

# REPORT DIGEST

## Performance Audit

### COAL DEVELOPMENT FUND

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State of Illinois  
Office of the Auditor General

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## SYNOPSIS

The Illinois House of Representatives adopted Resolution Number 1076 on May 13, 2008 directing the Office of the Auditor General to conduct a performance audit of the activities of the Coal Development Fund and the propriety of transferring money from this fund.

- In June 2007, the State of Illinois deposited \$10.2 million from the sale of General Obligation bonds into the Coal Development Fund used by the Department of Commerce and Economic Opportunity (DCEO).
- In November 2007, the Governor and Director of the Office of Management and Budget (OMB) transferred (reallocated) \$10.2 million from the Coal Development Fund to the Transportation Bond Series B Fund.
- The General Obligation Bond Act authorizes the Governor and Director of OMB to reallocate unused bond proceeds among these named funds.

The Resolution also directed us to audit the activities of DCEO with respect to deposits and withdrawals from the Coal Development Fund. This fund is used by two DCEO programs:

- **Coal Demonstration Program**, which has awarded four grants in fiscal years 2007-2008 totaling \$5.1 million.
- **Coal Revival Program**, which has a \$14.1 million pending grant to Secure Energy, Inc. but as of December 2008 lacked sufficient funds for the grant.

We reviewed DCEO's project files for Secure Energy, Inc. and all the four grants from the Coal Demonstration Program in fiscal year 2007. Our review showed that DCEO had documentation to address the technical aspects of the grants but needs to better document and organize the review process used to determine eligibility and to assess the project's strengths and weaknesses.



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## REPORT CONCLUSIONS

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The Illinois House of Representatives adopted Resolution Number 1076 on May 13, 2008 directing the Office of the Auditor General to conduct a performance audit of the activities of the Coal Development Fund and the propriety of transferring money from this fund. (p. 1)

### Propriety of the Transfer

The Governor and Director of the Office of Management and Budget (OMB) have the authority to transfer (or reallocate) unused bond proceeds between funds specified in the General Obligation (GO) Bond Act. The GO Bond Act states that the Governor and the Director of OMB can reallocate unspent bond proceeds:

**Statutory Authority: 30 ILCS 330/12**

(h) . . . the Governor and the Director of the Governor's Office of Management and Budget may provide for the reallocation of unspent proceeds of such Bonds [to named funds] . . . .

Since the GO Bond Act names both the Coal Development Fund and the Transportation Bond Series B Fund, the reallocation was proper. Fund Transfer Notifications dated November 2, 2007 were sent to the Comptroller to reallocate \$10.2 million from the Coal Development Fund to the Transportation Bond Series B Fund. (pp. 3-5)

### Coal Development Programs

The Resolution also directed us to audit the activities of DCEO with respect to deposits and withdrawals from the Coal Development Fund. This fund is used by two DCEO programs:

- **Coal Demonstration Program**, which has awarded four grants in fiscal years 2007-2008 totaling \$5.1 million.
- **Coal Revival Program**, which has a \$14.1 million pending grant to Secure Energy, Inc., but lacked sufficient funds as of December 2008.

During fiscal years 2007 and 2008, the Coal Development Fund used by DCEO had the following deposits, withdrawals, and transfers:

- **Beginning Balance:** The Coal Development Fund had a balance of \$5.3 million on July 1, 2006.
- **Deposits:** The State deposited \$10.2 million in June 2007 from the sale of GO bonds.

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**Reallocating \$10.2 million in General Obligation bond proceeds from the Coal Development Fund to the Transportation Bond Series B Fund complied with the requirements of the General Obligation Bond Act.**

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- **Withdrawals:** DCEO awarded four grants for \$5.1 million in fiscal year 2007.
- **Transfers:** The Governor and Director of OMB transferred \$10.2 million from Coal Development Fund to the Transportation Bond Series B Fund in November 2007 to be used for the CTA.
- **Ending Balance:** The Coal Development Fund had a balance of \$286,709 on June 30, 2008.

Digest Exhibit 1 shows the transactions of the Coal Development Fund since fiscal year 2007.

**The Coal Development Fund lacked money (as of December 2008) to provide the pending \$14.1 million grant to Secure Energy, Inc.**

<b>Digest Exhibit 1 COAL DEVELOPMENT FUND</b>			
	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009<sup>C</sup></b>
Beginning Balance	\$5,343,500.34	\$10,456,582.74	\$286,708.98
Revenues	<sup>A</sup> \$10,204,165.40	\$34,291.64	\$0
Expenditures	\$5,091,083.00	\$0	\$0
Transfer	\$0	<sup>B</sup> \$10,204,165.40	\$0
Ending Balance	\$10,456,582.74	\$286,708.98	\$286,708.98
<sup>A</sup> Deposited in June 2007.			
<sup>B</sup> Bond proceeds transferred in November 2007.			
<sup>C</sup> As of December 2008.			
Source: Comptroller's web page ( <a href="http://www.ioc.state.il.us">www.ioc.state.il.us</a> ) and DCEO.			

With the transfer of \$10.2 million to the Transportation Bond Series B Fund, the Coal Development Fund lacks money to provide the pending \$14.1 million grant to Secure Energy, Inc.

We reviewed DCEO's project files for the Secure Energy, Inc. and all the four grants from the Coal Demonstration Program in fiscal year 2007. Our review showed that DCEO had documentation to address the technical aspects of the grants. However, DCEO did not summarize, using an evaluation instrument, its determination of grant application eligibility, project evaluation (e.g. strengths and weaknesses), and supervisory review. Such documentation can better demonstrate that due diligence was performed and that grant requests were evaluated against specified program criteria and were awarded to entities that accomplished program goals. The audit recommended DCEO develop an evaluation instrument to document its review of grant applications; DCEO concurred. (pp. 5-8)

**DCEO should develop an evaluation instrument to document its review of grant applications.**

WILLIAM G. HOLLAND  
Auditor General

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