

**STATE OF ILLINOIS
DRYCLEANER ENVIRONMENTAL RESPONSE
TRUST FUND COUNCIL OF ILLINOIS**

COMPLIANCE EXAMINATION

For the Year Ended June 30, 2005

STATE OF ILLINOIS
DRYCLEANER ENVIRONMENTAL RESPONSE
TRUST FUND COUNCIL OF ILLINOIS

COMPLIANCE EXAMINATION
For the Year Ended June 30, 2005

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STATE OF ILLINOIS
DRYCLEANER ENVIRONMENTAL RESPONSE TRUST FUND
COUNCIL OF ILLINOIS

COUNCIL MEMBERS

John Polak, Chairman
David Gibson
John Bredenkamp
Young B. Kim
Augustine Chung
Jerome Lewicki
Charles Kwon

ADMINISTRATOR

Williams & Company Consulting, Inc.

Council administrator offices are located at:

814 Pierce Street
P.O. Box 9400
Sioux City, Iowa 51102

1000 Tower Lane, Suite 140
P.O. Box 7380
Bensenville, Illinois 60106

STATE COMPLIANCE EXAMINATION

MANAGEMENT ASSERTION LETTER

Honorable William G. Holland
Auditor General
Iles Park Plaza
740 E. Ash
Springfield, IL 62703-3154

November 29, 2005

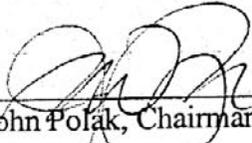
Dear Mr. Holland:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grants that could have a material effect on the operations of the Council. 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 Council's compliance with the following assertions during the one-year period ended June 30, 2005. Based on this evaluation, we assert that during the year ended June 30, 2005, the Council has materially complied with the assertions below.

- A. The Council 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 Council 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 Council 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 Council 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 Council on behalf of the State or held in trust by the Council have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

Drycleaner Environmental Response Trust Fund
Council of Illinois



(John Polak, Chairman)



(H. Patrick Eriksen, Third Party Administrator)

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' REPORT

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

<u>Number of</u>	<u>This Report</u>	<u>Prior Report</u>
Findings	0	0
Repeated Findings	0	0
Prior recommendations implemented or not repeated	0	0

There were no findings of noncompliance disclosed by our special State compliance examination procedures, which are required to be reported in accordance with the Audit Guide for the fiscal year ended June 30, 2005.

SUMMARY OF FINDINGS

The Drycleaner Environmental Response Trust Fund Council of Illinois did not have any current or prior year findings.

EXIT CONFERENCE

The Drycleaner Environmental Response Trust Fund Council of Illinois waived an exit conference in correspondence dated January 16, 2006.

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ILES PARK PLAZA
740 EAST ASH • 62703-3154
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FAX: 217/785-8222 • TTY: 888/261-2887



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MICHAEL A. BILANDIC BLDG. • SUITE S-900
160 NORTH LASALLE • 60601-3103
PHONE: 312/814-4000
FAX: 312/814-4006

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 Drycleaner Environmental Response Trust Fund Council of Illinois' 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 year ended June 30, 2005. The management of the Drycleaner Environmental Response Trust Fund Council of Illinois is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Drycleaner Environmental Response Trust Fund Council of Illinois' compliance based on our examination.

- A. The Drycleaner Environmental Response Trust Fund Council of Illinois 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 Drycleaner Environmental Response Trust Fund Council of Illinois 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 Drycleaner Environmental Response Trust Fund Council of Illinois 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 Drycleaner Environmental Response Trust Fund Council of Illinois 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 Drycleaner Environmental Response Trust Fund Council of Illinois on behalf of the State or held in trust by the Drycleaner Environmental Response Trust Fund Council of Illinois 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, included examining, on a test basis, evidence about the Drycleaner Environmental Response Trust Fund Council of Illinois' 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 Drycleaner Environmental Response Trust Fund Council of Illinois' compliance with specified requirements.

In our opinion, the Drycleaner Environmental Response Trust Fund Council of Illinois complied, in all material respects, with the aforementioned requirements during the year ended June 30, 2005. As required by the Audit Guide, an immaterial finding relating to an instance of noncompliance excluded from this report has been reported in a separate letter.

Internal Control

The management of the Drycleaner Environmental Response Trust Fund Council of Illinois 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 Drycleaner Environmental Response Trust Fund Council of Illinois 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. As required by the Audit Guide, an immaterial finding relating to an internal control deficiency excluded from this report has been reported in a separate letter to your office.

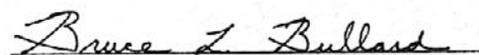
Supplementary Information for State Compliance Purposes

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 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 2004 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, CPA
Compliance Audit Director

November 29, 2005

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 Appropriations, Expenditures and Lapsed Balances
- Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
- Reconciliation of Cash Receipts to Deposits Remitted to the State Comptroller
- Analysis of Significant Variations in Expenditures
- Analysis of Significant Variations in Receipts
- Analysis of Accounts Receivable

- Analysis of Operations:

- Council Functions and Planning Program
- Service Efforts and Accomplishments (Not Examined)

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
 DRYCLEANER ENVIRONMENTAL RESPONSE TRUST FUND COUNCIL OF ILLINOIS
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 Reappropriated July 1	Balances Lapsed August 31
APPROPRIATED FUNDS						
DRYCLEANER ENVIRONMENTAL RESPONSE TRUST FUND - 0548						
Operating Expenses of the Drycleaner Environmental Response Trust Fund Council of Illinois	\$ 8,000,000	\$ 4,429,274	\$ 379,420	\$ 4,808,694	\$ 22,120	\$ 3,169,186
GRAND TOTAL - ALL FUNDS	<u>\$ 8,000,000</u>	<u>\$ 4,429,274</u>	<u>\$ 379,420</u>	<u>\$ 4,808,694</u>	<u>\$ 22,120</u>	<u>\$ 3,169,186</u>

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

STATE OF ILLINOIS
 DRYCLEANER ENVIRONMENTAL RESPONSE
 TRUST FUND COUNCIL OF ILLINOIS
**COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,
 EXPENDITURES AND LAPSED BALANCES**
 For the Fiscal Years Ended June 30,

	Fiscal Year	
	2005	2004
DRYCLEANER ENVIRONMENTAL RESPONSE TRUST FUND - 0548	P.A. 93-0842	P.A. 93-62
Appropriations (Net of Transfers)	\$ 8,000,000	\$ 6,595,101
<u>Expenditures</u>		
Operating Expenses of the Drycleaner Environmental Response Trust Fund Council of Illinois	4,808,694	3,438,959
Total Expenditures	\$ 4,808,694	\$ 3,438,959
Balance reappropriated	#REF!	380,300
Lapsed Balances	#REF!	\$ 2,775,842

STATE OF ILLINOIS
 DRYCLEANER ENVIRONMENTAL RESPONSE
 TRUST FUND COUNCIL OF ILLINOIS
RECONCILIATION OF CASH RECEIPTS TO DEPOSITS
REMITTED TO THE STATE COMPTROLLER
 For the Fiscal Year Ended June 30, 2005

DRYCLEANER ENVIRONMENTAL
 RESPONSE TRUST FUND - 0548

Receipts per agency records	\$ 1,215,922
Plus: deposits in transit, beginning of year	255,654
Less: deposits in transit, end of year	<u>(232,842)</u>
Deposits Recorded by the Comptroller	<u><u>\$ 1,238,734</u></u>

Reconciliation of Fund Receipts

Insurance premiums collected	\$ 1,185,848
Late payment fees and miscellaneous	<u>52,886</u>
Total deposits recorded by the Comptroller deposited by the Drycleaner Council	<u>1,238,734</u>
License fees collected	1,340,403
Solvent taxes collected	<u>1,074,820</u>
Total deposits recorded by the Comptroller deposited by the Department of Revenue	<u>2,415,223</u>
Interest income - deposited by the Office of the Treasurer	<u>124,339</u>
Total Deposits to the Drycleaner Environmental Response Trust Fund (Fund 0548)	<u><u>\$ 3,778,296</u></u>

STATE OF ILLINOIS
 DRYCLEANER ENVIRONMENTAL RESPONSE
 TRUST FUND COUNCIL OF ILLINOIS
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES

<u>DRYCLEANER ENVIRONMENTAL RESPONSE TRUST FUND – 0548</u>	<u>FISCAL YEAR</u>	
	<u>2005</u>	<u>2004</u>
Contractual Services	\$ 1,030,491	\$ 865,594
Travel	3,089	2,246
Awards and Grants (Claims Payments)	3,742,384	2,521,437
Refunds	<u>32,730</u>	<u>49,683</u>
 Total Expenditures	 <u>\$ 4,808,694</u>	 <u>\$ 3,438,960</u>

A comparative schedule of significant variations in expenditures (fluctuations of 20% or more) for the fiscal year ended June 30, 2005 are shown below:

	<u>FISCAL YEAR ENDED JUNE 30</u>		<u>INCREASE (DECREASE)</u>	
	<u>2005</u>	<u>2004</u>	<u>AMOUNT</u>	<u>%</u>
Travel	\$3,089	\$2,246	\$843	38%
Refunds	\$32,730	\$49,683	(\$16,953)	(34%)
Awards and Grants (Claims Payments)	\$3,742,384	\$2,521,437	\$1,220,947	48%

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

Drycleaner Environmental Response Trust Fund - 0548

Travel

The increase in travel expenditures was due to additional travel by Council members to attend Council meetings rather than teleconferencing in FY04.

Refunds

The decrease in FY05 refund expenditures is due to a return to normal refund spending levels. FY04 refund expenditures increased 109% due to an increase of drycleaning facilities that applied for insurance coverage prior to the December 31, 2003 deadline, but which had the premium refunded due to the discontinuation of coverage or denial of coverage.

STATE OF ILLINOIS
DRYCLEANER ENVIRONMENTAL RESPONSE
TRUST FUND COUNCIL OF ILLINOIS
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES

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

Drycleaner Environmental Response Trust Fund – 0548 (Continued)

Awards and Grants – (Claims Payments)

The increase in claims expenditures was due to an increase of 109 claims payments paid in FY05. The Council paid 500 claims payments in FY04 and 609 claims payments in FY05.

STATE OF ILLINOIS
 DRYCLEANER ENVIRONMENTAL RESPONSE
 TRUST FUND COUNCIL OF ILLINOIS
ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS

A comparative schedule of significant variations in receipts (fluctuations of 20% or more) for the fiscal year ended June 30, 2005 are shown below:

	FISCAL YEAR ENDED		INCREASE	
	<u>JUNE 30</u>		<u>(DECREASE)</u>	
	<u>2005</u>	<u>2004</u>	<u>AMOUNT</u>	<u>%</u>
Solvent Taxes	\$1,074,820	\$640,801	\$434,019	68%
Insurance Premiums	\$1,185,848	\$969,511	\$216,337	22%
Late Payment Fees and Miscellaneous	\$52,886	\$94,147	(\$41,261)	(44%)

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

Drycleaner Environmental Response Trust Fund - 0548

Solvent taxes

The increase in solvent taxes collected was the result of an increase of \$6.50 per gallon for chlorine based solvents and \$1.65 for hydrocarbon based solvents in the solvent tax rate, which became effective January 1, 2004.

Insurance premiums

The increase in insurance premiums collected was the result of the timing of the receipt of installment payments for insurance premiums, as well as a recent increase in premium rates. Both the acceptance of installment payments and the higher premiums became effective in FY04, and the second installment of some FY04 premiums was received in FY05.

Late payment fees and miscellaneous

The decrease in late payment fees was due to two drycleaning facilities paying \$38,000 in late fees in FY04.

STATE OF ILLINOIS
 DRYCLEANER ENVIRONMENTAL RESPONSE
 TRUST FUND COUNCIL OF ILLINOIS
ANALYSIS OF ACCOUNTS RECEIVABLE
 June 30, 2005 and 2004
 (Expressed in Thousands)

	Fiscal Year	
<u>DRYCLEANER ENVIRONMENTAL RESPONSE TRUST FUND – 0548</u>	2005	2004
Current	\$ 3	\$ 5
31-90 days	-	-
91-180 days	-	-
Over 180 days	16	17
GROSS RECEIVABLES	19	22
Less estimated uncollectables	(16)	(17)
NET RECEIVABLES	\$ 3	\$ 5

ANALYSIS OF ACCOUNTS RECEIVABLE

Late payment fee receivable

Pursuant to statutory authority, the Council assesses a late payment of \$5 per day for all license fees received subsequent to the due date. For some drycleaners, the late fees are significant and payment would represent a financial hardship to the facility. To provide a financially viable alternative to such facilities, the Council will enter into a longer term payment arrangement with the facility requiring payment of the total late fee balance. At June 30, 2005 and 2004, the total unpaid late fees under payment arrangements approximated \$19,000 and \$22,000 respectively. To the extent the drycleaners are allowed such payment terms and are making payments as scheduled, the entire receivable balance is considered current. An allowance for doubtful accounts of \$16,000 at June 30, 2005 was reported.

STATE OF ILLINOIS
DRYCLEANER ENVIRONMENTAL RESPONSE
TRUST FUND COUNCIL OF ILLINOIS
ANALYSIS OF OPERATIONS

For the Year Ended June 30, 2005

COUNCIL FUNCTIONS AND PLANNING PROGRAM

The primary purpose of the Drycleaner Environmental Response Trust Fund Council of Illinois (Council) is to administer the Drycleaner Environmental Response Trust Fund Act (Act) and adopt rules and procedures regarding the disbursement of money from the fund. The Act was established to protect the health and safety of the citizens and natural resources of the State of Illinois.

Beginning January 1998, all active drycleaning facilities in Illinois were required to obtain a license from the Council, to be renewed annually. Required annual licensure fees range from \$500 to \$4,500, depending on the quantity of drycleaning solvents purchased by the individual drycleaning facility. In addition to the license fees, all drycleaning facilities are required to pay a tax based on the quantity of drycleaning solvent purchases. The Department of Revenue collects all license fees and taxes and deposits the receipts into the Drycleaner Environmental Response Trust Fund (0548), less a 4% processing fee as set by statute.

Pursuant to the Act, the Council has established a program to reimburse drycleaner facilities for costs of remedial action in the event of solvent releases that occurred after July 1, 1997 and prior to July 1, 2006. In addition, the Council has established a program to offer insurance to drycleaner facilities to insure against solvent release cleanup costs subsequent to June 30, 2006.

While the Council is ultimately responsible for administering the Fund, they have contracted with Williams & Company Consulting, Inc. to be its administrator. Therefore, Williams & Company Consulting, Inc. is responsible for all day-to-day and fiscal and administrative duties, under the oversight of the Council.

The Council is to be composed of seven members appointed by the Governor. Four members are to own or operate a drycleaning facility, one member is to represent wholesale distributors of drycleaning solvents, one member is to represent drycleaning equipment manufacturers and the vendor community and one member is to have experience in financial markets or the insurance industry. The Council members at June 30, 2005 are as follows:

John Polak, Chairman
David Gibson
John Bredenkamp
Young B. Kim
Augustine Chung
Jerome Lewicki
Charles Kwon

PLANNING

The Council's planning activities include program reviews performed on an on-going basis by the Administrator. These reviews are discussed at regular Council meetings and Annual Strategic Planning Sessions. This annual session addresses the licensure program, remedial action program and the insurance program, the three major components of the Council's responsibilities. A significant component of the planning session is the discussion of financial projections prepared by the Administrator using multiple variations of assumptions of the revenues to be collected (solvent taxes and licensure fees), estimated administrative costs and projected claims as well as how such assumptions could be impacted by existing and proposed legislation. In the prior year, the financial projections indicated the Council will have potentially significant program deficits at January 1, 2010, the original concluding date of the program. Financial projections extended through the amended sunset date of the program, January 1, 2020, indicate the projected deficit will grow to approximately \$37 million based on current revenue stream levels. As of June 30, 2006, the Council will know the number and extent of remedial claims to be paid under the program and can more accurately adjust the revenue stream to provide sufficient funding through the sunset of this legislation.

AUDITOR'S ASSESSMENT

The Council's planning program and goals are prioritized, monitored, and directed towards obtaining the goals identified in accordance with the Drycleaner Environmental Response Trust Fund Act. We believe that this planning is adequate to meet the functions of the Council.

STATE OF ILLINOIS
 DRYCLEANER ENVIRONMENTAL RESPONSE
 TRUST FUND COUNCIL OF ILLINOIS
SERVICE EFFORTS AND ACCOMPLISHMENTS
 For the Year Ended June 30, 2005
 (Not Examined)

The Council has identified the following key financial and performance data that are significant to the operations, functions, and responsibilities of the Council:

	<u>Fiscal Year 2004 Actual</u>	<u>Fiscal Year 2005 Target</u>	<u>Fiscal Year 2005 Actual</u>
Input Indicators			
Budgeted appropriation/expenditures	\$3,585,217	\$8,000,000	\$4,772,306
Output Indicators			
License applications received	1,375	1,442	1,345
Insurance applications received	976	930	872
Total eligible claims filed	322	527	494
Outcome Indicators			
Licenses issued	1,344	1,442	1,312
Insurance policies issued	900	930	848
Total eligible claims closed	20	50	41
Total open remedial claims	363	N/A	501
Open remedial claims with payments made	323	N/A	518
Efficiency/Cost Effectiveness Indicators			
Cost per license application	\$74	N/A	\$77
Cost per insurance application	\$89	N/A	\$92
Cost per eligible claim filed	\$667	N/A	\$585