act) (30 ILCS 340) to borrow up to 15% of the State's appropriations for the fiscal year in order to meet revenue shortfalls for the year. Any debt issued for this purpose must be repaid within one year of the date of its issuance.

During FY04, the Office issued the following debt under this section of the Act:

Issue	Amount	Date of Sale
General Obligation Certificates	$ 850,000,000	6/17/2004

During FY05, the Office issued the following debt under this section of the Act:

Issue	Amount	Date of Sale
General Obligation Certificates	$ 765,000,000	2/24/2005

Subsequent Events

Subsequent to June 30, 2005, the Office has issued the following debt pursuant to the General Obligation Bond Act and the Short Term Borrowing Act:

Issue	Amount	Date of Sale
General Obligation Bonds – Series September 2005	$ 300,000,000	9/29/2005
General Obligation Certificates	$1,000,000,000	11/22/2005

Performance Indicators

	FY04	FY05
General Obligation Bond Rating (February):		
Moody's Investors Service	Aa3	Aa3
Standard & Poor's	AA	AA
Fitch, Inc.	AA	AA

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET
GENERAL OBLIGATION BOND INDEBTEDNESS SUMMARY
June 30, 2005
(expressed in thousands)

GENERAL OBLIGATION BONDS

	Capital Development	Transportation Series A	Series B	School Construction	Anti-Pollution	Coal Development	Multi-Purpose	Multi-Purpose Pension	Refunding		Total
Bonds Authorized by Statute	$1,737,000	$1,326,000	$403,000	$330,000	$599,000	$35,000	$17,658,149	$10,000,000	$2,839,025		$34,927,174
Bonds Issued (by Fiscal Year):											
Prior to 1986	1,737,000	1,326,000	403,000	330,000	599,000	35,000	200,000				4,630,000
1986							440,000		199,915		639,915
1987							240,000		249,990		489,990
1988							340,003				340,003
1989							340,000				340,000
1990							340,000		100,000		440,000
1991							375,000				375,000
1992							312,794		297,000		609,794
1993							428,452		485,944		914,396
1994							519,379		249,525		768,904
1995							649,816				649,816
1996							659,205		315,795		975,000
1997							350,055		84,945		435,000
1998							598,480		119,850		718,330
1999							603,079		169,255		772,334
2000							860,000				860,000
2001							1,165,045		112,810		1,277,855
2002							1,500,000		398,470		1,898,470
2003							1,712,079	10,000,000	564,900		12,276,979
2004							1,175,000		617,175		1,792,175
2005							875,000				875,000
Total Bonds Issued	$1,737,000	$1,326,000	$403,000	$330,000	$599,000	$35,000	$13,683,387	$10,000,000	$3,965,574		$32,078,961
Bonds Authorized But Not Issued	$0	$0	$0	$0	$0	$0	$3,974,762	$0	$923,608	(1)	$4,898,370

Note: This schedule does not include Public Welfare Bonds or Educational Institutions Bonds, whose sales are administered by other State agencies.

(1) The State is authorized to issue $2,839,025 at any time and from time to time outstanding, for the purpose of refunding any outstanding General Obligation bonds. Therefore, the unissued amount is the difference between the amount authorized and the amount outstanding of $1,915,417.

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET
BUILD ILLINOIS BOND INDEBTEDNESS SUMMARY
June 30, 2005
(expressed in thousands)

BUILD ILLINOIS BONDS

	Sales Tax Based Revenue		Refunding (1)	Total
Bonds Authorized by Statute	$3,805,509		$1,575,577	$5,381,086
Bonds Issued (by Fiscal Year):				
Prior to 1986				
1986	100,000			100,000
1987	89,252	(2)	95,475	184,727
1988	220,000			220,000
1989	197,004			197,004
1990	300,002			300,002
1991	255,000			255,000
1992	215,783		150,057	365,840
1993	100,000		416,890	516,890
1994	174,830		256,815	431,645
1995	135,000			135,000
1996	80,000			80,000
1997	60,000			60,000
1998			145,475	145,475
1999	60,000			60,000
2000	125,000			125,000
2001	125,000		125,165	250,165
2002	150,000		255,575	405,575
2003	182,225		130,125	312,350
2004	350,000			350,000
2005	200,000			200,000
Total Bonds Issued	$3,119,096		$1,575,577	$4,694,673
Bonds Authorized But Not Issued	$686,413	(2)	$0	$686,413

(1) For the purposes of this report, the amount authorized is considered to be the same as the amount of the issue. The Office has a continuing appropriation to issue refunding bonds for any outstanding Build Illinois Issues.

(2) Actual amount issued was $120,000. However, part of the original issuance was defeased. Defeased amounts are not charged against the authorized amount.