STATE OF ILLINOIS
OFFICE OF THE
AUDITOR GENERAL
William G. Holland, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF COMMERCE AND ECONOMIC OPPORTUNITY

COMPLIANCE EXAMINATION
For the Two Years Ended: June 30, 2010

Release Date: April 21, 2011

Summary of Findings:

Total this audit:	**6**
Total last audit:	**10**
Repeated from last audit:	**3**

SYNOPSIS

- The Department did not ensure proper controls were established in the administration of its grant programs during the examination period.

- The Department did not maintain adequate documentation of the methodology for determining the allocation of shared legal services paid during the examination period.

{Expenditures and Activity Measures are summarized on the reverse page.}

DEPARTMENT OF COMMERCE AND ECONOMIC OPPORTUNITY
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2010

EXPENDITURE STATISTICS	2010	2009	2008
Total Expenditures (All Funds)................................	**$ 1,181,087,330**	**$ 521,310,390**	**$ 440,791,592**
OPERATIONS TOTAL..	$ 72,415,103	$ 60,171,025	$ 60,626,751
% of Total Expenditures...	6.1%	11.5%	13.8%
Personal Services..	$ 19,055,546	$ 16,202,276	$ 15,780,484
% of Operations Expenditures...............................	26.3%	26.9%	26.0%
Average Number of Employees..............................	437	420	420
Average Salary per Employee................................	$ 43,605	$ 38,577	$ 37,573
Other Payroll Costs (FICA, Retirement, Group Insurance)...	$ 6,307,154	$ 6,083,580	$ 5,188,681
% of Operations Expenditures...............................	8.7%	10.1%	8.6%
Contractual Services..	$ 5,790,820	$ 9,214,080	$ 10,220,884
% of Operations Expenditures...............................	8.0%	15.3%	16.9%
Lump Sum Expenditures...	$ 39,468,523	$ 25,439,909	$ 25,813,428
% of Operations Expenditures...............................	54.5%	42.3%	42.6%
All Other Operating Expenditures............................	$ 1,793,060	3,231,180	$ 3,623,274
% of Operations Expenditures...............................	2.5%	5.4%	6.0%
AWARDS AND GRANTS...	$ 1,108,603,649	$ 460,138,354	$ 380,152,764
% of Total Expenditures...	93.9%	88.3%	86.2%
REFUNDS TOTAL...	$ 68,578	$ 1,001,011	$ 12,077
% of Total Expendiutres...	0.0%	0.2%	0.0%
Cost of Capital Assets..	**$ 8,000,777**	**$ 9,622,050**	**$ 10,126,152**

CASH RECEIPTS	2010	2009	2008
Federal Grants...	$ 684,348,565	$ 311,260,854	$ 230,779,259
License and Fees..	8,890,698	9,153,073	9,303,362
Prior Year Refunds..	7,354,656	6,106,512	7,154,872
Sale of Investments and Interest Income......................	2,609,034	4,237,028	4,070,013
Loan Repayments...	489,111	1,626,712	1,365,289
State Grants...	1,981,923	1,122,000	1,266,502
Private Donor..	11,566,796	5,525,878	720,539
Other...	417,214	439,586	2,818,952
Total..	$ 717,657,997	$ 339,471,643	$ 257,478,788

AGENCY DIRECTOR
During Examination Period: Jack Lavin (through Feb 27, 2009); Mr. Warren Ribley (effective March 1, 2009)
Currently: Mr. Warren Ribley

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

NEED TO MAKE IMPROVEMENTS TO GRANT ADMINISTRATION

Proper controls not established

The Department did not ensure proper controls were established in the administration of its grant programs during the examination period.

$1,568,742,003 spent on grants

The Department expended $1,568,742,003 for awards and grants, or 92% of its $1,702,397,720 total expenditures during the examination period. We tested 94 grant agreements totaling $36,502,863, or 2%, of the awards and grants expenditures for the examination period for six program areas.

Failure to follow-up on reports

We noted the Department failed to follow-up on the timely submission of programmatic and financial reports of its grantees, thus hindering its ability to monitor the grantees' activities in a judicious manner.

The following are examples of specific weaknesses noted in the grant program areas tested:

Workforce Development:
- Five required reports were submitted 8 to 76 days after the report deadline. The Department could not provide evidence to support its follow-up on the delinquent reports.

Business Development:

Some reports were 544 days late

- Six required reports were not submitted and ranged 391 to 544 days delinquent as of our testing. The Department could not provide evidence to support its follow-up on these delinquencies.

No follow-up documented of $75,000 of unreimbursed funds

- A Department site visit noted $75,000 had been paid to a grantee but questioned why the grantee had not reimbursed those funds to eligible subgrantees. We noted no documented follow-up related to the Department's concern.

Recycling and Energy:

Some reports were 621 days late

- Eleven of the required reports were submitted late and one required report was not submitted at all causing report submissions to be from 3 to 621 days delinquent as of our testing. The Department could not provide evidence to support its follow-up of ten of the missing or late reports.

eGrants implemented during fiscal year 2010

During fiscal year 2010, the Department implemented eGrants, which was part of several initiatives by the Department to improve its grant administration in response to this finding from the previous examination. eGrants allows the Department to provide informational tools and vehicles for communicating expectations to grant recipients throughout the life cycle of the grant and allows the entire grant process, from application to close-out, to be completed in an online portal. Grant managers and other Department staff were trained on the uses and requirements of the system during November 2009.

Department management stated they were aware that the prior manual reporting processes were inefficient and burdensome for staff to use to follow-up with grantees who did not submit reports timely. Many employees communicated and followed-up with grantees on their reporting requirements through individual emails and phone calls and their efforts were not documented. (Finding 1, pages 12-15)

We recommended the Department strengthen its controls by performing the necessary follow-up on delinquent reports and adequately document the dates the reports are received, the follow-up action taken, and the reasons for any delinquencies for all remaining grants not processed on eGrants.

Department agrees with auditors

Department officials agreed with our recommendation and stated they have implemented several new controls for grantee reporting in fiscal year 2010. The new control environment in eGrants provides an efficient method for staff to follow-up on grantee delinquent reports and documents the date reports are received and approved. The Department also stated they are committed to continuing to strengthen their monitoring controls and will begin development of a monitoring quality assurance program. The monitoring quality assurance program will ensure Department-wide monitoring policies and procedures are established and each office has completed an assessment of the risks for their program.

LACK OF DOCUMENTATION FOR SHARED EXPENSE METHODOLOGY

No supporting documentation

The Department did not maintain adequate documentation of the methodology for determining the allocation of shared legal services paid by the Department during the examination period.

The Office of the Governor entered into contracts for legal services during the examination period for advice and representation on litigation related to issues involving the grant funds and other matters. The Department entered into interagency agreements with the Office of the Governor, as described below, for payment of an allocable share of the legal fees incurred. However, the interagency agreements were silent on the methodology utilized to determine the allocation of shared legal services to be paid by the Department.

The Department paid $127,410 in legal fees without support for its allocated share of these costs

Description	Department's Allocable Share	Department's Total Expended Amount
Fiscal Year 2009		
Provision of legal services to State officers	14.0%	$ 98,604
Provision of legal services to State officers	85.0%	3,876
Provision of legal services	12.5%	10,565
Provision of legal services	12.5%	131
Provision of legal services	12.5%	240
Provision of legal services	75.0%	7,610
Fiscal Year 2010		
Provision of legal services to State employees and officers	14.0%	6,384
Total		$ 127,410

Department management stated it remains the common practice for interagency agreements for legal services, which are external to the Department, not to include the methodology for determining the allocable share to be paid by the agency. (Finding 2, pages 16-17)

Department agrees with auditors

Department officials accepted our recommendation to require adequate methodology supporting its allocable portion of shared expenses affecting multiple State agencies.

OTHER DISCLOSURES

GRANT OF $1 MILLION TO THE LOOP LAB SCHOOL

The receivable owed to the Department at June 30, 2010 was $1,000,000

The Loop Lab School had utilized the grant funds provided through the Department to purchase a condominium in downtown Chicago. At that time, the school had not secured any other funds and was unable to move forward with opening the school. The only asset the school possessed was the condominium, which was on the market at June 30, 2010 and throughout the duration of our fieldwork. The receivable owed to the Department was $1,000,000 at June 30, 2010.

Department management stated the Loop Lab School grant was referred to the Office of the Attorney General in fiscal year 2010 for collection efforts. The Office of the Attorney General filed the debt with the Circuit Clerk of Cook County Court in September 2009. Department management explained the intent of the process was to utilize any proceeds when the condominium was sold to repay the debts owed by the Loop Lab School. During the examination period, the court brought in an independent receiver to report monthly on the status of the property. No collections were expected until the property sold.

The Department received $89,687.66 from the Loop Lab School as full-payment for the $1 Million owed

9% of the Department's $1 Million was recovered

On February 10, 2011, the Circuit Court of Cook County issued an Agreed Order of Dismissal regarding the settlement reached between the condominium association and the Loop Lab School by and through the independent receiver. In turn, on the same day, after a review of the matter, an order was issued by the Circuit Court of Cook County to discharge the matter between the State and the Loop Lab School without costs. The Loop Lab School paid the Department $89,687.66 with a check dated February 21, 2011, as a result of its settlement with its condominium association and the liquidation of its only asset. The funds were deposited into the State's clearing account on February 24, 2011, and into the State Treasury on March 23, 2011. The $89,687.66 was 9% of the $1,000,000 owed to the Department.

OTHER FINDINGS

Other findings are reportedly being given attention by Department management. We will review progress toward implementation of our recommendations in our next State compliance examination.

WILLIAM G. HOLLAND
Auditor General

WGH:JAC

SPECIAL ASSISTANT AUDITORS

Sikich LLP were our Special Assistant Auditors for this engagement.