

**STATE OF ILLINOIS
PETROLEUM RESOURCES BOARD**

COMPLIANCE EXAMINATION

For the Year Ended June 30, 2006

STATE OF ILLINOIS
PETROLEUM RESOURCES BOARD
COMPLIANCE EXAMINATION
For the Year Ended June 30, 2006

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STATE OF ILLINOIS
PETROLEUM RESOURCES BOARD
COMPLIANCE EXAMINATION
For the Year Ended June 30, 2006

BOARD OFFICIALS

PETROLEUM RESOURCES BOARD

Executive Director	Mr. Charles Williams
Board Chairman (10/11/05 – Current)	Mr. Dean Hollensbe
Board Chairman (7/1/05 – 10/10/05)	Mr. Chris Mitchell

Board Office is located at:

P.O. Box 941
Mt. Vernon, IL 62864



Illinois Petroleum Resources Board
P.O. Box 941
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618-242-2861 FAX 618-242-3418
www.iprb.org

January 12, 2007

Honorable William G. Holland
Auditor General
State of Illinois
Ples Park Plaza
740 East Ash
Springfield, IL 62703-3154

Dear Mr. Holland:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Agency. 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 Agency's compliance with the following assertions during the one-year period ended June 30, 2006. Based on this evaluation, we assert that during the year ended June 30, 2006 the Agency has materially complied with the assertions below.

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


Charles L. Williams, Director


Nida E. Woodfall, Fiscal Officer

STATE OF ILLINOIS
PETROLEUM RESOURCES BOARD
COMPLIANCE EXAMINATION
For the Year Ended June 30, 2006

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	5	1
Repeated findings	1	1
Prior recommendations implemented or not repeated	0	0

Details of findings are presented in a separately tabbed report section.

SCHEDULE OF FINDINGS

CURRENT FINDINGS (STATE COMPLIANCE)

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
06-1	9	Use of unauthorized locally held fund
06-2	11	Unreasonable expenditures
06-3	13	Inaccurate property control records
06-4	15	Noncompliance with the Illinois Procurement Code
06-5	16	Board not comprised of twelve members as required

EXIT CONFERENCE

The Board waived an exit conference in correspondence dated February 15, 2007. Responses to the recommendations were provided by Charles Williams, Executive Director, in a letter dated February 9, 2007.

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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 Illinois Petroleum Resources Board's 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, 2006. The management of the Illinois Petroleum Resources Board is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Illinois Petroleum Resources Board's compliance based on our examination.

- A. The Illinois Petroleum Resources Board 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 Illinois Petroleum Resources Board 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 Illinois Petroleum Resources Board 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 Illinois Petroleum Resources Board 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 Illinois Petroleum Resources Board on behalf of the State or held in trust by the Illinois Petroleum Resources Board 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 Illinois Petroleum Resources Board's 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 Illinois Petroleum Resources Board's compliance with specified requirements.

In our opinion, the Illinois Petroleum Resources Board complied, in all material respects, with the aforementioned requirements during the year ended June 30, 2006. However, the results of our procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State findings as findings 06-1, 06-2, 06-3, 06-4, and 06-5.

There were no immaterial findings relating to instances of noncompliance that have been excluded from this report.

Internal Control

The management of the Illinois Petroleum Resources Board 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 Illinois Petroleum Resources Board's 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. However, the results of our procedures disclosed other matters involving internal control which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State findings as findings 06-1, 06-2, 06-3, and 06-4.

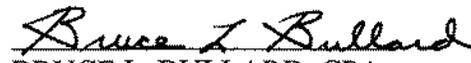
There were no immaterial findings relating to internal control deficiencies that have been excluded from this report.

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 2006 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 2005 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
Director of Financial
and Compliance Audits

January 12, 2007

06-1. **FINDING** (Use of unauthorized locally held fund)

The Petroleum Resources Board (Board) utilized a locally held fund during Fiscal Year 2006 that was established in a prior fiscal year without specific statutory authorization. We noted the following:

- Until Fiscal Year 2004, all Board expenditures were processed through the Department of Natural Resources (Department) and the Illinois Office of the Comptroller, which issued warrants to vendors. During Fiscal Year 2004, the Board established a locally held fund with monies drawn down from the Petroleum Resources Revolving Fund and began to process all Board expenditures through the locally held fund. However, the Board did not obtain proper statutory authorization to establish the locally held fund. The State Officers and Employees Money Disposition Act (30 ILCS 230/2a.2), prohibits a State officer or employee from maintaining or participating in a deposit of money received except as provided by law. Furthermore, the Illinois Petroleum Education Marketing Act (Act) (225 ILCS 728/1 et seq.) does not explicitly permit the Board to establish a locally held account.
- At the end of Fiscal Year 2005, excess monies totaling \$29,090 remained in the locally held account. This amount would have been lapsed in the normal appropriation process, and the Board did not return the excess funding to the Department to be deposited back into the Petroleum Resources Revolving Fund.
- During Fiscal Year 2006, the Board submitted six claims totaling \$490,000 to the Department to draw down on their appropriation for subsequent deposit into the locally held account. The Board expended a total of \$484,835 during Fiscal Year 2006 from the locally held account. At the end of Fiscal Year 2006, approximately \$34,255 in excess funds remained in the locally held account and was not returned to the Department for deposit back into the Petroleum Resources Revolving Fund. This amount was calculated by adding together the excess funding amount remaining from the prior year plus the current year drawdown amount, then subtracting the current year's expenditures.
- The Board contracted with an accounting firm to perform bookkeeping functions on behalf of the Board, and the Board's Executive Director and a partner of the accounting firm have signature authority over this account. The Board spent approximately \$3,940 for accounting services rendered in Fiscal Year 2006. Good business practices would require all signature authorities be personnel or Board members of the Petroleum Resources Board.
- For the period of July 1, 2005 through June 30, 2006, we noted 1 of 12 (8%) months' ending bank balances exceeded the federal deposit insurance coverage and additional pledged securities by \$19,828. The State Officers and Employees Money Disposition Act (30 ILCS 230/2c) states whenever funds deposited with a bank or savings and loan association exceed the amount of the federal deposit

insurance coverage, a bond, pledged securities, or other eligible collateral shall be obtained.

- The Board prepared and submitted C-17s for the last two quarters of fiscal year 2006, in response to the prior examination's finding. However, the Board submitted the C-17s between 18 and 45 days late. In addition, the Board incorrectly reported total receipts, total disbursements, and cash on hand for the third quarter report. The Statewide Accounting Management System (SAMS) (Procedure 33.13.10) requires each Agency to submit accurate quarterly reports of receipts and disbursements of all locally held funds to the Comptroller's Office via the "Report of Receipts and Disbursements for Locally Held Funds." SAMS (Procedure 33.13.20) requires agencies to submit quarterly reports of receipts and disbursements to the Office of the Comptroller no later than the last day of the month following the last day of the quarter.

Board personnel stated they have continued to use the locally held fund to maximize their operations and independence and to place responsibility for expenditures with the Board. Further, the pledged securities have been raised from \$50,000 to a face value of \$195,000 with an option to increase to higher amounts as needed. Board personnel were unaware that the C-17s were filed late and the errors were due to oversight.

Failure to obtain proper approvals to establish the locally held fund is a violation of statutory authority. In addition, failure to ensure local funds are properly collateralized subjects funds to a risk of loss in the event of failure of the bank or savings and loan in which the funds are deposited. Furthermore, failure to require all signature authorities be Board personnel or Board members increases the risk of inappropriate expenditures being made. Failure to provide accurate quarterly reports to the Comptroller's Office prevents the Board from maintaining accurate year-to-date receipts and disbursements for the fund. Also, failure to submit the reports in a timely manner does not provide the Comptroller's office with current information on a timely basis. (Finding Code No. 06-1, 05-1, 04-1)

RECOMMENDATION

We recommend the Board comply with provisions of the Illinois Petroleum Education and Marketing Act and the State Officers and Employees Money Disposition Act as it relates to the locally held fund. In addition, we recommend the Board have signature authority for only personnel or Board members. Further, we recommend the Board ensure that accurate reports of receipts and disbursements are submitted to the Comptroller's Office on a timely basis, as required by SAMS.

BOARD RESPONSE

The Board concurs with the audit finding and accepts the recommendation of the Auditor General.

06-2. **FINDING** (Unreasonable expenditures)

The Petroleum Resources Board (Board) made several expenditures during the examination period that did not appear to be reasonable and necessary to support mandated Board operation. During our testing of expenditures, we noted the following:

- Four of 25 (16%) vouchers tested included payments, totaling \$1,068, to the Executive Director for gasoline expenses incurred while driving a State owned vehicle. According to expense vouchers submitted by the Executive Director, the gasoline expenses were for travel to various restoration sites, school visits, miscellaneous travel, and administrative travel. However, no log was maintained documenting the miles driven or maintenance expenses incurred. Good business practices require that a log be maintained and include date driven, destination, beginning and ending mileage and any expenses incurred for the vehicle.
- One of 25 (4%) vouchers tested, totaling \$553, included a payment for 29 hats. The voucher indicated that the hats were for public relations efforts. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the establishment and maintenance of a system of internal controls to safeguard funds against waste, loss, unauthorized use and misappropriation. Furthermore, strong internal controls and good business practices dictate that policies should be established to delineate appropriate uses of funds.
- Two of 25 (8%) vouchers tested, totaling \$1,329, included payments to the Executive Director for reimbursement of breakfast and lunch expenses. The three meals totaled approximately \$80 and included a \$3 tip for breakfast. The Travel Regulation Council (Subpart E, Section 3000.510) allows breakfast to be paid when an employee is on travel status and leaves headquarters or residence (if reporting directly to the destination) at or before 6:00 a.m. Breakfast reimbursement cannot exceed \$5.50 and lunch is not a reimbursable expense. In addition, the Travel Regulation Council (Title 80, Subpart F, Section 3000.600) states that tips incurred beyond those specifically provided in this Part are nonreimbursable expenses.
- One of 25 (4%) vouchers tested, totaling \$585, had mileage reimbursement rates in excess of the allowable rate, resulting in an \$8 overpayment. The Executive Director was reimbursed at a rate of 48.5 cents per mile and the allowable rate was 40.5 cents per mile. The Governor's Travel Control Board (Title 80, Section 2800 Appendix A) set the rate for auto mileage reimbursement at \$0.405/mile for Fiscal Year 2006.

Board personnel were aware of the importance of maintaining vehicle maintenance logs and supporting documentation. Board personnel further stated the mileage rate error was due to oversight and the payment for meals was due to the Board being unfamiliar with the Travel Regulations.

Failure to maintain adequate logs and records could result in unauthorized vehicle expenditures. Failure to check the accuracy of travel reimbursements may subject the State to excessive travel reimbursement expenditures and may result in overpayment. (Finding Code No. 06-2)

RECOMMENDATION

We recommend the Board enhance its internal procedures, and require a vehicle log book to record vehicle mileage and maintain sufficient documentation to support the vehicle log. Further, we recommend the Board only purchase those items necessary to support the Board's mandated duties and check all travel vouchers to ensure compliance with the travel reimbursement rates set by the Travel Regulation Council.

BOARD RESPONSE

The Board concurs with the audit finding and accepts the recommendation of the Auditor General.

06-3. **FINDING** (Inaccurate property control records)

The Illinois Petroleum Resources Board (Board) did not maintain accurate property control records. During our review of equipment expenditures, we noted the following:

- Two equipment items purchased, totaling \$46,453, were not timely added to the Board's property control records. A 2006 vehicle purchased and received in December 2005 and a 2006 cargo trailer purchased and received in June 2006 have not been recorded on the Board's property records as of January 2007. In addition, we noted in the prior examination that the Board purchased a cell phone, totaling \$300, in July 2004 but did not tag or record the cost of the cell phone on the Board's property control records. The Board has still not tagged or recorded this item on its property control records as of January 2007. The Illinois Administrative Code (44 Ill. Adm. Code 5010.320) requires vehicle and trailer additions be made to agency property systems within 30 days of physical transaction and requires State agencies to adjust their property records within 30 days of acquisition, change or deletion of equipment items (44 Ill. Adm. Code 5010.400). The exclusion of these three items resulted in the inventory records being understated by \$46,753.
- The Board inaccurately recorded amounts for three separate items on its property control records. These three items were overstated by a total of \$153. These items were noted during the prior engagement but still have not been corrected.
- The Board included software totaling \$161 on its property control records. Current practice no longer requires software be reported on property records since software is not owned by the Board; the Board only has the right to use the software. The inclusion of software resulted in the inventory records being overstated by \$161.

The net effect of these errors on the Board's property records was an understatement of \$46,438 as of June 30, 2006.

Board personnel stated they were not aware software should not have been included on the inventory records. Board personnel further stated that they attempted to record the vehicle and trailer on the property listing but were instructed not to do so by an employee at DNR. In addition, the cell phone and other items were not added to the Board's property control records due to oversight.

Failure to maintain accurate property records increases the potential for fraud and possible loss or theft of State property. (Finding Code No. 06-3)

RECOMMENDATION

We recommend the Board comply with the Illinois Administrative Code by ensuring all property under its jurisdiction is tagged and recorded timely on its property control records. Further, we recommend the Board remove the software from its property control records.

BOARD RESPONSE

The Board concurs with the audit finding and accepts the recommendation of the Auditor General.

06-4. **FINDING** (Noncompliance with the Illinois Procurement Code)

The Petroleum Resources Board (Board) did not use competitive sealed bidding for purchases exceeding \$25,000 as required by the Illinois Procurement Code and failed to create a written contract for purchases exceeding \$10,000. We noted the following:

- The Board purchased a 2006 vehicle for \$33,090 without using competitive sealed bidding. The Board also failed to create a written contract for the purchase and file it with the Office of the Comptroller.
- The Board paid for radio advertisements and made three installment payments totaling \$49,500, but did not use competitive sealed bidding to choose the vendor and failed to create a written contract with the vendor and file it with the Office of the Comptroller.
- The Board purchased a trailer and made four payments to the vendor totaling \$13,644, but failed to create a written contract with the vendor and file it with the Office of the Comptroller.

The Illinois Procurement Code requires competitive sealed bidding be used for procurements of goods which exceed the small purchase threshold (30 ILCS 500/20-20). The Department of Central Management Services (DCMS) Rules set that threshold at \$25,000 (44 Ill. Admin. Code 1.2020(a)) for purchases of supplies and services other than professional and artistic. Invitation for bid must be publicized in the Illinois Procurement Bulletin (44 Ill. Adm. Code 1.2010) In addition, the Code prohibits "stringing" of purchases and states, "Procurements shall not be artificially divided so as to constitute a small purchase..." and thus avoid competitive bid (30 ILCS 500/20-20(a)). The Code (30 LCS 500/20-80 (b)) also states when a contract liability exceeding \$10,000 is incurred by a State agency, a copy of the contract liability must be filed with the IOC within 15 days of its execution.

Board personnel stated they were unaware of the requirement to use competitive sealed bidding or to create written contracts for the purchases.

Failure to use the competitive sealed bidding process and reduce contracts to writing is noncompliance with the Illinois Procurement Code and could lead to inefficient use of State resources. (Finding Code No. 06-4)

RECOMMENDATION

We recommend the Board implement procedures to ensure that competitive bidding and contracts are used when required by the Illinois Procurement Code.

BOARD RESPONSE

The Board concurs with the audit finding and accepts the recommendation of the Auditor General.

06-5. **FINDING** (Board not comprised of twelve members as required)

The Illinois Petroleum Resources Board (Board) was not comprised of twelve board members as required by the Illinois Petroleum Education and Marketing Act (Act). One Board member resigned in April, 2006 and has not been replaced as of January, 2007.

The Act (225 ILCS 728/10) requires the Board be composed of 12 members appointed by the Governor from a list of names submitted by qualified producer associations. However, Public Act 94-1085 was signed by the Governor on January 19, 2007 which removes the requirement for Board members to be appointed by the Governor. The new legislation states that beginning on January 1, 2007, all appointments shall be made by the qualified producer associations.

Board management stated the vacancy was due to a resignation in April and they are currently attempting to fill the vacancy.

Board members should be appointed in a timely manner in order to properly formulate the function of the Board as intended and to ensure compliance with a statutory mandate. (Finding Code No. 06-5)

RECOMMENDATION

We recommend the Board ensure its Board is comprised of the correct number of members required by the Illinois Petroleum Education and Marketing Act.

BOARD RESPONSE

The Board concurs with the audit finding and accepts the recommendation of the Auditor General.

STATE OF ILLINOIS
PETROLEUM RESOURCES BOARD
COMPLIANCE EXAMINATION
For the Year Ended June 30, 2006

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
- Comparative Schedule of Receipts, Disbursements, and Fund Balance (Cash Basis) – Locally Held Funds
- Schedule of Changes in State Property
- Analysis of Significant Variations in Expenditures

- Analysis of Operations:

- Agency Functions and Planning Program
- Personnel
- 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
 PETROLEUM RESOURCES BOARD
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES

For the Fiscal Year Ended June 30, 2006

	Appropriations (Net of Transfers)	Lapse Period		Total Expenditures 14 Months Ended August 31	Balances Lapsed August 31
		Expenditures Through June 30	Expenditures July 1 to August 31		
P.A. 94-0015 FISCAL YEAR 2006					
Petroleum Resources Revolving Fund - 573					
Lump Sum - Illinois Petroleum Education and Marketing Act	\$ 500,000	\$ 469,228	\$ 20,772	\$ 490,000	\$ 10,000
Total Fiscal Year 2006	<u>\$ 500,000</u>	<u>\$ 469,228</u>	<u>\$ 20,772</u>	<u>\$ 490,000</u>	<u>\$ 10,000</u>

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

STATE OF ILLINOIS
 PETROLEUM RESOURCES BOARD
**COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,
 EXPENDITURES AND LAPSED BALANCES**
 For the Fiscal Years Ended June 30,

	Fiscal Year	
	2006	2005
	P.A. 94-0015	P.A. 93-0842
Petroleum Resources Revolving Fund - 573		
Appropriations (Net of Transfers)	\$ 500,000	\$ 625,000
<u>Expenditures</u>		
Lump Sum - Illinois Petroleum Education and Marketing Act	\$ 490,000	\$ 625,000
Total Expenditures	\$ 490,000	\$ 625,000
Lapsed Balances	\$ 10,000	\$ 0

Note: The Board did not make any efficiency initiative payments during Fiscal Year 2006.

STATE OF ILLINOIS
 PETROLEUM RESOURCES BOARD
**COMPARATIVE SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND FUND
 BALANCE (CASH BASIS) – LOCALLY HELD FUNDS**
 For the Year Ended June 30, 2006

		Petroleum Resources Board <u>Escrow Account</u>
Cash Balance at July 1, 2005	\$	63,012
Receipts:		
Appropriations from the Petroleum Resources Revolving Fund		479,256
Interest Income		685
Total Receipts		<u>479,941</u>
Disbursements:		
Operational Expenses		<u>484,835</u>
Total Disbursements		<u>484,835</u>
Cash Balance at June 30, 2006	\$	<u><u>58,118</u></u>

STATE OF ILLINOIS
PETROLEUM RESOURCES BOARD
SCHEDULE OF CHANGES IN STATE PROPERTY
For the Year Ended June 30, 2006

	<u>2006</u>
Beginning Balance, July 1, 2005	\$ 44,468
Additions	
Purchases	49,060
Deletions	(1,250)
Net Transfers	<u>0</u>
Ending Balance, June 30, 2006	<u>\$ 92,278</u>

Note: The property balances at June 30, 2006 were obtained from the Department of Natural Resources Property System.

STATE OF ILLINOIS
PETROLEUM RESOURCES BOARD
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For the Year Ended June 30, 2006

**ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN
FISCAL YEARS 2005 AND 2006**

Petroleum Resources Revolving Fund – 573

Lump Sums – Illinois Petroleum Education and Marketing Act

The decrease in expenditures was due to the Board submitting an estimated budget to the General Assembly for fiscal year 2006 that included lesser amounts for expenditures. As a result, the Board received a smaller appropriation for fiscal year 2006 as compared to fiscal year 2005.

STATE OF ILLINOIS
PETROLEUM RESOURCES BOARD
ANALYSIS OF OPERATIONS
For the Year Ended June 30, 2006

AGENCY FUNCTIONS AND PLANNING PROGRAM

Agency Functions

The Illinois Petroleum Resources Board (Board) was created by the Illinois Petroleum Education and Marketing Act (Act) (225 ILCS 728 *et seq.*), effective July 10, 1998. The purpose of the Board is to coordinate a program designed to demonstrate to the general public the importance of the Illinois oil exploration and production industry; to encourage the wise and efficient use of energy; to promote environmentally sound production methods and technologies; to develop existing supplies of State oil resources; and, to support research and educational activities concerning the oil exploration and production industry.

The Board should be comprised of twelve board members appointed by the Governor however the Board had one vacancy at June 30, 2006. The Board members at June 30, 2006 were:

- Dean Hollensbe – Chairman
- Jim Fehrenbacher – Vice Chairman Public Relations
- Chris Mitchell – Vice Chairman Government Relations
- Bryan Dicus – Vice Chairman Environmental
- Karen Suey – Secretary
- Nida Woodfall – Treasurer
- J. Roy Dee III
- Steve Whitaker
- Gary Henigman
- Donnie Williams
- David Simmons

The Board has the following seven objectives:

Education – To create an understanding of the Illinois oil and gas industry and good safety practices in producing areas through programs with schools, organizations, and the public at large.

Public Relations – To promote a positive image and understanding of the industry with a proactive public relations campaign through the use of the print and broadcast media, a speakers bureau, signage and other methods of communication.

Environmental Work – To participate in environmental characterization and remediation work caused by historical oil and gas production within Illinois.

Research – To support research activities for projects that are related to Illinois oil and gas production and related activities.

Solicitation of Contributions – To seek and obtain contributions and donations from members of the oil and gas industry and others for use in achieving the objectives of the organization.

Obtaining Grants – To solicit grants from governmental and private organizations for use in achieving the objectives of the organization.

Making Grants – To distribute grants to educational and industry researchers and organizations for use in achieving the objectives of the organization.

Board members are eligible to receive reimbursement for travel expenses incurred in the performance of Board duties.

Agency Planning Program

The Board has established by-laws and governing regulations, which serve to guide the basic operations of the Board. The Board has also developed work plans for each committee to aid the Board in identifying and achieving short-term goals. The Board meets every other month, and members of each committee report on progress towards the Board's goals and objectives.

Auditor's Assessment

The Board appears to have maintained an adequate planning program and has established procedures to manage its mandated and administrative duties.

LEGISLATION

Public Act 94-1085, effective January 19, 2007 changed the repeal date of the Illinois Petroleum Education and Marketing Act from January 1, 2008 to January 1, 2016. In addition, the Public Act removed the requirement for the Governor to appoint Board members and transferred the requirement to the qualified producer associations. Public Act 94-1085 also allows the Board to receive and administer all assessments, donations, grants, contributions, and gifts received by the Board pursuant to the Act and to deposit them into accounts maintained by the Board. All moneys and assets of the Petroleum Resources Revolving Fund are to be transferred to the Board and the fund is to be abolished. Lastly, the Board will be responsible for selecting a certified public accountant to audit the Board annually.

PERSONNEL

The Executive Director and Executive Assistant are the only employees of the Board. They are employed on a contractual basis.

FY06 SERVICE EFFORTS AND ACCOMPLISHMENTS (Not Examined)

The Illinois Petroleum Resources Board is making progress toward their goals of increasing awareness and improving the image and credibility of the Illinois oil and gas industry.

During Fiscal Year 2006 the Board purchased and is outfitting a new Traveling Field Trip Exhibit to accommodate the increasing popularity of the “free to any school in Illinois” exhibit. The new design also provides wheel chair access for handicapped students. Nearly 25,000 students and adults toured the exhibit learning how these Illinois crude oil and natural gas resources affect the quality of their daily lives because of thousands of petroleum based consumer products, and why these resources are an important source of domestically produced energy. Various types of media have also been used to expand our public relations program.

The Board’s Oilfield Fire Safety Program has been expanded with the opening of a second training facility. The Illinois Fire Services Institute provides free training to fire fighters via a grant, provided by the Board, to the University of Illinois. Additional funding to the University of Illinois through the State Geological Survey utilizes college student workers digitizing paper records which will preserve these geological records for future generations and provide timely and useable information via internet that is important for educational and exploratory purposes.

The restoration of abandoned sites has reached a new plateau with 122 sites now completed. The Board continues to work with the Illinois Department of Natural Resources and other government and private organizations in building this program and prudently utilizing the funds provided by the industry.