



STATE OF ILLINOIS
**OFFICE OF THE
AUDITOR GENERAL**

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

Capital Development Board

**Financial Audit For The Year Ended June 30, 2010 and
Compliance Examination For the Two Years Ended:
June 30, 2010**

Release Date: March 17, 2011

Summary of Findings:

Total this report	7
Total last report	6
Repeated from last report:	3

INTRODUCTION

The Capital Development Board (Board) serves as the non-road, construction management agency of the State of Illinois. The auditor performed a financial audit of the Board for the year ended June 30, 2010 and a compliance examination for the two years ended June 30, 2010.

SYNOPSIS

- The Capital Development Board's process for the estimation of reappropriated projects' accounts payable underestimated the amounts to be reported in their June 30, 2010 and 2009 financial statements.
- The Board did not complete performance evaluations as required.
- The Board failed to file the required affidavits with the Auditor General.

{Expenditure Statistics and Activity Measures are summarized on the reverse page.

**CAPITAL DEVELOPMENT BOARD
FINANCIAL AUDIT
For The Year Ended June 30, 2010
COMPLIANCE AUDIT
For The Two Years Ended June 30, 2010**

EXPENDITURE STATISTICS	2010	2009	2008
Total Expenditures (All Funds)*.....	\$ 205,480,183	\$ 140,913,730	\$ 222,085,157
OPERATIONS TOTAL.....	\$ 14,206,360	\$ 13,310,920	\$ 13,308,781
% of Total Expenditures.....	6.9%	9.4%	6.0%
Personal Services.....	\$ 7,939,101	\$ 7,727,716	\$ 7,663,215
% of Operations Expenditures.....	55.9%	58.1%	57.6%
Average No. of Employees (whole numbers).....	122	125	130
Other Payroll Costs (Retirement, Social Security, Group Ins).....	\$ 4,400,181	\$ 3,782,499	\$ 3,480,648
% of Operations Expenditures.....	31.0%	28.4%	26.1%
Contractual Services.....	\$ 525,319	\$ 478,620	\$ 553,209
% of Operations Expenditures.....	3.7%	3.6%	4.2%
All Other Operations Items.....	\$ 1,341,759	\$ 1,322,085	\$ 1,611,709
% of Operations Expenditures	9.4%	9.9%	12.1%
Construction Total	\$ 191,273,823	\$ 127,602,810	\$ 208,776,376
% of Total Expenditures.....	93.1%	90.6%	94.0%
Cost of Property and Equipment.....	\$ 1,915,250	\$ 2,053,156	\$ 2,024,847
Cost of Construction in Progress.....	\$ 16,985,466	\$ 31,424,889	\$ 18,045,024
*Appropriated and non-appropriated funds			
SELECTED ACTIVITY MEASURES	2010	2009	2008
Number of Projects.....	1,059	917	741
Number of projects awarded.....	199	209	177
Average Variation from Planned Schedule:			
Design Phase.....	61.57%	60.00%	40.98%
Construction Phase.....	5.6%	17.8%	6.47%
Number of Change Orders.....	1,082	1,183	1,516
EXECUTIVE DIRECTORS			
During Engagement Period: James Riemer, Executive Director (5/13/08 through 12/31/10)			
Currently: Gevan Behnke, Acting Executive Director (12/31/10 through present)			

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

REAPPROPRIATED PROJECTS' ACCOUNTS PAYABLE UNDERSTATED

The Board's process for the estimation of reappropriated projects' accounts payable underestimated the amounts to be reported in their June 30, 2010 and 2009 financial statements.

**June 30, 2010 accounts payable
underestimated by \$3.076 million**

The Board records reappropriated projects accounts payable in its financial statements based on estimates derived from methodologies and historical analyses. Based upon a review of subsequent payments for expenditures incurred for fiscal year 2010 through October 2010, and using a multiplier for future payments to be made applicable to fiscal year 2010 liabilities, the auditors projected the reappropriated projects accounts payable was understated by \$3.076 million.

**June 30, 2009 accounts payable
underestimated by \$1.738 million**

In addition, based upon a review of subsequent payments for expenditures incurred for fiscal year 2009, the reappropriated projects accounts payable were also determined to be understated by \$1.738 million.

**Auditor proposed adjustments to
correct misstatements**

The misstatements in estimating accounts payable balances for both June 30, 2010 and 2009 necessitated the auditor to propose adjustments to the Board's June 30, 2010 financial statements.

We recommended the Board evaluate the effectiveness of its internal control related to accounting estimates on reappropriated projects' accounts payable by:

- Reviewing relevant factors that may be unique to the accounting period and considering the changes in a previously established method to arrive at reasonable estimates.
- Comparing prior year accounting estimates with subsequent results to assess the reliability of the process used in developing estimates.

Board disagrees with auditors

The Board officials disagreed with the finding and the proposed auditor adjustments to the financial statements. The Board stated the auditors had the advantage of reviewing actual expenditures for a longer period than

CDB analysts. The Board further stated the Board is required to submit final financial statements (including all estimates) to the IOC by August 31, 2010 and once these statements are submitted cannot be changed. (Finding 10-1, pages 11-16)

Auditor's comment

In an auditor's comment, we noted because of the nature of CDB's operations they do not have final data available to record the actual balance for reappropriated projects' accounts payable. It is acceptable in the preparation of an entity's financial statements to report amounts derived through an estimation process.

In addition, as set forth in the AICPA Statements on Auditing Standards, section AU 342.11 "...auditors assess the reasonableness of an accounting estimate by performing procedures to test the process used by management to make the estimate." One procedure of testing management's estimation process is to test amounts reported in prior year financial statements based on estimates to actual (subsequent) information to determine if the estimation process used by management is generating data that is not materially different from actual amounts.

In performing testing at CDB for amounts reported at June 30, 2008 it was determined CDB under reported the liability related to reappropriated accounts payable by \$1.082 million. In addition, the auditors estimated the June 30, 2009 amount was understated by \$1.755 million. The June 30, 2008 and 2009 misstatements were considered material to CDB's financial statements by the auditors and the auditors proposed adjusting entries, which were made by CDB.

In performing the current audit, the auditors determined the amount for fiscal year 2009 was actually understated by an additional \$1.738 million. This demonstrates the unpredictability in trying to arrive at a reasonable amount. In addition, the auditors determined the FY10 reappropriated accounts payable were understated by \$3.076 million, again the misstatements were determined by the auditors to be material to CDB's financial statements.

Board management did not make the auditor's proposed adjustments

The auditors proposed adjusting entries to CDB's management to address the differences between what was reported by CDB and what was computed by the auditors during the fiscal year 2010 engagement. CDB

Auditor's qualify opinion on Board's financial statements

management declined to record the proposed adjustments. The auditors noted in their opinion on the financial statements that the financial statements as presented do not present fairly, in all material aspects, the respective financial position of the governmental activities and the aggregate remaining fund information of the State of Illinois Capital Development Board, as of June 30, 2010.

In performing an audit, auditors are tasked with testing information as reported by the auditee. In such a situation, auditors do have the benefit of subsequent information to test reported information thus the benefit of the audit process in determining that the information presented is not materially misstated.

PERFORMANCE EVALUATIONS NOT COMPLETED

The Board did not timely complete performance evaluations. During our review of 40 employee personnel files, we noted 26 (65%) performance evaluations were not current or timely, as follows:

- Four of 40 (10%) employees tested for FY 2009 and 21 of 40 (53%) employees tested for FY 2010 did not have a performance evaluation.
- One of 40 (2%) employees tested did not have a performance evaluation at the end of the probationary period nor within the previous twelve months.

In addition, performance evaluation forms for 10 of 40 (25%) employees were not signed by the required level of approvers. (Finding 10-3, pages 19-20)

The Board agreed with the finding.

FAILURE TO FILE REQUIRED AFFIDAVITS WITH THE AUDITOR GENERAL

The Board did not comply with the Illinois Procurement Code. The Board failed to provide the Auditor General affidavits that the waiver of the application of the requirements of Section 30-30 of the Illinois Procurement Code for two FY 2010 construction projects totaling \$103 million, is in the best interest of the State.

Also, affidavits for 5 of 25 (20%) emergency purchases tested were not filed with the Auditor General within 10 days of awarding the contracts. These emergency purchases consisted of 4 projects for the Department of Central Management Services (DCMS) and 1 project for the Illinois Secretary of State (ISOS), totaling \$2.3 million. (Finding 10-4, pages 21-22)

We recommended the Board implement controls to ensure compliance with the Code requirements to file necessary affidavits with the Auditor General.

Board disagrees with auditors

The Board officials disagreed with our finding and recommendation and stated that the provisions of 30 ILCS 500/20-30(c) require that affidavits be filed by the Chief Procurement Officer (CPO) for fiscal year 2011 forward. CDB management will provide all relevant documents so that the CPO may file timely and accurate affidavits.

Auditor's comment

In an auditor's comment, we noted the Illinois Procurement Code (30 ILCS 500/20-30) requires that a purchasing agency file affidavits with the chief procurement officer and the Auditor General within 10 days after the emergency procurement. This requirement has been in effect since July 1, 1998 and applied during the period under audit.

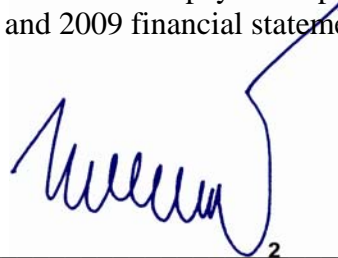
OTHER FINDINGS

The remaining findings are reportedly being given attention by the Board. We will review the Board's progress towards the implementation of our recommendations in our next engagement.

AUDITORS' OPINION

Independent auditors' opinion on financial statements included a qualification

The auditors expressed a qualified opinion on the Board's financial statements for the year ended June 30, 2010. The auditor's qualified their opinion on the financial statements due to the Board declining to make the proposed adjustments for the underestimation of the reappropriated projects' accounts payable reported in their June 30, 2010 and 2009 financial statements.

A handwritten signature in blue ink, appearing to read 'William G. Holland', is written above a horizontal line. A small number '2' is written at the end of the signature.

WILLIAM G. HOLLAND
Auditor General

WGH:JAC

SPECIAL ASSISTANT AUDITORS

E.C. Ortiz and Co., LLP were our special assistant auditors on this engagement.