



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, 2014
 Compliance Examination
 For the Two Years Ended June 30, 2014**

Release Date: June 23, 2015

FINDINGS THIS AUDIT: 7	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	2010		14-7	
Category 2:	5	2	7	1994		14-6	
Category 3:	0	0	0				
TOTAL	5	2	7				
FINDINGS LAST AUDIT: 10							

SYNOPSIS

- (14-01) The Agency had inadequate controls over the administration of its State vehicles.
- (14-02) The Agency did not have adequate controls over State-owned equipment.
- (14-03) The Agency lacked support for bond issuance costs.
- (14-04) The Agency failed to pursue outstanding debts and reported incorrect accounts receivable amounts.
- (14-06) Employee performance evaluations were not completed as required by the Illinois Administrative Code.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).
Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.
Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Expenditures and Activity Measures are summarized on next page.}

ENVIRONMENTAL PROTECTION AGENCY
FINANCIAL AUDIT - For the Year Ended June 30, 2014 and
COMPLIANCE EXAMINATION - For the Two Years Ended June 30, 2014

EXPENDITURE STATISTICS	2014	2013	2012
Total Expenditures.....	\$ 483,190,879	\$ 555,825,492	\$ 662,984,659
OPERATIONS TOTAL.....	\$ 157,829,967	\$ 176,380,400	\$ 165,930,865
% of Total Expenditures.....	32.7%	31.7%	25.0%
Personal Services.....	66,523,902	66,223,869	68,139,038
Other Payroll Costs (FICA, Retirement).....	49,032,752	49,780,550	44,534,659
All Other Operating Expenditures.....	42,273,313	60,375,981	53,257,168
AWARDS AND GRANTS.....	\$ 325,360,912	\$ 379,445,092	\$ 497,053,794
% of Total Expenditures.....	67.3%	68.3%	75.0%
Total Receipts.....	\$ 514,027,182	\$ 496,154,713	\$ 394,403,249
Average Number of Employees (Not Examined).....	799	817	862

SELECTED ACTIVITY MEASURES (Not Examined)	2014	2013	2012
CLEAN AIR			
Permits issued	1,454	1,659	2,778
Facilities inspected	707	802	688
Vehicle emission tests performed	1,950,769	1,917,384	1,930,424
CLEAN LAND			
Facility permits issued	740	688	600
Facilities inspected	5,156	4,645	4,800
Household hazardous waste collections	12	7	2
Leaking underground storage tank incidents	339	345	355
CLEAN WATER			
Permits issued	6,488	6,175	7,234
Facilities inspected	1,179	1,170	1,300
Wastewater loans	47	26	59
Drinking water loans	35	31	41

AGENCY DIRECTOR
During Examination Period: John J. Kim (through 3/17/13), Lisa Bonnett (3/18/13 - present)
Currently: Lisa Bonnett

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

INADEQUATE CONTROLS OVER STATE VEHICLES

The Agency did not have adequate controls over the administration of State vehicles.

During testing, we noted the following:

Vehicles not adequately utilized

- The Agency did not adequately utilize 128 of its 214 (60%) vehicles during Fiscal Year 2013. These vehicles were driven from 6 to 9,957 miles per year, and, on average, 5,119 miles per year.

Routine oil changes and inspections not performed

- During review of maintenance records for State vehicles, 15 of 20 (75%) vehicles tested did not have routine oil changes performed on a timely basis. In addition, 12 of 20 (60%) vehicles tested were not brought to the Department of Central Management Services (DCMS) for an annual inspection. Further, 14 of 20 (70%) vehicles tested did not receive tire rotations at the required intervals.

Odometer readings missing or inaccurate

- For 18 of 214 (8%) vehicles on the Agency's vehicle listing, the vehicles' odometer readings were either missing or inaccurate.

Vehicle sold but not removed from the property records

- A vehicle with a purchase price totaling \$21,545 was noted on the Agency's vehicle listing as sold in September 2012. However, the vehicle was not removed from the Agency's property control records during fieldwork. (Finding 1, pages 11-12)

We recommended the Agency ensures State vehicles are utilized and maintained as required. We also recommended the Agency ensure its vehicle and property control records are updated and contain accurate vehicle data.

Agency agrees in part with the auditors

Agency officials partially agreed with our recommendations and stated while the Agency agrees low mileage vehicles could have been monitored better, the decision whether to retain or dispose of an Agency vehicle must also consider whether the vehicle is equipped to serve a special function such as emergency response, environmental testing, or potentially transporting hazardous waste materials. To improve the monitoring process, the Agency created a new electronic system for Fiscal Year 2015 to track vehicle function, mileage, number of days driven, oil changes, inspections, and tire rotations. In addition, Agency officials stated the Agency's decentralized offices are now coordinating "pooled" cars by location rather than by bureau at the location. With these two measures in place, the Agency has already disposed of 43 vehicles and is now monitoring the remaining 171 vehicles. They further stated the Vehicle Coordinator will

also work with the Property Control Coordinator to ensure all vehicles are removed from inventory when the vehicle is disposed of.

INADEQUATE CONTROLS OVER STATE-OWNED EQUIPMENT AND COMMODITIES

The Agency did not have adequate controls over State-owned equipment.

During testing, we noted the following:

Equipment additions recorded from 6 to 117 days late

Incorrect location code

Items tested appeared obsolete

Printer cartridges not disposed

- Five of 40 (13%) equipment additions tested, totaling \$20,126, were recorded on the Agency's property control records from 6 to 117 days late.
- Six of 55 (11%) equipment items tested, totaling \$8,072, were entered on the property control records with the incorrect location code.
- Six of 55 (11%) equipment items tested, totaling \$4,954, appeared to be obsolete.
- The Agency had not made an effort to dispose of approximately 210 obsolete printer cartridges during fieldwork. (Finding 2, pages 13-14)

We recommended the Agency ensure the property control records are adjusted timely for equipment transactions and the proper location code is used. We also recommended the Agency ensure it transfers obsolete equipment to the Department of Central Management Services.

Agency agreed with the auditors

Agency officials agreed with our recommendations and stated they transferred this obsolete equipment to the Department of Central Management Services surplus and updated the recorded location for the other equipment items. They further stated the Vouchering unit is now providing property control with a semi-monthly expenditure report to ensure equipment is added to the inventory within 30 days of the voucher date ("acquisition date"). In addition, Agency officials stated the Agency saved approximately \$153,000 per year (\$12,800 per month) by consolidating the functions of 375 printers, fax, and copy machines for 70 multi-functional devices. However, this initiative caused the Agency's 210 existing printer cartridges that were on hand to be obsolete and they were inadvertently not transferred to surplus. The Agency has now transferred those obsolete printer cartridges to the Department of Central Management Services. To avoid similar situations in the future, the Agency has included the printer cartridges in the lease agreement to allow the Agency to return any non-compatible printer cartridges during the next upgrade.

INADEQUATE SUPPORT FOR BOND ISSUANCE COSTS

The Agency did not maintain adequate support for bond issuance costs.

Advisory service payments not detailed

- Documentation maintained to support payment of an invoice totaling \$199,705 in December 2013 for financial advisory services consisted only of a spreadsheet of names and hours charged from April 2012 through March 14, 2014 with no further detail for the services provided by the vendor.

Support for hourly charge not provided

- An invoice for legal services contained detailed information to substantiate the work performed but support for the hourly rate totaling \$645 was not provided. Further, the invoice totaled \$19,350 but \$20,000 was paid. In addition, the reasonableness of the hourly charges (\$430-\$640) on the bond counsel's invoice totaling \$200,053 also could not be determined due to no support for the hourly rate charges. In addition, the invoice totaled \$200,053 but \$200,000 was paid.

Amounts paid did not agree to invoices

- There was no supporting documentation provided to substantiate an invoice for professional services and fees totaling \$47,340. (Finding 3, pages 15-17)

No supporting documentation for professional services

Agency officials stated the Agency maintained only vendors' summary invoices. They further stated the Illinois Finance Authority (IFA) had been responsible for procuring and authorizing these expense payments from the bond proceeds.

We recommended the Agency ensure it maintains adequate supporting documentation for all transactions. In addition, we recommended the Agency recoup any overpayments, if applicable.

Agency partially agreed with the auditors

Agency officials partially agree with our recommendations and stated while the Agency agrees the MOA states, "IFA was to retain bond counsel, financial advisors, underwriters, and other professionals in connection with the bonds and the costs were to be paid as agreed by the Agency and IFA from the Fund or proceeds of the bonds issued," the Agency disagreed with the interpretation that this phrase makes the Agency responsible for maintaining records to support the payments made by IFA from the bond proceeds to those vendors. Agency officials further stated the Agency had no authority to retain, contract with, or pay vendors and did not sign any vendor contracts or payment authorizations from the bond proceeds. As such, the Agency had no responsibility to maintain records to support the hourly rates, hours worked by the vendors, or other costs incurred.

Auditors' comment

In an auditors' comment, we stated as noted above, the Bond Purchase Agreement signed by the Agency (the borrower), IFA (the issuer), and the representative of the Underwriter, required all expenses of the Agency incident to the performance of its obligations in connection with the authorization, issuance and sales of the bonds to the Underwriters, fees of consultants, fees of rating agencies, advertising expenses, fees and expenses of the Bond Trustee and the Master Trustee and fees and expenses of counsel to IFA and the bond counsel to be paid by the Agency from the proceeds of the Bonds or other revenues. The State Records Act (Act) (5 ILCS 160/8) requires each agency including the Environmental Protection Agency to preserve records containing adequate and proper documentation of the functions, policies, decisions, procedures, and essential transactions of the agency which would include support for the fees paid to the vendors for services performed.

INADEQUATE CONTROLS OVER ACCOUNTS RECEIVABLE

The Agency did not have adequate controls over the administration of its accounts receivable.

During testing, we noted the following:

- Eighteen of 25 (72%) accounts tested, totaling \$309,513, were over 90 days past due and had not been referred to the Comptroller's Offset System or the Department of Revenue's Debt Collection Bureau. In addition, 13 of 25 (52%) accounts tested, totaling \$232,195 were over one year old and were not referred to the Attorney General for write off.
- Ten of 25 (40%) accounts tested had incorrect balances reported. The differences totaled from \$3 to \$35,000.
- The allowance for uncollectable accounts in one fund was not updated from June 2012 to March 2014. The Agency did update this amount in the June 30, 2014 quarterly accounts receivable reporting after the concern had been identified by the auditors. (Finding 4, pages 18-19)

Receivable accounts not referred to Comptroller's Offset or Debt Collection Bureau

Incorrect account balances

Accounts not updated

We recommended the Agency pursue all reasonable and appropriate procedures to collect on outstanding debts as required. We also recommended the Agency ensure its accounts receivable balances are correctly reported. We further recommended the Agency refer overdue accounts to the appropriate parties as required.

Agency agrees with the auditors

Agency officials agreed with our recommendations and stated after hiring more collection personnel, the Agency has taken several measures to ensure the accounts receivable balances are recorded correctly as well as implementing a new process to more aggressively pursue internal collection efforts and better determine when uncollectible accounts should be written off. In addition, Agency officials stated they are reconciling all existing aging schedules with the amounts in the Comptroller’s Offset System to bring their collection efforts current, and as warranted, the Agency will continue to make referrals to the Comptroller’s Offset System, Department of Revenue’s Debt Collection Bureau, and even to the Attorney General for uncollectible accounts, when necessary.

FAILURE TO PERFORM EMPLOYEE PERFORMANCE EVALUATIONS

The Agency did not complete employee performance evaluations as required.

During testing, we noted the following:

Performance evaluations not performed

- Twenty-one of 40 (53%) employees tested did not receive an employee performance evaluation during the examination period.

Performance evaluations not timely

- Four of 40 (10%) employees tested only had one evaluation during the examination period. In addition, 6 of 40 (15%) employees tested had evaluations performed from 72 to 312 days late. (Finding 6, page 22) **This finding was first reported in 1994.**

We recommended the Agency take appropriate action to ensure performance evaluations are conducted annually as required.

Agency agreed with the auditors

Agency officials agreed with our recommendation and stated the Agency continues to face challenges in performing administrative functions where too few management employees remain outside of the union to perform timely evaluations. In addition, Agency officials stated the evaluation tool has little to no impact on the majority of employees as 97% of the Agency employees are in a bargaining unit and salary increases are not dependent upon performance. The Agency uses the evaluation tool where necessary to address performance issues in a disciplinary action. *(For the previous Agency response, see Digest Footnote # 1).*

OTHER FINDINGS

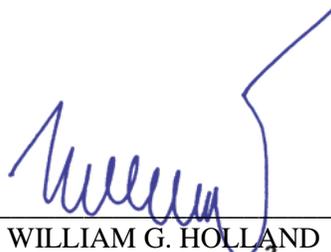
The remaining findings pertain to outdated policies and insufficient number of members on a Council. We will follow up on these findings during our next examination of the Agency.

AUDITOR'S OPINION

We stated the Water Revolving Fund Financial Statements of the Illinois Environmental Protection Agency as of and for the year ended June 30, 2014 are fairly stated in all material respects.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the Agency for the two years ended June 30, 2014, as required by the Illinois State Auditing Act. The auditors stated the Agency complied, in all material respects, with the requirements described in the report.



WILLIAM G. HOLLAND
Auditor General

WGH:PH

AUDITORS ASSIGNED

This examination was performed by the Office of the Auditor General's staff.

DIGEST FOOTNOTE

#1 - FAILURE TO PERFORM EMPLOYEE PERFORMANCE EVALUATIONS

2012: Accepted. The Agency continues to face challenges in performing administrative functions where too few management employees remain outside of the union to perform timely evaluations. In addition, the evaluation tool has little or no impact on the majority of employees as 97% of the Agency employees are in a bargaining unit and salary increases are not dependent upon performance. The Agency uses the evaluation tool where necessary to address performance issues in a disciplinary action. The Agency also recognizes employee successes through employee recognition events and messages from the Director. All required payroll deduction and withholding documentation found to be missing have been re-submitted by employees.