



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

ENVIRONMENTAL PROTECTION AGENCY

**Financial Audit Water Revolving Fund
For the Year Ended: June 30, 2012
Compliance Examination
For the Two Years Ended: June 30, 2012**

Summary of Findings:

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

Release Date: March 21, 2013

SYNOPSIS

- The Agency did not have adequate controls over financial reporting.
- The Agency did not adequately maintain employee personnel files.
- The Agency did not fully comply with the requirements of the Electronic Products Recycling and Reuse Act.
- The Agency did not ensure its internal auditing program fully complied with the Fiscal Control and Internal Auditing Act (FCIAA).

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

ENVIRONMENTAL PROTECTION AGENCY
FINANCIAL AUDIT for the Year Ended June 30, 2012 and
COMPLIANCE EXAMINATION For the Two Years Ended June 30, 2011

EXPENDITURE STATISTICS	2012	2011	2010
Total Expenditures.....	\$ 662,984,659	\$ 801,037,240	\$ 535,206,593
OPERATIONS TOTAL.....	\$ 165,930,865	\$ 175,350,460	\$ 150,462,469
% of Total Expenditures.....	25.0%	21.9%	28.1%
Personal Services.....	68,139,038	64,755,734	63,994,245
Other Payroll Costs (FICA, Retirement).....	44,534,659	37,183,073	36,258,938
Contractual Services.....	37,884,065	37,742,859	40,916,138
All Other Operating Expenditures.....	15,373,103	35,668,794	9,293,148
AWARDS AND GRANTS.....	\$ 497,053,794	\$ 625,686,780	\$ 384,744,124
% of Total Expenditures.....	75.0%	78.1%	71.9%
Total Receipts.....	\$ 497,686,460	\$ 661,202,112	\$ 486,362,810
Average Number of Employees.....	862	896	936

SELECTED ACTIVITY MEASURES (Not Examined)	2012	2011	2010
CLEAN AIR			
Permits issued	2,778	2,568	2,455
Facilities inspected	688	926	992
Vehicle emission tests performed	1,930,424	1,845,780	1,758,708
CLEAN LAND			
Facility permits issued	600	537	530
Facilities inspected	4,800	4,959	4,246
Household hazardous waste collections	2	-	-
Leaking underground storage tank incidents	355	320	355
CLEAN WATER			
Permits issued	7,234	5,021	5,433
Facilities inspected	1,300	1,344	1,130
Wastewater loans	59	43	71
Drinking water loans	41	29	69

AGENCY DIRECTOR	
During Examination Period:	John Kim (effective 1/2/13, interim 10/25/11-1/1/13), Lisa Bonnett (3/3/11-10/24/11), Douglas Scott (through 3/2/11)
Currently:	John Kim

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**NEED TO IMPROVE CONTROLS OVER
FINANCIAL REPORTING**

The Illinois Environmental Protection Agency (Agency) did not exercise adequate internal control over financial reporting.

During our testing, we noted the following:

**No calculation for estimated
arbitrage rebate of \$1,000,000**

- The Agency did not develop a basis or prepare any calculation for the estimated arbitrage rebate of \$1,000,000 within the rebate fund of the State of Illinois Revolving Fund, Series 2004. During 2009, the Agency paid \$323,000 rebate on Bond Series 2004. In anticipation for a substantially higher rebate to be paid in May, 2014, the Agency transferred \$500,000 on both bond payment dates, September, 2011 and March, 2012.

**Interest income totaling \$388,909
was not accrued**

- The Agency did not accrue interest income totaling \$388,909 from March 2012 through June 2012 on investments of the debt service fund under the Debt Service Forward Delivery Agreement for the State of Illinois Revolving Fund, Series 2004 issuance. This resulted in an overstatement of Due to Component Units by the same amount. (Finding 1, pages 11-12)

We recommended the Agency document the calculation of estimated arbitrage liability based upon an accumulation of relevant, sufficient and reliable data and properly record interest accruals.

Agency agrees with auditors

Agency officials accepted our recommendation and stated although they believed the past transfers were a reasonable estimation of the future arbitrage tax liability, they have established a formal process to document the relevant, sufficient and reliable data used for this accounting estimate. They also stated they developed procedures to ensure interest income earned between March and June on investments of debt service funds is recorded in the financial statements.

INADEQUATE MAINTENANCE OF EMPLOYEE PERSONNEL FILES

The Agency did not adequately maintain employee personnel files. During our review of 40 employee personnel files, we noted the following:

Performance evaluations not performed timely

- Seventeen (43%) employees tested did not have performance evaluations for the evaluation period tested. The time elapsed from the employee's previous performance reviews ranged from 10 to 170 months.
- Seventeen (43%) employee evaluations were performed after the due date. The time elapsed from the due date to the performance review approval date ranged from 5 to 302 days.

Missing signed withholding authorizations

In addition, we also noted 16 (40%) employee files tested had missing signed withholding authorizations for union, association, credit union, or college savings. (Finding 2 pages 13-14.) **This finding was first reported in 1994.**

We recommended the Agency comply with internal procedures and Administrative Code rules by performing annual evaluations for all employees in a timely manner. Further, the Agency should ensure its personnel files contain all required payroll deduction and withholding documentation and obtain the missing documents from the employees.

Agency agrees with auditors

Agency officials accepted our recommendation and stated they continue to face challenges in performing administrative functions where too few management employees remain outside of the union to perform timely evaluations. In addition, they stated the evaluation tool has little to no impact on the majority of employees as 97% of our employees are in a bargaining unit and salary increases are not dependent on performance. The Agency uses the evaluation tool where necessary to address performance issues in a disciplinary action. The Agency also stated they recognize employee successes through employee recognition events and messages from the Director. Further, they stated all required payroll deduction and withholding documentation found to be missing have been re-submitted by employees. (For the previous Agency response, see Digest footnote # 1).

NONCOMPLIANCE WITH ELECTRONIC PRODUCTS RECYCLING AND REUSE ACT

The Agency did not fully comply with the requirements of the Electronic Products Recycling and Reuse Act.

During our testing of Agency's compliance with the Electronic Products Recycling and Reuse Act (Act), we noted the following:

No grants awarded

- There were no grants awarded in fiscal year 2012.

No meeting with Illinois retail merchants

- The Agency did not meet on June 15, 2012 with associations that represent Illinois retail merchants to discuss compliance with retailer responsibilities.

Annual reports not filed

- The Agency did not prepare and submit an annual report to the Governor and to the General Assembly on July 1, 2011 and May 15, 2012 as required.

Link to website not posted

- The Agency had posted the list of registered collectors, the addresses of their collection sites and their business telephone numbers. However, a link to the collector's website was not included in the information posted. (Finding 7, pages 21-22)

We recommended the Agency ensure compliance with the requirements of the Electronic Products Recycling and Reuse Act.

Agency agrees with auditors

Agency officials accepted our recommendation and stated they are accepting grant applications until the application deadline with the grants being awarded by the end of February 2013. Agency officials further stated they will schedule the first meeting with the Illinois Retail Merchants prior to June 15, 2013. In addition, the 2012 Legislative Report for Program Year 2011 activities has been filed with the required offices and posted to the Agency's website, and the website now includes a link to the collectors' websites as required.

NONCOMPLIANCE WITH THE FISCAL CONTROL AND INTERNAL AUDITING ACT

The Agency did not ensure its internal auditing program fully complied with the Fiscal Control and Internal Auditing Act (FCIAA).

Chief Internal Auditor hired February 2011

The Agency's Internal Audit Division had only one staff member, an internal auditor, until February 2011 when a chief internal auditor was hired.

No internal audits completed during fiscal year 2012

Based on our review of the Agency's Internal Audit Plan for fiscal year, we noted there were 13 planned audits for fiscal year 2012, however, the Internal Audit Division had not completed any internal audits during fiscal year 2012. (Finding 8, pages 23-24).

We recommended the Agency complete internal audits of major areas of internal control and ensure compliance with FCIAA.

Agency agrees with auditors

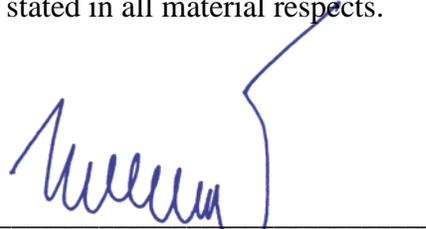
Agency officials accepted our recommendation and stated they adopted a biennial internal audit plan including all major internal control areas, system development projects, and special audits. The Agency further stated these projects will be completed by June 30, 2013.

OTHER FINDINGS

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

AUDITORS' OPINION

Our special assistant auditors stated the Water Revolving Fund Financial Statements of the Illinois Environmental Protection Agency as of and for the year ended June 30, 2012 are fairly stated in all material respects.



WILLIAM G. HOLLAND
• Auditor General

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SPECIAL ASSISTANT AUDITORS

E.C. Ortiz & CO., LLP were our special assistant auditors.

DIGEST FOOTNOTE

**# 1 INADEQUATE MAINTENANCE OF EMPLOYEE
PERSONNEL FILES – Previous Agency Response**

2010: Accepted. The Agency will continue to strive for timely completed performance evaluations. All required payroll deduction and withholding documentation found to be missing have been re-submitted by employees.