



STATE OF ILLINOIS

OFFICE OF THE AUDITOR GENERAL

**MANAGEMENT AUDIT OF
\$1 MILLION GRANT TO
LOOP LAB SCHOOL**

JULY 2009

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

*To the Legislative Audit Commission, the Speaker
and Minority Leader of the House of Representatives,
the President and Minority Leader of the Senate, the
members of the General Assembly, and the Governor:*

This is our report of the Management Audit of the process involved in the \$1 million grant to Loop Lab School.

The audit was conducted pursuant to Illinois House of Representatives Resolution Number 1190, which was adopted May 1, 2008. This audit was conducted in accordance with generally accepted government auditing standards and the audit standards promulgated by the Office of the Auditor General at 74 Ill. Adm. Code 420.310.

The audit report is transmitted in conformance with Section 3-14 of the Illinois State Auditing Act.

A handwritten signature in blue ink, appearing to read "William G. Holland". The signature is stylized and includes a long, sweeping line that extends upwards and to the right.

WILLIAM G. HOLLAND
Auditor General

Springfield, Illinois
July 2009

REPORT DIGEST

MANAGEMENT AUDIT OF THE

\$1 MILLION GRANT TO THE LOOP LAB SCHOOL

Released: July 2009



State of Illinois
Office of the Auditor General

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SYNOPSIS

House Resolution 1190 directed the Auditor General to conduct a management audit of the process involved in the \$1 million grant to the Loop Lab School (School). Our audit concluded that:

- The **previous** Governor initially promised the Pilgrim Baptist Church (Church) \$1 million in State grant funds on **January 9, 2006**, three days after a fire destroyed the Church.
- The **previous** Governor's Office had no policies and procedures for administering these types of grants, even though it directed and approved **over \$45 million** in grants from the Fund for Illinois' Future in FY06-07.
- While the previous Governor promised the funds to the Church, it appears a **member of his staff then directed** the funds to the School and not the Church.
- While the previous Governor indicated there was a "bureaucratic mistake," his staff was aware that the Church and School were separate entities on **January 18, 2006, 12 days after the fire**.
- On **November 22, 2006**, DCEO executed a grant with the School to purchase property to relocate its operation.
- After numerous inquiries by auditors, spanning an 8-month period, a Governor's Office official reported to auditors that the former Governor was "unable to recall" who the ex-staffers were or who told him about the situation.
- DCEO was not timely in completing the grant recovery process with the School. During the recovery process:
 - The School **attempted to sell** the property for \$950,000.
 - After outstanding expenses and liens a total of \$119,000 would have remained.
 - In **May 2009**, the School agreed to repay the State.**Given that the real estate is the only reported asset the School has and given the number of claims against the School, the State will likely recover very little of the \$1 million grant to the School.**
- On **March 3, 2008**, the previous Governor again promised \$1 million **to the Church**. That same morning a news story questioned his initial promise.
- While the grant was executed June 30, 2008, it has not been paid due to an ongoing lawsuit.
- Internal controls at DCEO were **circumvented** in the award and processing of the grants to both the School and Church.
- We received **limited cooperation** from the **former Governor's Office**, however, during the period of March through May 2009 staff in the **current Governor's Office** found and provided over **900 pages of documentation**.

REPORT CONCLUSIONS

On January 6, 2006, a fire which began on the roof gutted the **Pilgrim Baptist Church** (Church) and spread to the adjacent building, which housed Church storage on the 2nd floor and leased space for the Loop Lab School (School) on the ground floor. The Church had rented the premises to the School for about two years, from 2004 to 2006.

Loop Lab School

The overall concept of the **Loop Lab School** is for parents who work in the Loop area of Chicago to have the opportunity to send their children to a school **located** in the Loop area. The School was pre-kindergarten through 8th grade, with a nine to twelve month program – meaning summer school was available for children who needed it or an option for parents who had to work. During the audit we found that the School:

- Incorporated June 7, 1983, but has been **negligent in maintaining** its filings with the Secretary of State (SOS). Loop Lab School has been dissolved numerous times, indicating it has not provided its annual report to SOS.
- Has been a **family-run** school organization. In July 2006, while Loop Lab School was going through the grant process with DCEO, the corporation's officers included its founder as president, her nephew as secretary, and niece as treasurer. The niece and nephew have also held operational titles (finance manager and personnel manager) for the organization. On October 9, 2007, a great-niece replaced the founder as president of the organization with the founder staying on as a director.
- Has **operated** from five locations since its incorporation in 1983. All five of these **leased** facilities were located in Chicago.
- Operated under a lease with the Church to occupy approximately 6,200 square feet in the administration building and another 320 square feet in the computer room of the Church's community center building located across the street (3300 South Indiana) for a gross monthly **rent of \$9,800** per month.
- Was significantly behind in rent payments at the time of the fire in January 2006. According to Church documentation the School's director was notified that **delinquent rent payments**

A January 6, 2006 fire destroyed the space Loop Lab School leased from Pilgrim Baptist Church.

The School has operated from five leased sites during its existence.

totaling \$77,800 were owed for rented space. This amount, plus rent for November and December 2005, was never paid.

- **Enrollment declined** over the past four reporting periods for which the School filed information with the Illinois State Board of Education. During the school year in which the fire took place, 2005-2006, Loop Lab School had an enrollment of 82 students; 3 school administrators; 8 faculty positions; and 3 support personnel.
- Also operated as a childcare center and received **\$1.8 million** from FY00 through FY07 from the Department of Human Services (DHS) for eligible children under the State’s Childcare Assistance Program. However, in some instances, the School utilized these monies for the child’s tuition, which was **not an allowable use** of the State funds according to DHS policy. (pages 10-14)

The School received \$1.8 million in State childcare funds from FY00-07.

Limited Cooperation – Former Governor’s Office

House Resolution 1190 asked the Auditor General to review the funds promised to or received by the Loop Lab School and the Pilgrim Baptist Church. Specifically the Resolution directed the Auditor General to determine how and when the funds were promised to the Church and what process was followed, if any. The **Governor’s Office under the previous administration** was untimely and not fully cooperative in providing information to auditors during the audit. For instance:

- The **previous Governor** stated in early 2008 that the funds that went to Loop Lab School were part of a bureaucratic mistake by a couple of ex-staffers. We first requested the identities of these two individuals on May 27, 2008. After at least **seven additional requests**, a Governor’s Office official reported on January 20, 2009, **nearly eight months later**, essentially that the former Governor was unable to recall who the ex-staffers were or who told him about the situation. The official then described the conversation with the Governor as attorney-client privileged communication.
- We also asked staff in the **previous Governor’s Office** for **any and all** communications relevant to the Loop Lab School or Pilgrim Baptist Church grants. While we did receive some documentation, we were not provided with all requested information.
 - Staff from the **Governor’s Office in the current administration** did make the effort to find and provide over

The previous Governor’s Office was not fully cooperative with the audit.

The current Governor’s Office did provide over 900 pages of audit information.

900 pages of documentation relative to the Loop Lab School grant that involved top level officials from the **previous administration**. This included:

- March 6, 2009 – 473 pages of documentation from emails;
- April 2, 2009 – 139 pages of documentation from email accounts of senior level staff in the former Governor’s Office;
- April 21, 2009 – 56 pages of documentation from two boxes of information not previously made available to auditors;
- May 18, 2009 – 259 pages of documentation from an email account of a senior level manager in the former Governor’s Office. (page 21)

REPORT CONCLUSIONS: \$1 MILLION GRANT TO LOOP LAB SCHOOL

Four agencies were knowledgeable in the activities associated with or conducted activities to provide a \$1 million grant to the School from early 2006 through recovery efforts continuing in April 2009. The four agencies were the **former Governor’s Office**, Department of Commerce and Economic Opportunity (DCEO), Governor’s Office of Management and Budget (GOMB), and the Department of Human Services. The Governor’s Office had at least 24 staff that were knowledgeable of these actions. Our examination of documentation showed participation by the:

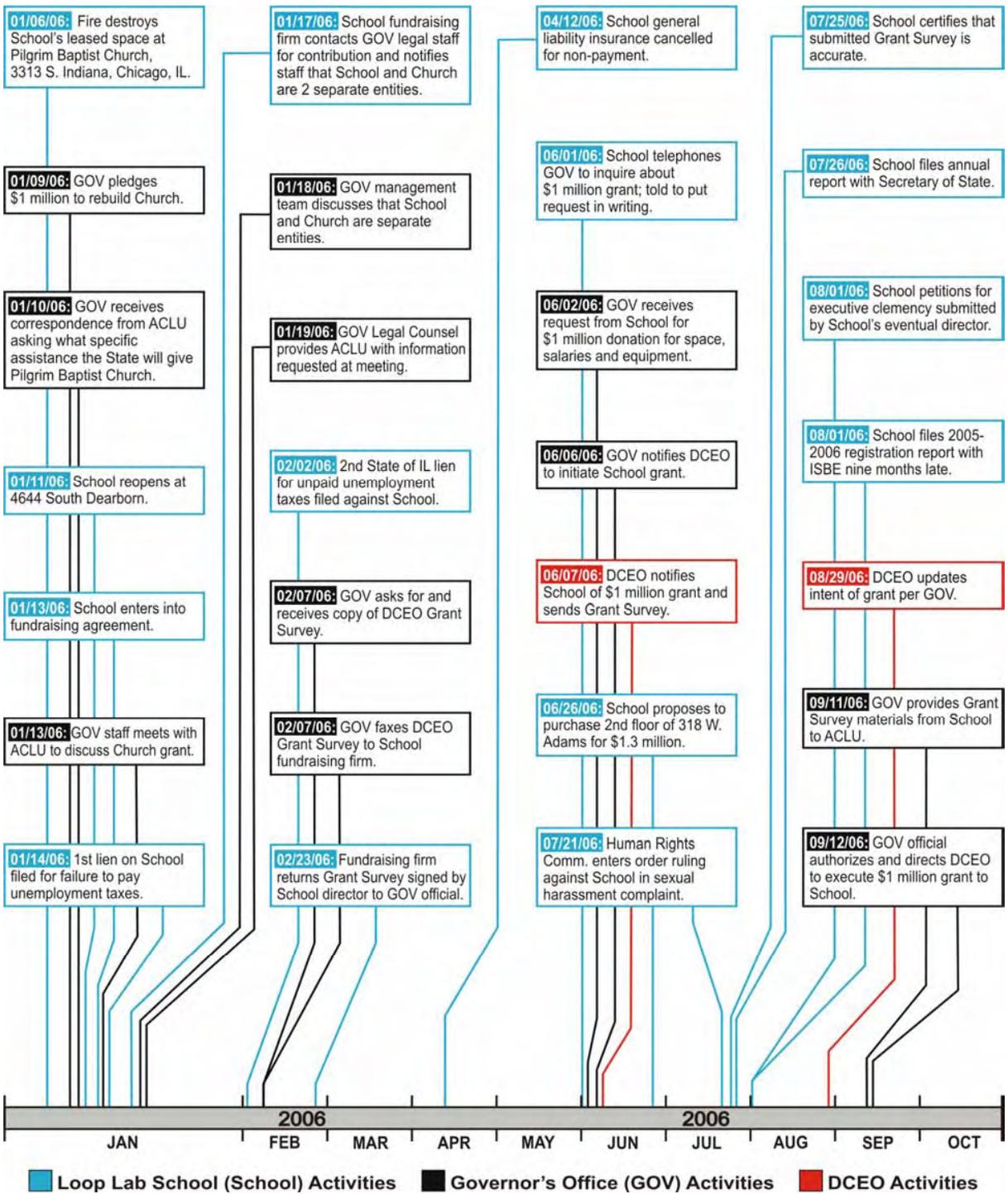
- **Governor’s Office** – including the Deputy Governor, Chief of Staff, multiple legal office officials, advisors, and communications staff.
- **Department of Commerce and Economic Opportunity** – including the Director, legislative affairs staff, multiple legal office officials, and grants management staff.

The grant to the School was classified as a Governor’s Miscellaneous Grant and DCEO was directed to award and monitor the grant. Governor’s miscellaneous grants are coordinated through and approved by the Governor’s Office even if a project may have been originally selected by the legislature.

Digest Exhibit 1 provides a timeline of activities associated with the \$1 million grant to the Loop Lab School. The activities are broken into those by the School, the Governor’s Office and DCEO.

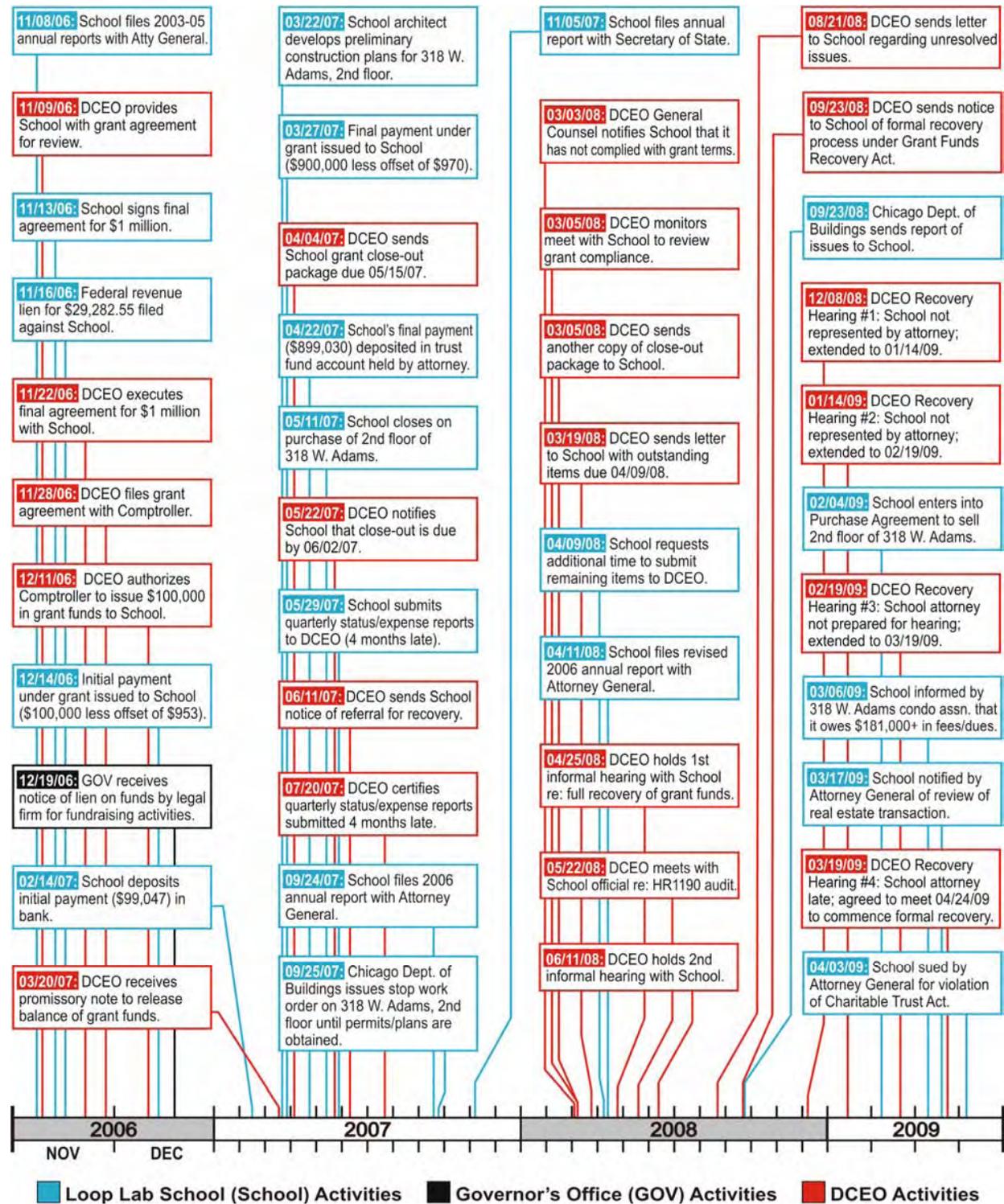
The \$1 million grant to the School was coordinated through and approved by the *previous* Governor’s Office.

Digest Exhibit 1 LOOP LAB SCHOOL GRANT TIMELINE OF EVENTS FY06-FY09



Source: OAG developed from DCEO and Governor's Office documentation.

Digest Exhibit 1 LOOP LAB SCHOOL GRANT TIMELINE OF EVENTS FY06-FY09



Source: OAG developed from DCEO and Governor's Office documentation.

The grant was paid from the Fund for Illinois' Future. In FY06-07, 491 grantees received over \$45 million from the Fund.

The School used the funds to purchase property in Chicago which never actually opened for school purposes.

With regard to the funds used for the Loop Lab School grant:

- The \$1 million grant to the Loop Lab School was paid from the Fund for Illinois' Future (Fund).
- DCEO officials indicated, and documentation supports that the Governor's Office, **under the previous administration**, made the decision to utilize the Fund for the grant.
- Significant grant funding was provided through the Fund for Illinois' Future during the time when the grant to Loop Lab School was processed. During FY06, **181 grantees received over \$19 million** in grant funds coordinated and approved by the Governor's Office. In FY07, those numbers increased to **310 grantees and over \$26 million.**
- The State Finance Act outlines the uses for the Fund. Moneys *"may be appropriated for the making of grants and expenditures for planning, engineering, acquisition, . . . of public infrastructure in the State of Illinois, including grants to local governments for public infrastructure, grants to public elementary and secondary school districts for public infrastructure, grants to . . . non-profit corporations for public infrastructure, and expenditures for public infrastructure of the State and other related purposes, including but not limited to expenditures for equipment, vehicles, community programs, and recreational facilities (30 ILCS 105/6z-47(c))."*
- The School purchased property at 318 W. Adams in Chicago that, as of April 2009, has **never** been suitable for school purposes. We question whether the use of this Fund for this purchase, made by a private school that charges tuition, was for "public infrastructure" and an appropriate expenditure from the Fund.

DCEO processed payments to the School as a grant for elementary and secondary educational purposes as defined by the Comptroller. Payment provisions for grant distribution included in Section 2.3 of the executed grant agreement showed that ten percent would be provided upon execution and the balance once the School provided DCEO with proof of the closing date for the property to be purchased with grant funds. The funds were distributed in two payments, both of which had distribution problems. An examination of the payments showed:

- The Comptroller **issued the initial payment** (\$99,047) on December 14, 2006. The postal service returned the warrant twice to the Comptroller as undeliverable before it was decided that a School official could **pick up the grant payment** with two forms of identification and the presence of the grant

manager. On January 31, 2007, the official received the first payment.

- The **initial payment** was endorsed by the School official and deposited into a bank account on February 14, 2007. Over a month later, on March 23, 2007, the seller received the funds as earnest money on the sale.
- The Comptroller issued the **final payment** (\$899,030.46) on March 27, 2007. This warrant was also returned as undeliverable on April 16, 2007. On April 18, 2007, the DCEO grant manager instructed the Comptroller to mail the warrant to the home address of a Loop Lab School official since the School was not able to use the 318 W. Adams mailing address until it closed on the property.
- The final payment was endorsed “Pay to the order of Atty [Attorney Name Omitted] - Atty/Client Trust Fund Acct.” It was also signed by the Loop Lab School Interim Director. This was deposited into a different account than the first payment.

The previous Governor’s Office **did not have** a grant file to show how it authorized the \$1 million to Loop Lab School. Given that the Governor’s Office authorized \$45 million in grants just from the Fund for Illinois’ Future during FY06-07, the lack of grant files shows a **lack of due diligence** by the former Governor and his staff.

While the former Governor promised the Pilgrim Baptist Church \$1 million after the fire in January 2006, communications among Governor’s staff appear to indicate that it was a **member of the Governor’s staff that directed the grant** to the School rather than to the Church. A January 29, 2007 email communication from a Deputy Chief of Staff of the former Governor regarding a potential lien being placed on the Loop Lab School grant included a section which stated: *“In January 2006, the Governor committed \$1 million to the Pilgrim Baptist Church project. [The Deputy Chief of Staff for Communications] directed me to the staff at Loop Lab School, an institution that leased space from the Church, to start processing the grant. Grant funds were to be used for costs associated with acquiring a new school facility. [Legal Counsel] and I worked to walk Loop Lab through the application process.”* Other communications showed:

- Another correspondence between Governor’s Office staff, in March 2008, explained that for the grant in 2006 *“After the announcement, and after a few weeks had passed and the ACLU contacted us, [the Deputy Chief of Staff for Communications] directed the grant to Loop Lab School.”*

The former Governor’s Office did not maintain a file to show how it authorized the School grant.

The former Governor promised \$1 million in State support to the Church after the 2006 fire.

A staff member of the former Governor directed the grant to the School instead of the Church.

The former Governor’s staff were aware that the Church and School were separate entities 12 days after the fire.

- The former Deputy Chief of Staff for Communications, however, provided a different account when she reported to auditors that *“It is her understanding that [Deputy Chief of Staff for Social Services] made the initial recommendation that the grant be awarded to the Loop Lab School, and that [Deputy Governor] approved the recommendation.”*
- The former Deputy Chief of Staff for Communications also told auditors that the Deputy Chief of Staff for Social Services and the Deputy Governor were operating under the assumption that the school and church *were associated with each other* and that the money would be used for the administration building where the school had been housed.
- However, based on an email communication, we know this to not be the case. An email communication dated **January 18, 2006**, from legal counsel reported that a letter received on behalf of the School *“clarifies that the School and the Church are separate entities* (emphasis added).” This email went to:
 - The Deputy Governor referenced above;
 - The Deputy Chief of Staff for Communications referenced above;
 - The Deputy Chief of Staff for Social Services referenced above; and
 - The Governor’s General Counsel.

The Governor’s Office under the previous administration had no policies or procedures in awarding and administering of grants. Given that the Governor’s Office was approving and directing millions of taxpayer dollars through grants, prudent practice would be for the Governor to have such policies and procedures in place.

Loop Lab School used a major portion of the \$1 million State grant for its intended purpose as stated in the budget section of the executed grant agreement, the purchase of a building. However, from an overall perspective, Loop Lab School failed to open a school.

The final intended purpose for the State funds to Loop Lab School was not completely the same as the intent in the **initial request** from the School. The previous Governor’s Office **changed the intended use** of the funds (from a purpose which included some operational funds to exclusively the purchase of a building), a move that may have impeded the School from opening.

DCEO classified the grant to Loop Lab School as a Governor’s miscellaneous grant. DCEO has procedures in place to process the grants directed and authorized by the Governor’s Office. Our examination of available documentation found that the Governor’s Office and DCEO

circumvented the internal controls in place at DCEO to process the grant authorized and directed by the Governor’s Office for the School. Additionally, DCEO procedures should be reviewed to include more safeguards for State monies.

Loop Lab School was delinquent in its filing of progress reports with DCEO per provisions of the grant agreement. While DCEO notified the School it had been referred for recovery of funds in June 2007, it was **approximately nine months later**, on March 3, 2008, that DCEO notified the School it was not in compliance with the terms of the grant agreement. Coincidentally, this was **the same day** a Chicago newspaper published a story questioning whether the previous Governor had broken his promise to the Pilgrim Baptist Church when the funds went to the School.

DCEO has not been timely in completing the recovery process, putting the State funds at risk of not being recovered. As of April 2009, **22 months after first notifying** the School it was referred for recovery, DCEO had still not completed the process and had not requested the Attorney General commence collection. Delays in completing the recovery process at DCEO have resulted in other entities having claims against the assets of Loop Lab School leaving potentially nothing for the State to collect.

While Loop Lab School was attempting to find an attorney to represent it in the recovery process with DCEO, it did try to sell the 2nd floor at 318 W. Adams that was purchased with the State grant. We found:

- On February 4, 2009, Loop Lab School officials executed a purchase agreement to sell the real estate purchased at 318 W. Adams to a group of other tenants of that same location in Chicago.
- The selling price for the real estate was \$950,000.
- Closing documents prepared for the proposed sale list a number of expenses for Loop Lab School for the sale. These costs included: federal and State tax liens, State and county transfer taxes, property taxes, condominium association fees and dues, commissions, legal fees and consulting fees.
- **After expenses, the amount remaining from the proposed sale totaled \$119,000.**

Internal controls at DCEO were circumvented in the processing of the grant to the School.

DCEO notified the School it was not in compliance with the grant on the same day a story was published that questioned whether the previous Governor broke a funding promise to the Church.

The School attempted to sell the property during the grant recovery process.

Net proceeds after the sale would have left little for the State to collect from the \$1 million grant.

- On May 20, 2009, DCEO completed the administrative hearing process and Loop Lab School agreed to repay the State grant. **However, with the number of claims against the School, that repayment process may be lengthy and will likely recover very little of the original \$1 million grant.**

In April 2009, the Attorney General filed suit in the Circuit Court of Cook County against the School and two of its directors for violations of the Charitable Trust Act (Act). The suit has two counts:

- In the **First Count**, the lawsuit states that in February 2009, Loop Lab School signed an agreement to sell the charitable asset it held at 318 W. Adams. The Attorney General contended that absent any accounting submitted by Loop Lab School, the Attorney General could not determine whether there was any waste or misuse of charitable assets in this attempted sale.
- The **Second Count** of the lawsuit alleges a breach of fiduciary under Section 15 of the Charitable Trust Act. By not timely filing its registration with the Attorney General, the directors named in the suit are in violation of Sections 15(a)(7) and 15(a)(8) of the Act. (pages 23-54)

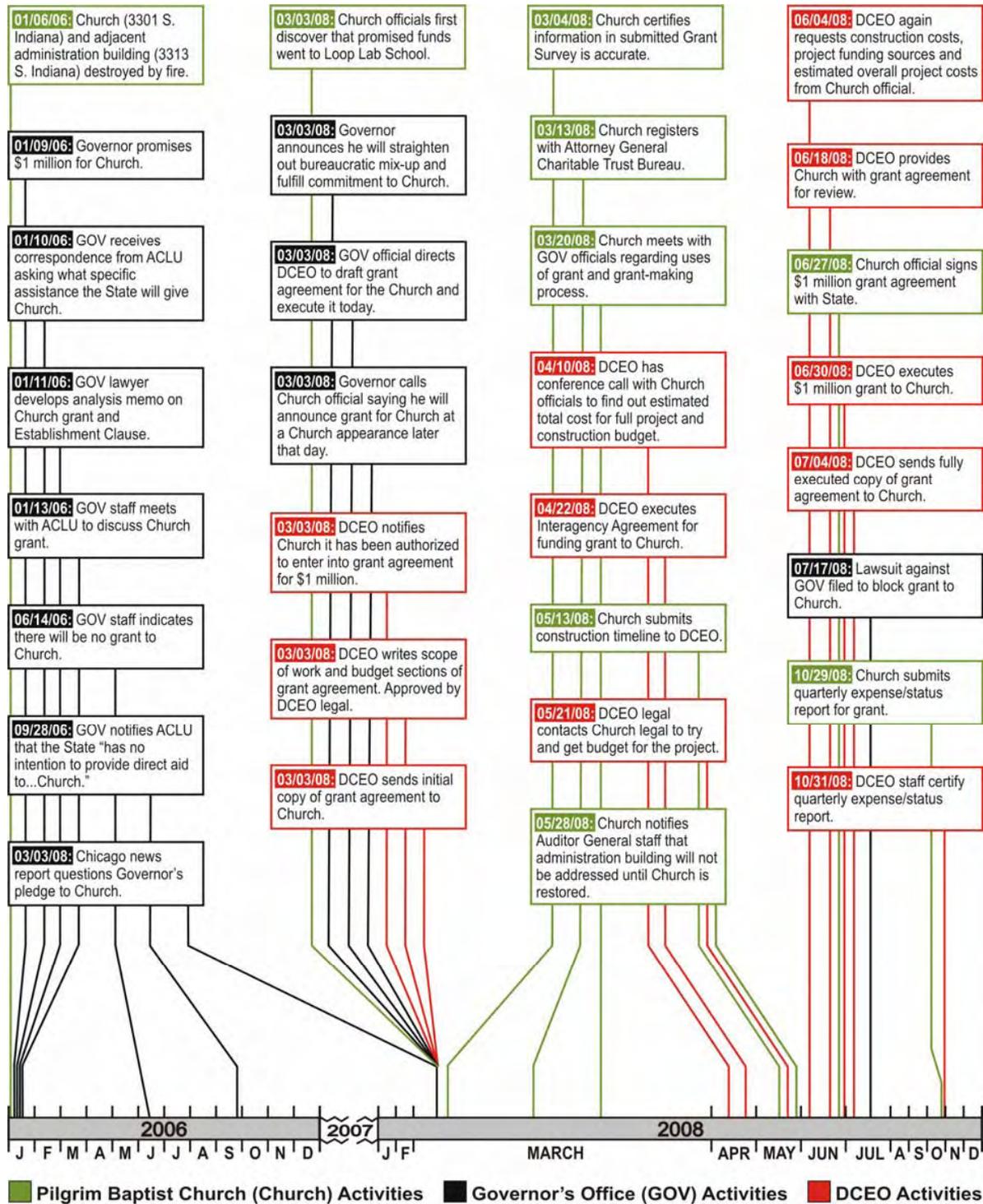
REPORT CONCLUSIONS: \$1 MILLION GRANT TO PILGRIM BAPTIST CHURCH

Four agencies were knowledgeable in the activities associated with or conducted activities to provide a \$1 million grant to the Pilgrim Baptist Church from the time the funding was first promised in January 2006 through the actual execution of the grant in June 2008. The four agencies were the **former Governor’s Office**, Department of Commerce and Economic Opportunity, Governor’s Office of Management and Budget and the Capital Development Board (CDB). The Governor’s Office had at least 37 staff that were knowledgeable of these actions. Our examination of documentation showed participation by the:

- **Governor’s Office** – including the Governor, Deputy Governor, and Chief of Staff.
- **Department of Commerce and Economic Opportunity** – including the Director, multiple legal office officials, budget/fiscal staff, grants management staff and special projects liaison.

Digest Exhibit 2 provides a timeline of activities associated with the \$1 million grant to Pilgrim Baptist Church. The activities are broken into those by the Church, the Governor’s Office and DCEO.

Digest Exhibit 2 PILGRIM BAPTIST CHURCH GRANT TIMELINE OF EVENTS FY06-FY09



Source: OAG developed from DCEO and Governor's Office documentation.

The Pilgrim Baptist Church was promised a \$1 million grant on two separate occasions by the former Governor. The **first** promise, on January 9, 2006, did not result in funding for the Church. The **second** promise, on March 3, 2008, did result in a grant agreement and a formal commitment of State funds.

The *previous* Governor first promised funding to the Church on January 9, 2006.

Our review of available documentation found, for the **first** promise, that:

- On January 9, 2006, three days after fire destroyed the Pilgrim Baptist Church, the **former Governor** stood up and **pledged \$1 million** to the Church during an interdenominational service in Chicago. According to the Governor’s Deputy Chief of Staff at the time, the decision to give \$1 million to the Church was made by the Deputy Governor.
- On January 10, 2006, the Governor stated, apparently unaware that the Church and Loop Lab School were separate entities, the funds were “to support the reconstruction of its school.” The American Civil Liberties Union (ACLU) also asked the Governor’s Office about the specific assistance being pledged to the Church.
- A January 18, 2006 communication from Legal Counsel in the Governor’s Office to top level staff (Deputy Governor, Chief Legal Counsel, Deputy Chief of Staff for Communications and the Deputy Chief of Staff for Social Services), **12 days after the fire**, reported that a law firm representing the School had sent a communication clarifying “that **the School and Church are separate entities** (emphasis added).” The correspondence stated “*I’m not certain who from the administration has been in contact with the Loop Lab School or any other entities involved in a potential grant to rebuild the school building at Pilgrim Baptist. I also wasn’t certain if there was any notion to grant funds to the Loop Lab School, or if they are not involved at all.*”
- At least by June 2006, the Governor’s Office knew the \$1 million promised to the Church **would not be expended** on an administration building at the Church site. In a June 14, 2006 correspondence among Governor’s Office officials, one official reported “There is **no grant** to Pilgrim Baptist Church. The State is working with the Loop Lab School to provide assistance **as they try to relocate** and rebuild (emphasis added).”
- On September 28, 2006, the Governor’s Office notified the ACLU that the State “has **no intention** to provide direct aid to Pilgrim Baptist Church (emphasis added).”

In September 2006, the *previous* Governor’s staff told the ACLU that no direct aid would go to the Church.

Our review of available documentation found, for the **second promise**, that:

- On March 3, 2008, the former Governor, in responding to a press story, again promised the Church \$1 million to rebuild the administration building. This was the same administration building that was the focus of the 2006 promise, a promise which had never been fulfilled by the former Governor.
- On June 30, 2008, the State did **execute** a \$1 million grant with the Church as the culmination of four months of extensive communication between State officials and the Church in an attempt to fulfill a commitment made **30 months earlier** by the former Governor to the Church.
- As of the drafting of this report in May 2009, the Church had not received the grant funds.

Our examination found that the Governor’s Office and DCEO **circumvented the internal controls** in place at DCEO to process the grant authorized and directed by the Governor’s Office for the Church. Also, it is **unclear** whether the Church would have been able to expend the State grant during the grant time period given the lack of planning for the construction of the administration building, the purported use for the \$1 million grant. Our review of available documentation found:

- The Governor’s Office wanted a grant to move expeditiously to the Church.
 - On March 3, 2008 at 9:10 a.m., the Governor’s Chief of Staff directed the DCEO director to “*draft a grant agreement for the church. We want it ready for execution today. [Deputy Governor], who can we get to appear with us today from the church?*” This was the **same day** the news story was published questioning the former Governor’s initial pledge to the Church.
 - Drafting up a grant agreement without any information from the Church would appear to violate the procedures in place at DCEO.
 - DCEO officials developed the scope of work and budget sections for the grant agreement **before the Church responded** to the Grant Survey.
- In its haste to process the \$1 million grant to respond to the news report, the Governor’s Office **was not even aware** of what the Church utilized the building for.
 - In a March 3, 2008 correspondence, the GOMB director questioned the use of the Build Illinois Bond Fund as a funding source for the Church grant. A Governor’s Office official indicated the uses were “*Libraries and library*

On March 3, 2008, the previous Governor again promised funding to the Church.

That same day a news story questioned the previous Governor and his initial commitment to the Church.

DCEO internal controls were again circumvented in the rush to get a grant to the Church.

systems...materials for scientific and historical surveys; eligible voc ed programs; school shops and labs; capital improvements for univs and comm. colleges; health care facilities” When questioned as to whether the Church had any community or education program in the administration building, the Governor’s Office official stated *“I know they had an admin building that housed the loop lab school. Presumably, that space was used for other community activities. I see that as the ONLY way we could grant funds to a religious institution – if they have a community building.”*

When the grant was again promised in March 2008, the Church was not planning on the reconstruction of its administration building.

- At the time the grant process was initiated, in March 2008, the Church was not contemplating reconstruction efforts on the administration building. Given that there was no documentation to show the architectural plans or agreements with contractors to perform the work, it is difficult to know whether the funds would have been spent on their intended purpose. We noted:
 - In the March 5, 2008 Grant Survey the Church submitted to DCEO, the Church indicated that there were actions and approvals necessary before the start of the project to rebuild the administration building.
 - In May 2, 2008 documentation provided to DCEO, the Church noted that the following activities would be housed in a new administration building: Community Food Programs, Community Job Readiness Programs, Community Health Fairs, Community Legal Clinics, Community Literacy Programs, and Community Family Activities.
 - On May 28, 2008, approximately three months after the Governor’s Office announced the second promise of \$1 million to the Church, a Church official stated that in time the Church planned to raze the administration building. However, the first priority was to get the Church restored.
 - As of September 20, 2008, the day Church officials unveiled the rebuilding plans and **three months after the execution of the State grant agreement**, architects and Church officials stated they planned to focus on the Church first.
 - As of January 15, 2009, a Church official noted that the Church had not selected a contractor to rebuild the administration building because it had not received the grant from the State.
 - DCEO, per the grant agreement, authorized 100 percent of the grant award for disbursement by the Comptroller upon execution of the agreement by DCEO.

The Church has not received the grant funds from the State.

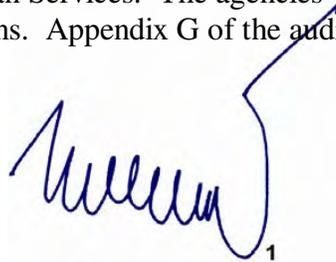
The former Governor's Chief of Staff directed GOMB to find an appropriate funding source for the Church grant. The decision was to use Build Illinois Bond Fund monies. However, an Interagency Agreement between CDB and DCEO had to be developed to transfer \$1 million in Build Illinois Bond Funds to be used for the grant to the Church.

On July 17, 2008, as a result of the grant to the Church, a lawsuit was filed against the Governor, the DCEO Director, and the Comptroller. The lawsuit requests an injunction preventing the release of grant funds to the Church based on the First and Fourteenth Amendments of the United States Constitution and Article I § 3, Article VII § 1, and Article X § 3 of the Illinois Constitution. Due to this legal action, the Comptroller, in consultation with the Attorney General, decided to hold the payment of the \$1 million grant to the Church. (pages 55-72)

A lawsuit was filed to prevent the release of funds to the Church in July 2008.

AUDIT RECOMMENDATIONS

The Audit contains eight total recommendations directed to the Governor's Office, the Department of Commerce and Economic Opportunity and the Department of Human Services. The agencies generally agreed with the recommendations. Appendix G of the audit report contains the agency responses.



WILLIAM G. HOLLAND
Auditor General

WGHMJM
July 2009

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Chapter One

INTRODUCTION & BACKGROUND

REPORT CONCLUSIONS

On January 6, 2006, a fire which began on the roof gutted the **Pilgrim Baptist Church** (Church) and spread to the adjacent building, which housed Church storage on the 2nd floor and leased space for the Loop Lab School (School) on the ground floor. The Church had rented the premises to the School for about two years, from 2004 to 2006.

The overall concept of the **Loop Lab School** is for parents who work in the Loop area of Chicago to have the opportunity to send their children to a school **located** in the Loop area. The School was pre-kindergarten through 8th grade, with a nine to twelve month program – meaning summer school was available for children who needed it or an option for parents who had to work. During the audit we found that the School:

- Incorporated June 7, 1983, but has been **negligent in maintaining** its filings with the Secretary of State (SOS). Loop Lab School has been dissolved numerous times, indicating it has not provided its annual report to SOS.
- Has been a **family-run** school organization. In July 2006, while Loop Lab School was going through the grant process with DCEO, the corporation's officers included its founder as president, her nephew as secretary, and niece as treasurer. The niece and nephew have also held operational titles (finance manager and personnel manager) for the organization. On October 9, 2007, a great-niece replaced the founder as president of the organization with the founder staying on as a director.
- Has **operated** from five locations since its incorporation in 1983. All five of these **leased** facilities were located in Chicago.
- Operated under a lease with the Church to occupy approximately 6,200 square feet in the Administration building and another 320 square feet in the computer room of the Church's community center building located across the street (3300 South Indiana) for a gross monthly **rent of \$9,800** per month.
- Was significantly behind in rent payments at the time of the fire in January 2006. According to Church documentation the School's director was notified that **delinquent rent payments** totaling \$77,800 were owed for rented space. This amount, plus rent for November and December 2005, was never paid.
- **Enrollment declined** over the past four reporting periods for which the School filed information with the Illinois State Board of Education. During the school year in which the fire took place, 2005-2006, Loop Lab School had: an enrollment of 82 students; 3 school administrators; 8 faculty positions; and 3 support personnel.
- Also operated as a childcare center and received **\$1.8 million** from FY00 through FY07 from the Department of Human Services (DHS) for eligible children under the State's Child Care Assistance Program. However, in some instances, the School utilized these monies for the child's tuition, which was **not an allowable use** of the State funds according to DHS policy.

House Resolution 1190 directed the Auditor General to determine how and when the funds were promised to the Church and what process was followed, if any. The **Governor's Office under the previous administration** was untimely and not fully cooperative in providing information to auditors during the audit. For instance:

- The **previous Governor** stated in early 2008 that the funds that went to Loop Lab School were part of a bureaucratic mistake by a couple of ex-staffers. We first requested the identities of these two individuals on May 27, 2008. After at least **seven additional requests**, a Governor's Office official reported on January 20, 2009, **nearly eight months later**, essentially that the former Governor was unable to recall who the ex-staffers were or who told him about the situation. The official then described the conversation with the Governor as attorney-client privileged communication.
- We also asked staff in the **previous Governor's Office** for any and all communications relevant to the Loop Lab School or Pilgrim Baptist Church grants. While we did receive some documentation, we were not provided with all requested information.
 - Staff from the **Governor's Office in the current administration** did make the effort to find and provide over 900 pages of documentation relative to the Loop Lab School grant that involved top level officials from the **previous administration**. This included:
 - March 6, 2009 – 473 pages of documentation from emails;
 - April 2, 2009 – 139 pages of documentation from email accounts of senior level staff in the former Governor's Office;
 - April 21, 2009 – 56 pages of documentation from two boxes of information not previously made available to auditors;
 - May 18, 2009 – 259 pages of documentation from an email account of a senior level manager in the former Governor's Office.

\$1 Million Grant to Loop Lab School

Four agencies were knowledgeable in the activities associated with or conducted activities to provide a \$1 million grant to the School from early 2006 through recovery efforts continuing in April 2009. The four agencies were the **former Governor's Office**, Department of Commerce and Economic Opportunity (DCEO), Governor's Office of Management and Budget (GOMB), and the Department of Human Services. The Governor's Office had at least 24 staff that were knowledgeable of these actions.

The grant to the School was classified as a Governor's miscellaneous grant and DCEO was directed to award and monitor the grant. Governor's miscellaneous grants are coordinated through and approved by the Governor's Office even if a project may have been originally selected by the legislature. Numerous difficulties arose in processing grant payments to Loop Lab School due mainly to **the School not having an official location** from which to operate.

With regard to the funds used for the Loop Lab School grant:

- The \$1 million grant to the Loop Lab School was paid from the Fund for Illinois' Future (Fund).

- DCEO officials indicated, and documentation supports that the Governor’s Office, **under the previous administration**, made the decision to utilize the Fund for the grant.
- Significant grant funding was provided through the Fund for Illinois’ Future during the time when the grant to Loop Lab School was processed. During FY06, **181 grantees received over \$19 million** in grant funds coordinated and approved by the Governor’s Office. In FY07, those numbers increased to **310 grantees and over \$26 million**.
- The State Finance Act outlines the uses for the Fund. Moneys “*may be appropriated for the making of grants and expenditures for planning, engineering, acquisition, . . . of public infrastructure in the State of Illinois, including grants to local governments for public infrastructure, grants to public elementary and secondary school districts for public infrastructure, grants to . . . non-profit corporations for public infrastructure, and expenditures for public infrastructure of the State and other related purposes, including but not limited to expenditures for equipment, vehicles, community programs, and recreational facilities* (30 ILCS 105/6z-47(c)).”
- The School purchased property at 318 W. Adams in Chicago that, as of April 2009, has **never** been suitable for school purposes. We question whether the use of this Fund for this purchase, made by a private school that charges tuition, was for “public infrastructure” and an appropriate expenditure from the Fund.

DCEO processed payments to the School as a grant for elementary and secondary educational purposes as defined by the Comptroller. Payment provisions for grant distribution included in Section 2.3 of the executed grant agreement showed that ten percent would be provided upon execution and the balance once the School provided DCEO with proof of the closing date for the property to be purchased with grant funds. The funds were distributed in two payments, both of which had distribution problems. An examination of the payments showed:

- The Comptroller **issued the initial payment** (\$99,047) on December 14, 2006. The postal service returned the warrant twice to the Comptroller as undeliverable before it was decided that a School official could **pick up the grant payment** with two forms of identification and the presence of the grant manager. On January 31, 2007, the official received the first payment.
- The **initial payment** was endorsed by the School official and deposited into a bank account on February 14, 2007. Over a month later, on March 23, 2007, the seller received the funds as earnest money on the sale.
- The Comptroller issued the **final payment** (\$899,030.46) on March 27, 2007. This warrant was also returned as undeliverable on April 16, 2007. On April 18, 2007, the DCEO grant manager instructed the Comptroller to mail the warrant to the home address of a Loop Lab School official since the School was not able to use the 318 W. Adams mailing address until it closed on the property.
- The final payment was endorsed “Pay to the order of Atty [Attorney Name Omitted] - Atty/Client Trust Fund Acct.” It was also signed by the Loop Lab School Interim Director. This was deposited into a different account than the first payment.

The previous Governor’s Office **did not have** a grant file to show how it authorized the \$1 million to Loop Lab School. Given that the Governor’s Office authorized \$45 million in

grants just from the Fund for Illinois' Future during FY06-07, the lack of grant files shows a **lack of due diligence** by the former Governor and his staff.

While the former Governor promised the Pilgrim Baptist Church \$1 million after the fire in January 2006, communications among Governor's staff appear to indicate that it was a **member of the Governor's staff that directed the grant** to the School rather than to the Church. A January 29, 2007 email communication from a Deputy Chief of Staff of the former Governor regarding a potential lien being placed on the Loop Lab School grant included a section which stated: *"In January 2006, the Governor committed \$1 million to the Pilgrim Baptist Church project. [The Deputy Chief of Staff for Communications] directed me to the staff at Loop Lab School, an institution that leased space from the Church, to start processing the grant. Grant funds were to be used for costs associated with acquiring a new school facility. [Legal Counsel] and I worked to walk Loop Lab through the application process."* Other communications showed:

- Another correspondence between Governor's Office staff, in March 2008, explained that for the grant in 2006 *"After the announcement, and after a few weeks had passed and the ACLU contacted us, [the Deputy Chief of Staff for Communications] directed the grant to Loop Lab School."*
- The former Deputy Chief of Staff for Communications, however, provided a different account when she reported to auditors that *"It is her understanding that [Deputy Chief of Staff for Social Services] made the initial recommendation that the grant be awarded to the Loop Lab School, and that [Deputy Governor] approved the recommendation."*
- The former Deputy Chief of Staff for Communications also told auditors that the Deputy Chief of Staff for Social Services and the Deputy Governor were operating under the assumption that the school and church **were associated with each other** and that the money would be used for the administration building where the school had been housed.
- However, based on an email communication, we know this to not be the case. An email communication dated **January 18, 2006** from legal counsel reported that a letter received on behalf of the School *"clarifies that the School and the Church are separate entities* (emphasis added)." This email went to:
 - The Deputy Governor referenced above;
 - The Deputy Chief of Staff for Communications referenced above;
 - The Deputy Chief of Staff for Social Services referenced above; and
 - The Governor's General Counsel.

The Governor's Office under the previous administration had no policies or procedures in awarding and administering of grants. Given that the Governor's Office was approving and directing millions of taxpayer dollars through grants, prudent practice would be for the Governor to have such policies and procedures in place.

Loop Lab School used a major portion of the \$1 million State grant for its intended purpose as stated in the budget section of the executed grant agreement, the purchase of a building. However, from an overall perspective, Loop Lab School failed to open a school.

The final intended purpose for the State funds to Loop Lab School was not completely the same as the intent in the **initial request** from the School. The previous Governor's Office **changed the intended use** of the funds (from a purpose which included some operational funds to exclusively the purchase of a building), a move that may have impeded the School from opening.

DCEO classified the grant to Loop Lab School as a Governor's miscellaneous grant. DCEO has procedures in place to process the grants directed and authorized by the Governor's Office. Our examination of available documentation found that the Governor's Office and DCEO **circumvented the internal controls** in place at DCEO to process the grant authorized and directed by the Governor's Office for the School. Additionally, DCEO procedures should be reviewed to include more safeguards for State monies.

Loop Lab School was delinquent in its filing of progress reports with DCEO per provisions of the grant agreement. While DCEO notified the School it had been referred for recovery of funds in June 2007, it was **approximately nine months later**, on March 3, 2008, that DCEO notified the School it was not in compliance with the terms of the grant agreement. Coincidentally, this was **the same day** a Chicago newspaper published a story questioning whether the previous Governor had broken his promise to the Pilgrim Baptist Church when the funds went to the School.

DCEO has not been timely in completing the recovery process, putting the State funds at risk of not being recovered. As of April 2009, **22 months after first notifying** the School it was referred for recovery, DCEO had still not completed the process and had not requested the Attorney General commence collection. Delays in completing the recovery process at DCEO have resulted in other entities having claims against the assets of Loop Lab School leaving potentially nothing for the State to collect.

While Loop Lab School was attempting to find an attorney to represent it in the recovery process with DCEO, it did try to sell the 2nd floor at 318 W. Adams that was purchased with the State grant. We found:

- On February 4, 2009, Loop Lab School officials executed a purchase agreement to sell the real estate purchased at 318 W. Adams to a group of other tenants of that same location in Chicago.
- The selling price for the real estate was \$950,000.
- Closing documents prepared for the proposed sale list a number of expenses for Loop Lab School for the sale. These costs included: federal and State tax liens, State and county transfer taxes, property taxes, condominium association fees and dues, commissions, legal fees and consulting fees.
- **After expenses, the amount remaining from the proposed sale totaled \$119,000.**
- On May 20, 2009, DCEO completed the administrative hearing process and Loop Lab School agreed to repay the State grant. **However, with the number of claims against the School, that repayment process may be lengthy and will likely recover very little of the original \$1 million grant.**

In April 2009, the Attorney General filed suit in the Circuit Court of Cook County against the School and two of its directors for violations of the Charitable Trust Act (Act). The suit has two counts:

- In the **First Count**, the lawsuit states that in February 2009, Loop Lab School signed an agreement to sell the charitable asset it held at 318 W. Adams. The Attorney General contended that absent any accounting submitted by Loop Lab School, the Attorney General could not determine whether there was any waste or misuse of charitable assets in this attempted sale.
- The **Second Count** of the lawsuit alleges a breach of fiduciary under Section 15 of the Charitable Trust Act. By not timely filing its registration with the Attorney General, the directors named in the suit are in violation of Sections 15(a)(7) and 15(a)(8) of the Act.

\$1 Million Grant to Pilgrim Baptist Church

Four agencies were knowledgeable in the activities associated with or conducted activities to provide a \$1 million grant to the Pilgrim Baptist Church (Church) from the time the funding was first promised in January 2006 through the actual execution of the grant in June 2008. The four agencies were the **former Governor's Office**, Department of Commerce and Economic Opportunity (DCEO), Governor's Office of Management and Budget (GOMB) and the Capital Development Board (CDB). The Governor's Office had at least 37 staff that were knowledgeable of these actions.

The Pilgrim Baptist Church was promised a \$1 million grant on two separate occasions by the former Governor. The **first** promise, on January 9, 2006, did not result in funding for the Church. The **second** promise, on March 3, 2008, did result in a grant agreement and a formal commitment of State funds.

Our review of available documentation found, for the **first promise**, that:

- On January 9, 2006, three days after fire destroyed the Pilgrim Baptist Church, the **former Governor** stood up and **pledged \$1 million** to the Church during an interdenominational service in Chicago. According to the Governor's Deputy Chief of Staff at the time, the decision to give \$1 million to the Church was made by the Deputy Governor.
- On January 10, 2006, the Governor stated, apparently unaware that the Church and Loop Lab School (School) were separate entities, the funds were "to support the reconstruction of its school." The American Civil Liberties Union (ACLU) also asked the Governor's Office about the specific assistance being pledged to the Church.
- A January 18, 2006 communication from Legal Counsel in the Governor's Office to top level staff (Deputy Governor, Chief Legal Counsel, Deputy Chief of Staff for Communications and the Deputy Chief of Staff for Social Services), **12 days after the fire**, reported that a law firm representing the School had sent a communication clarifying "that **the School and Church are separate entities** (emphasis added)." The correspondence stated "*I'm not certain who from the administration has been in contact with the Loop Lab School or any other entities involved in a potential grant to*

- rebuild the school building at Pilgrim Baptist. I also wasn't certain if there was any notion to grant funds to the Loop Lab School, or if they are not involved at all."*
- At least by June 2006, the Governor's Office knew the \$1 million promised to the Church **would not be expended** on an administration building at the Church site. In a June 14, 2006 correspondence among Governor's Office officials, one official reported "There is **no grant** to Pilgrim Baptist Church. The State is working with the Loop Lab School to provide assistance **as they try to relocate** and rebuild (emphasis added)."
 - On September 28, 2006, the Governor's Office notified the ACLU that the State "has **no intention** to provide direct aid to Pilgrim Baptist Church (emphasis added)."

Our review of available documentation found, for the **second promise**, that:

- On March 3, 2008, the former Governor, in responding to a press story, again promised the Church \$1 million to rebuild the administration building. This was the same administration building that was the focus of the 2006 promise, a promise which had never been fulfilled by the former Governor.
- On June 30, 2008, the State did **execute** a \$1 million grant with the Church as the culmination of four months of extensive communication between State officials and the Church in an attempt to fulfill a commitment made **30 months earlier** by the former Governor to the Church.
- As of the drafting of this report in May 2009, the Church had not received the grant funds.

Our examination found that the Governor's Office and DCEO **circumvented the internal controls** in place at DCEO to process the grant authorized and directed by the Governor's Office for the Church. Also, it is **unclear** whether the Church would have been able to expend the State grant during the grant time period given the lack of planning for the construction of the administration building, the purported use for the \$1 million grant. Our review of available documentation found:

- The Governor's Office wanted a grant to move expeditiously to the Church.
 - On March 3, 2008 at 9:10 a.m., the Governor's Chief of Staff directed the DCEO director to "*draft a grant agreement for the church. We want it ready for execution today. [Deputy Governor], who can we get to appear with us today from the church?*"
 - Drafting up a grant agreement without any information from the Church would appear to violate the procedures in place at DCEO.
 - DCEO officials developed the scope of work and budget sections for the grant agreement **before the Church responded** to the grant survey.
- In its haste to process the \$1 million grant to respond to the news report, the Governor's Office **was not even aware** of what the Church utilized the building for.
 - In a March 3, 2008 correspondence, the GOMB director questioned the use of the Build Illinois Bond Fund as a funding source for the Church grant. A Governor's Office official indicated the uses were "*Libraries and library systems...materials for scientific and historical surveys; eligible vocational programs; school shops and labs; capital improvements for univs and comm. colleges; health care facilities . . .*" When questioned as to whether the Church had any community or education

program in the administration building, the Governor's Office official stated "*I know they had an admin building that housed the loop lab school. Presumably, that space was used for other community activities. I see that as the ONLY way we could grant funds to a religious institution – if they have a community building.*"

- At the time the grant process was initiated, in March 2008, the Church was not contemplating reconstruction efforts on the administration building. Given that there is no documentation to show the architectural plans or agreements with contractors to perform the work, it is difficult to know whether the funds would have been spent on their intended purpose. We noted:
 - In the March 5, 2008 grant survey the Church submitted to DCEO, the Church indicated that there were actions and approvals necessary before the start of the project to rebuild the administration building.
 - In May 2, 2008 documentation provided to DCEO, the Church noted that the following activities would be housed in a new administration building: Community Food Programs, Community Job Readiness Programs, Community Health Fairs, Community Legal Clinics, Community Literacy Programs, and Community Family Activities.
 - On May 28, 2008, approximately three months after the Governor's Office announced the second promise of \$1 million to the Church, a Church official stated that in time the Church plans to raze the administration building. However, the first priority was to get the Church restored.
 - As of September 20, 2008, the day Church officials unveiled the rebuilding plans and **three months after the execution of the State grant agreement**, architects and Church officials stated they planned to focus on the Church first.
 - As of January 15, 2009, a Church official noted that the Church had not selected a contractor to rebuild the administration building because it had not received the grant from the State.
 - DCEO, per the grant agreement, authorized 100 percent of the grant award for disbursement by the Comptroller upon execution of the agreement by DCEO.

The former Governor's Chief of Staff directed GOMB to find an appropriate funding source for the Church grant. The decision was to use Build Illinois Bond funds. However, an Interagency Agreement between CDB and DCEO had to be developed to transfer \$1 million in Build Illinois Bond funds to be used for the grant to the Church.

On July 17, 2008, as a result of the grant to the Church, a lawsuit was filed against the Governor, the DCEO Director, and the Comptroller. The lawsuit requests an injunction preventing the release of grant funds to the Church based on the First and Fourteenth Amendments of the United States Constitution and Article I § 3, Article VII § 1, and Article X § 3 of the Illinois Constitution. Due to this legal action, the Comptroller, in consultation with the Attorney General, decided to hold the payment of the \$1 million grant to the Church.

INTRODUCTION

On May 1, 2008, the Illinois House of Representatives adopted Resolution 1190 (see Appendix A), which directs the Auditor General to conduct a management audit of the process involved in the \$1 million grant to Loop Lab School. The Resolution directs the Auditor General to determine:

- how and when the funds were promised to the Church, and what process was followed, if any;
- how and when the funds were provided to the Loop Lab School, and what process was followed, if any;
- what person or persons were involved in these transactions;
- what internal controls are present in the grant award process at the Illinois Department of Commerce and Economic Opportunity (DCEO), and whether those internal controls were followed and are adequate to ensure that grants are awarded to proper parties for intended purposes;
- what actions, if any, are being followed to either recover the misdirected funds and/or determine the purpose for which the funds have been used, and whether they have been used for a legitimate purpose; and
- whether a grant to the Church is currently being developed and, if so, what controls will be put in place to ensure the funds, if provided, are used for their intended purpose.

PILGRIM BAPTIST CHURCH OF CHICAGO

The Pilgrim Baptist Church of Chicago (Church) is the starting point for the series of events that eventually led to the awarding of a \$1 million grant to the Loop Lab School (School) in late 2006, and another \$1 million State grant for the Church in June 2008. The Church, located at 3301 S. Indiana in Chicago, first began as a synagogue in 1891 and was designed by Louis H. Sullivan. The site eventually became the Pilgrim Baptist Church in 1922. It achieved city landmark status in 1981. The Church filed Articles of Incorporation with the Secretary of State (SOS) on June 21, 1993.

On January 6, 2006, a fire, which began on the roof, gutted the Church and spread to the adjacent building, which housed Church storage on the 2nd floor and leased space for the Loop Lab School on the ground floor.

A Church official indicated that Loop Lab School had rented the premises for about two years, from 2004 to 2006. The official reported that the founder of the School came to the Church to inquire about use of the space after services one Sunday. Prior to Loop Lab School leasing the facility, Church officials indicated it housed a Church-run daycare and after that a daycare run by a private vendor.

During our entrance conference with Church officials on May 28, 2008, a Church official indicated that they had plans to raze the administration building that housed the Loop Lab School. That action was to take place **after** the Church had been rebuilt. The Church restoration was the first priority. On July 1, 2008, news reports indicated the Governor had provided a \$1

million dollar grant to the Church to be used for the rebuilding of the administration building that had housed the storage and the Loop Lab School. These plans were contrary to what Church officials reported just one month earlier. On October 15, 2008, an examination of the Church’s property by OAG staff showed that the administration building had been demolished.

The Church was insured for the administration building destroyed by the fire. By February 7, 2006, the Church had received \$862,000 in claim payouts from its insurance carrier. A Church official reported that an architect estimated the cost to replace the administration building to be around \$2 million. The Church, as of January 2009, had not selected a contractor for the construction of the administration building because it had yet to receive the State grant.

The Church has operated administratively from a community center building it owns across the street from the gutted Church sanctuary. This location has been utilized since at least 2004. Church services are also held at this location.

LOOP LAB SCHOOL, INC.

The overall concept of the Loop Lab School is for parents who work in the Loop area of Chicago to have the opportunity to send their children to a school located in the Loop area. The School was pre-kindergarten through 8th grade, with a nine to twelve month program – meaning summer school was available for children who needed it or an option for parents who had to work.

Loop Lab School incorporated June 7, 1983, and filed its Articles of Incorporation with the Secretary of State. However, since 1983, Loop Lab School has been negligent in maintaining its filings with SOS. Loop Lab School has been dissolved numerous times, indicating it has not provided its annual report to SOS. See Exhibit 1-1 for Loop Lab School status with SOS.

Exhibit 1-1 LOOP LAB SCHOOL FILING STATUS	
Year	Status
1983	Incorporated
1985	Dissolved
1987	Reinstated
1987	Dissolved
1989	Reinstated
2005	Dissolved
2006	Submitted Grant Survey-DCEO (July 25 th)
2006	Reinstated (July 26 th)
2007	Last Annual Report Filed (November 5 th)
2008	Dissolved (June 1 st)
Source: OAG summary of SOS information.	

Loop Lab School has been a family-run school organization. In July 2006, while Loop Lab School was going through the grant process with DCEO, the corporation’s officers included its founder as president, her nephew as secretary, and niece as treasurer. The niece and nephew have also held operational titles (finance manager and personnel manager) for the organization. On October 9, 2007, a great niece replaced the founder as president of the organization with the founder staying on as a director.

Mission

According to School documentation, the **mission** of the Loop Lab School is to provide children, through a comprehensive and coordinated educational program, with an awareness of their purpose and worth as individuals and an appreciation of their vital roles as active members

of their families, communities and social institutions. To accomplish this goal, Loop Lab School provides core educational classes, foreign language instruction, and a music curriculum that includes an award-winning choir.

Locations

Loop Lab School has **operated** from five locations since its incorporation in 1983. All five of these **leased** facilities were located in Chicago. The map in Exhibit 1-2 illustrates the movement of Loop Lab School from 1983 to 2007.

Loop Lab School has either outgrown its facilities or has had the facilities shuttered by the Chicago Fire Marshal. After outgrowing space on Wabash (leased through Roosevelt University) and 11 E. Adams, Loop Lab School was forced to move from the Michigan Avenue (which it sublet from Aurora University) location because of an inadequate fire alarm system. Loop Lab School was paying \$16,444 a month in rent for approximately 10,714 square feet at the Michigan Avenue location.

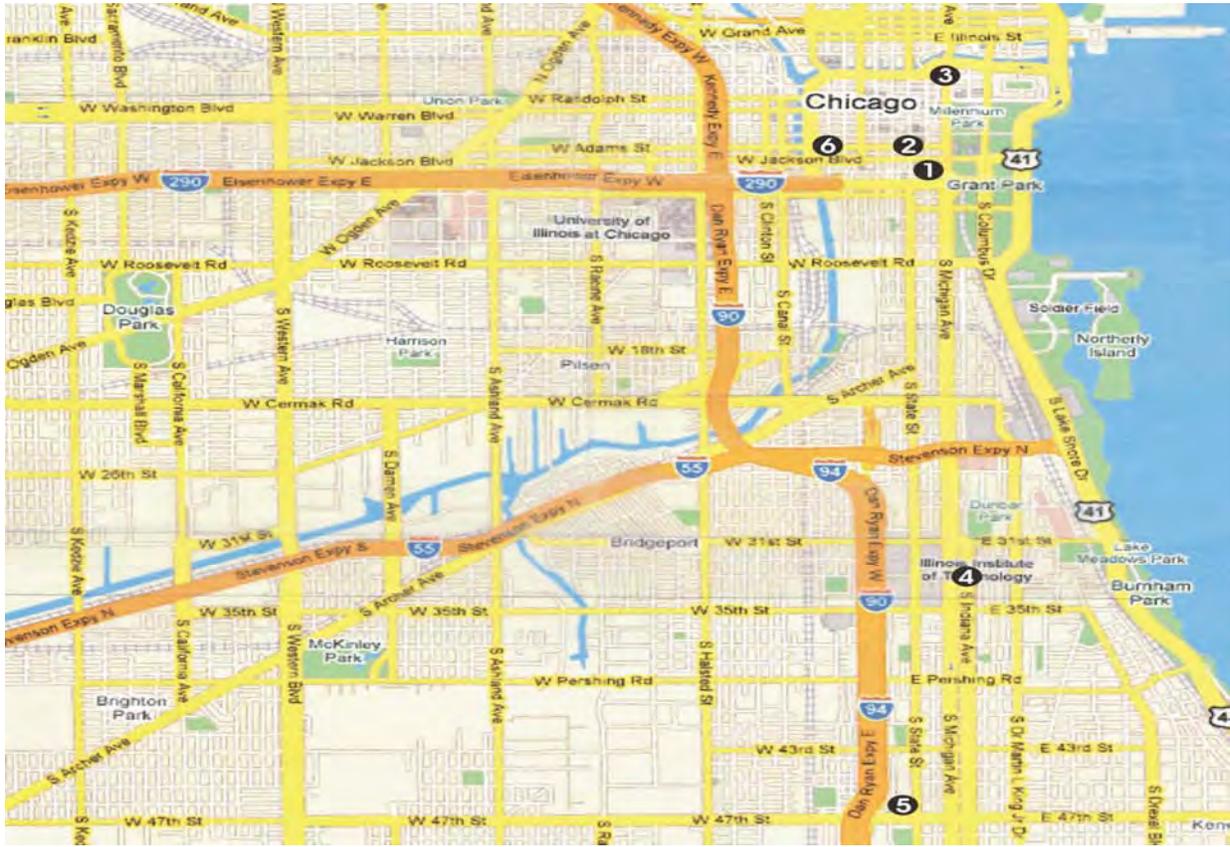
Pilgrim Baptist Church Site

After leaving the N. Michigan Avenue location School officials approached the Pilgrim Baptist Church. Church officials, while indicating that the School began renting in January or February 2004, were only able to provide lease agreements with Loop Lab School for two time periods. The **first lease**, for April 2004, was to rent 3,636 square feet of space on the first floor in the Administration Building at 3313 South Indiana. Rent for this month was \$6,000 and the Church agreed to provide: **Four** classrooms, a Director's office, kitchen, use of any childcare equipment in the classrooms, and limited utilities. We were unable to determine whether four classrooms were sufficient for the Loop Lab School student population since the School failed to report its attendance figure for the 2003-2004 academic year to the Illinois State Board of Education (ISBE).

Beginning in May 2004 until the fire in January 2006, the School operated under a **second lease** with the Church. Under the conditions of this lease, the School occupied approximately 6,200 square feet in the Administration building and another 320 square feet in the computer room of the Church's community center building located across the street (3300 S. Indiana). The estimated gross monthly rent for the space and pass-through for utilities and taxes totaled \$9,800 per month.

Church officials indicated that Loop Lab School was significantly behind in rent payments at the time of the fire in January 2006. According to Church documentation, in October 2005, the Loop Lab School director was notified that **delinquent rent payments** totaling \$77,800 were owed for rented space. This amount, plus rent for November and December 2005, was never paid. After the fire in January 2006, another church offered space to Loop Lab School on Dearborn. The School operated from that location until approximately August 2006.

**Exhibit 1-2
LOCATIONS OF THE LOOP LAB SCHOOL
1983-2007**



ADDRESS KEY:

1: 421 S. Wabash (1983-1995)	2: 11 E. Adams (1995-2001)	3: 300 N. Michigan (2001-2004)
4: 3313 S. Indiana (2004-2006)	5: 4644 S. Dearborn (January-August 2006)	6: 318 W. Adams (May 2007-Present)

Source: OAG developed.

Purchase of Space

In May 2007, Loop Lab School **purchased** the 2nd floor at 318 W. Adams in Chicago. As of April 2009, this business condominium has yet to be used as a school. Loop Lab School used a Chicago realtor to find most of the space it has operated from, including the 318 West Adams location.

The facility at 318 W. Adams was purchased in May 2007 with funds received from the State but Loop Lab School has yet to move into the facility. Build out plans were never filed with the City of Chicago and necessary permits were not obtained. Currently, bathrooms are not completed at 318 W. Adams and the fire alarm system has not been installed. The Fire Marshal

will not allow occupancy until the deficiencies have been corrected. Loop Lab School's realtor estimated the corrective actions would cost approximately \$30,000 – monies the realtor did not believe the School had.

Loop Lab School Enrollment

It is unclear how much of the activity at Loop Lab School was directed as an educational institution and how much was child daycare activity. Loop Lab School experienced an increase of its student population from its inception through the 1999-2000 school year. Enrollment figures grew from a total of 28 pre-kindergarten through 2nd graders in 1984 to 264 total students through 8th grade in 2000. Students generally do not stay in Loop Lab School through the completion of the 8th grade, as evidenced by the low number of 8th graders that attend the School.

Loop Lab School enrollment declined over the past four reporting periods for which Loop Lab School filed information with ISBE. During the school year in which the fire took place, 2005-2006, Loop Lab School had: an enrollment of 82 students; 3 school administrators; 8 faculty positions; and 3 support personnel.

Loop Lab School failed to register information with ISBE in the two years preceding the fire and in any school year after the fire. Information shows that Loop Lab School has not operated as a school since the summer of 2006. Exhibit 1-3 provides a breakdown of enrollment and staffing for Loop Lab School.

Loop Lab School has been “registered” with ISBE but not “recognized” by ISBE. ISBE has two voluntary status levels for nonpublic schools. Nonpublic schools can voluntarily register with ISBE. If a nonpublic school is registered for a year and meets certain other requirements, then it can choose to be recognized by ISBE. Registration and recognition are defined below:

- **Registration:** A school is registered when it has filed with ISBE a “Nonpublic School Registration, Enrollment and Staff Report” (ISBE Form 87-01) furnishing such evidence as required to assure compliance with federal and state laws regarding health examination and immunization, attendance, length of term, nondiscrimination, and with applicable fire and health safety requirements. Registration forms are sent to schools in August of each year due to Regional Offices of Education on the first Friday in October. Regional Offices forward these registration forms to the Division of Data Analysis at the Illinois State Board of Education no later than November 15 of each year.
- **Recognition:** A school is recognized when it voluntarily elects to conform to the minimum requirements as determined by ISBE. Schools may achieve recognition through one of the two processes described in policy. However, once chosen, the school must continue recognition through this process until the next onsite visit is required.

Exhibit 1-3 ENROLLMENT & STAFF BREAKDOWN - LOOP LAB SCHOOL 1984-2008															
Year	Students/Grade Level											Staffing			
	Pre-K	K	1	2	3	4	5	6	7	8	Total	Adm	Fac	Support	Total
1984-1985	10	10	4	4	0	0	0	0	0	0	28	1	3	1	5
1985-1986	10	15	10	4	0	0	2	1	0	0	42	1	4	2	7
1986-1987	19	9	9	10	5	0	0	0	0	0	52	1	4	2	7
1987-1988	27	18	13	7	5	0	0	0	0	0	70	1	4	4	9
1988-1989	19	14	11	5	5	0	0	0	0	0	54	1	4	1	6
1989-1990	20	10	5	12	5	5	5	0	0	0	62	1	5	2	8
1990-1991	25	23	12	6	4	2	2	2	0	0	76	1	6	2	9
1991-1992	25	8	10	14	12	4	4	4	0	0	81	3	6	2	11
1992-1993	25	20	7	7	12	2	3	2	0	0	78	1	6	0	7
1993-1994	25	10	10	14	14	4	4	4	0	0	85	2	8	3	13
1994-1995	30	24	11	11	18	5	4	4	0	0	107	2	5	4.5	11.5
1995-1996	36	22	23	11	11	6	4	7	0	0	120	2	7	4	13
1996-1997	50	24	25	35	33	8	9	5	0	0	189	2	10.2	0	12.2
1997-1998	38	63	34	14	23	10	15	4	8	3	212	4	9	4	17
1998-1999	43	56	42	32	16	11	9	8	5	4	226	5	9	10	24
1999-2000	49	54	50	30	33	16	15	6	9	2	264	3	10	8	21
2000-2001	38	60	34	30	16	22	10	10	6	4	230	5	8	10	23
2001-2002	30	35	35	28	25	10	12	11	6	3	195	4	9	11	24
2002-2003	17	31	32	16	16	14	8	5	5	4	148	4	8	8	20
2003-2004	LOOP LAB SCHOOL DID NOT REGISTER WITH ISBE														
2004-2005	LOOP LAB SCHOOL DID NOT REGISTER WITH ISBE														
2005-2006	5	10	15	10	10	6	12	4	7	3	82	3	8	3	14
2006-2007	LOOP LAB SCHOOL DID NOT REGISTER WITH ISBE														
2007-2008	LOOP LAB SCHOOL DID NOT REGISTER WITH ISBE														

Source: OAG summary of ISBE documentation.

CHILD CARE FUNDING THROUGH THE DEPARTMENT OF HUMAN SERVICES

Loop Lab School, a **private school** that was generally registered but not recognized by ISBE, also operated as a childcare center on the premises of Pilgrim Baptist Church. The School received monies for these activities, **\$1.8 million** from FY00 through FY07, from the Department of Human Services (DHS) for eligible children under the State’s Child Care Assistance Program. However, in some instances the School utilized these monies for the child’s tuition, which was **not an allowable use** of the State funds.

The Child Care Assistance Program (Program) provides low-income, working families with access to quality affordable child care (for children 6 weeks to 12 years of age) that allows them to continue working and contributes to the healthy, emotional, and social development of the child. Families are required to cost-share on a sliding scale based on family size, income, and number of children in care.

According to a DHS official, the Loop Lab School daycare center operation moved to the S. Dearborn location after the fire at Pilgrim Baptist Church and continued at that site until August 4, 2006. Enrollment at the daycare continued to drop. As of March 2008, Loop Lab School was **not in good standing with DHS** as DHS officials believed Loop Lab School billed DHS for more days in August 2006 than daycare was provided. The result was an overpayment to Loop Lab School of \$2,827.

DHS payments for the Program were made from either General Revenue Fund monies or appropriations from the Special Purposes Trust Fund. From FY00 through FY07, Loop Lab School received \$1.8 million in child care funds from DHS. Exhibit 1-4 breaks out the amount, by fund, for each fiscal year.

Exhibit 1-4 CHILD CARE PAYMENTS TO LOOP LAB SCHOOL FY00-FY07			
Fiscal Year	General Revenue Fund	Special Purposes Trust Fund	Total
2000	\$324,093.21	\$45,060.79	\$369,154.00
2001	\$254,307.34	\$22,623.82	\$276,931.16
2002	\$268,499.31	\$56,924.05	\$325,423.36
2003	\$227,624.75	\$33,054.99	\$260,679.74
2004	\$225,532.94	\$25,230.83	\$250,763.77
2005	\$150,474.37	\$7,098.51	\$157,572.88
2006	\$99,753.69	\$6,289.25	\$106,042.94
2007	\$3,441.09	\$2,902.98	\$6,344.07
Total	\$1,553,726.70	\$199,185.22	\$1,752,911.92

Source: OAG summary of Comptroller information.

Loop Lab School charged students \$100 per week in **tuition fees** during the time it operated at Pilgrim Baptist Church (also prior to that location). The Loop Lab School’s **former business manager** stated that the DHS monies **covered the cost for low-income students for**

tuition. The official said DHS money was used for tuition costs for low-income students because the DHS portion covered the cost of the entire school day.

Childcare expenses are those expenses for the children of parents of limited income that work or attend school or vocational training. While the Loop Lab School would send in certification that the children were in the childcare center, the DHS official indicated that no one goes out to verify the child's attendance.

According to a DHS policy as stated in the Childcare Program Manual subsection 01.04.02, **childcare funds may not be expended** for students enrolled in grades 1 through 12 for any service provided to such students **during the regular school day**. Additionally, the procedure goes on to state that *“school age children attending a private or parochial school are not eligible for child care assistance to cover the cost of tuition.”*

In some instances, the funds received from DHS for a child amounted to more per month than the tuition charges for the school. DHS childcare payments are based on a formula. DHS makes a payment to the provider (Loop Lab School) designated by the parent and the parent is responsible for a co-pay amount. This parent co-pay is also supposed to go to the provider (Loop Lab School). By way of illustration, a six year old student at Loop Lab School was eligible for \$512 in child care benefits each month from DHS. The child's parent had co-pay for child care expenses of \$48 per month. Loop Lab School would have received the total of \$560 for the child - \$160 more than the total tuition for the month (\$400).

DHS contracts with an outside vendor to monitor and process the payments for the child care costs. This vendor sends the provider (Loop Lab School), on a monthly basis, a certificate to complete for what days the eligible children received services from the provider. Once the certifications are received, the payment is processed by DHS. The certificates we reviewed generally showed that the children were receiving services every day during the month. However, during 2006, DHS was concerned that Loop Lab School was overpaid for some children that may not have received services.

USE OF CHILD CARE FUNDS FOR TUITION PAYMENTS	
RECOMMENDATION NUMBER 1	<p><i>The Department of Human Services should ensure that recipients of child care funds do not utilize those funds for unallowable tuition payments.</i></p>
DEPARTMENT OF HUMAN SERVICES RESPONSE	<p>The Bureau of Child Care and Development partially agrees with the Office of Auditor General’s (OAG) recommendation. Various steps have already been taken by the DHS Bureau of Child Care and Development and are in place to address this issue.</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p>Auditor Comment #1 <i>While the Department responds that it partially agrees with the auditors' recommendation, its response is unclear with which aspect of the recommendation they do not agree. The Department: agrees with the auditors that the use of child care payments for tuition purposes is prohibited; states that it has implemented or is in the process of implementing corrective action requiring certifications from Providers that they are not utilizing child care funds for unallowable tuition payments; and states that Contracted Providers will be monitored in order to verify that they do not utilize child care funds for unallowable tuition payments.</i></p> </div> <p>The Child Care Program Manual, Section 01.04.02 – School Age Children, Policy Statement states that, “Funds may not be expended for students enrolled in grades 1 through 12 years for:</p> <ol style="list-style-type: none"> 1). Any service provided to such students during the regular school day; 2). Any service for which such students receive academic credit toward graduation; or 3). Any instructional services that supplant or duplicate the academic program of any public or private school.” <p>In addition, the Site Administered Child Care Program Manual under I. INTRODUCTION/DEFINITIONS Under B. (Definitions) Fees for additional services – states, “Any other mandatory service fees, special fees or additional charges of any type for regular child care services to IDHS subsidized clients may not be imposed by the Site Administered Child Care provider.”</p> <p>Under B. Child Care Program Field Review Objectives, it states: “The objectives for Child Care Program compliance monitoring reviews are as follows:</p> <p style="padding-left: 40px;">To determine that child care services are being provided in compliance with rules and agreements, as well as efficiency, effectiveness, and economy of the program relative to IDHS.</p>

<p>Agency Response (continued)</p>	<p>To ascertain if the determination of program eligibility for client application and redetermination is adequately documented, timely, and performed within the guidelines defined in the Bureau of Child Care & Development Program Manual.</p> <p>To determine if the services billed were delivered, are appropriately documented, and eligible for reimbursement.”</p> <p>Therefore, billing for tuition would be a violation of an objective for Child Care Program compliance monitoring reviews, as well as of the Bureau of Child Care and Development Program Manual policy.</p> <p>In addition, review of the ILLINOIS COMPILED STATUTES: Section 225 ILCS 10/2.06 Child care institution contains language which specifically states that such an institution does not include Any bona fide boarding school in which children are taught branches of education corresponding to those taught in public schools, grades one through 12, or taught in public elementary schools, high schools, or both elementary and high schools and which operates and which operates on a regular academic school year basis; ... Section 225 ILCS 10/2.09 day care center, also contains similar language.</p> <p>Finally, Section 305 ILCS 5/9A-11 Child Care of the Illinois Compiled Statutes indicates under (c) that payment shall be made for child care that otherwise meets the requirements of this section and applicable standard of State and local law and regulation, including any requirements the Illinois Department promulgates by rule in addition to the licensure requirements promulgated by the Department of Children and Family Services and Fire Prevention and Safety requirements promulgated by the State Fire Marshal and is provided in any of the following:</p> <ol style="list-style-type: none"> (1) a child care center... (2) a licensed child care home or home exempt from licensing; (3) a licensed group child care home; (4) other types of child care, including child care provided by relatives or persons living in the same home as the child,... <p>Nowhere does it state that payments shall be expended for students enrolled in grades 1 through 12 years for: service provided to such students during the regular school day; service for which such students receive academic credit toward graduation; or any instructional services that supplant or duplicate the academic program of any public or private school .</p>
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<p>Agency Response (continued)</p>	<p>The DHS Bureau of Child Childcare and Development has implemented additional corrective action requiring Providers to certify on their Monthly Enrollment Reports that they do not utilize child care funds for unallowable tuition payments. Providers will also be required to certify on their Child Care Center Certificates, and Site Administered Monthly Enrollment Reports that they do not utilize child care funds for unallowable tuition payments.</p> <p>Contracted Providers are required to certify in their contracts, by reference, to the Child Care Program Manual Attachment I, that they will not utilize child care funds for unallowable tuition payments. In addition, Contracted Providers will be monitored in order to verify that they do not utilize child care funds for unallowable tuition payments.</p> <div style="border: 1px solid black; padding: 5px; margin: 10px auto; width: 80%;"> <p><i>Auditor Comment #2</i> <i>The controls cited by the Department to detect Provider’s inappropriate use of child care payments for tuition purposes were not effective in identifying such use by the Loop Lab School. Hopefully, the additional controls and monitoring planned by the Department will be more effective.</i></p> </div>
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AUDIT SCOPE AND METHODOLOGY

This audit was conducted in accordance with generally accepted government auditing standards and the audit standards promulgated by the Office of the Auditor General at 74 Ill. Adm. Code 420.310. The audit methodology is presented in Appendix B. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit objectives for this audit were those as delineated in House Resolution 1190 (see Appendix A), which directed the Auditor General to conduct a management audit of the process involved in the grant of \$1 million to the Loop Lab School. The audit objectives are listed in the Introduction section of Chapter One. The majority of fieldwork for the audit was completed between October 2008 and February 2009.

In conducting the audit, we reviewed applicable State laws, administrative rules and Department of Commerce and Economic Opportunity (DCEO) policies pertaining to the awarding of grants. We reviewed compliance with those laws and rules to the extent necessary to meet the audit’s objectives. Any instances of non-compliance we identified or noted are included in this report.

We also reviewed management controls and assessed risk relating to the audit’s objectives. A risk assessment was conducted to identify areas that needed closer examination. Any significant weaknesses in those controls are included in this report.

During the audit, we met with staff from the Governor's Office, both the previous administration and current administration. Additionally, we met with DCEO staff responsible for the processing and monitoring of the grants as well as DCEO legal staff regarding repayment of the grant by Loop Lab School. We conducted Statement on Auditing Standards (SAS) 99 fraud interviews with staff from DCEO that had roles in processing the grants. We contacted former staff from the Governor's Office that were identified as having roles in the grant to Loop Lab School. We contacted the Comptroller's Office regarding the payment of funds to Loop Lab School and Pilgrim Baptist Church under the State grant agreements. We also contacted officials at the Department of Human Services and reviewed documentation on Loop Lab School use of childcare funding provided by the State. Additionally, we examined documentation at the State's oversight entity for the childcare initiative.

We interviewed officials from the Loop Lab School and reviewed documentation regarding school operations and the grant of State funds. Additionally, we interviewed Loop Lab School insurance and real estate agents as well as the accounting firm hired to assist with filings to the Attorney General to obtain the \$1 million grant. We obtained information on amounts owed by Loop Lab School from the condominium association where Loop Lab School used the State funds to purchase a floor in the building at 318 West Adams in Chicago, Illinois.

We interviewed officials from the Pilgrim Baptist Church regarding the \$1 million grant announced by the State in July 2008. Additionally, we reviewed information provided by the church regarding the administration building destroyed by fire that Loop Lab School had leased from the Church.

During the audit we had cooperation problems and a number of difficulties obtaining requested information from Loop Lab School and the **Governor's Office under the previous administration**. Loop Lab School officials indicated that virtually all documentation, including financial records, were destroyed in the fire. However, Pilgrim Baptist Church officials reported that after the fire, the current Loop Lab School Executive Director, family members and attorneys, came to the Church and removed file cabinets from the damaged facility. Information Loop Lab School failed to provide, or failed to provide in a timely manner, included:

- After the fire in January 2006, a Chicago law firm undertook a fundraising project to obtain funds for the Loop Lab School. We asked, on October 29, 2008, for an accounting of these efforts since funds raised would appear to have made opening a school possible. Loop Lab School officials could not or would not provide any documentation on this matter.
- Also on October 29, 2008, we requested an audit trail for the transfer of the State funds to the Loop Lab School real estate broker to determine whether any interest had been earned on the State funds by either Loop Lab School or the broker. Loop Lab School officials could not or would not provide any documentation on this matter.
- To determine whether Loop Lab School had any insurance coverage, we requested information, on June 4, 2008, on any policy in effect at the time of the fire. School officials finally provided the policy information to auditors, after additional requests by us, on January 14, 2009 – **over seven months later**. However, the information was forwarded from its insurance agent to Loop Lab School officials on June 10, 2008, just six days after our initial request.

When Loop Lab School signed the grant agreement with the State, it agreed to cooperate with any audit conducted by the Office of the Auditor General. Instances as shown above indicate that Loop Lab School was not fully cooperative with the audit directed by House Resolution 1190.

The **Governor’s Office under the previous administration** also was untimely in providing information to auditors during the audit. The **previous Governor** stated in early 2008 that the funds that went to Loop Lab School were part of a bureaucratic mistake by a couple of ex-staffers. We first requested the identities of these two individuals on May 27, 2008. After at least seven additional requests, a Governor’s Office official reported on January 20, 2009, **nearly eight months later**, that as *“a follow up to your inquiry, the Governor was asked about the identity of the two staffers referenced. The Governor recalls being told by a staffer that two individuals were responsible for the miscommunication that resulted in the grant being disbursed to Loop Lab School. Given the passage of time, the Governor cannot recall, with any certainty, who the staffer was that communicated this information to him or whether the names of the two individuals referenced were ever mentioned to him.”* The Governor’s Office official then described the conversation with the Governor as attorney-client privileged communication.

We also asked staff in the **previous Governor’s Office** for any and all communications relevant to the Loop Lab School or Pilgrim Baptist Church grants. While we did receive some documentation, we apparently were not provided with all requested information.

Staff from the **Governor’s Office in the current administration** did make the effort to find and provide documentation relevant to the audit to auditors including over 900 pages of documentation relative to the Loop Lab School grant that involved top level officials from the **previous administration**. Documentation provided by the **current administration** included:

- March 6, 2009 – 473 pages of documentation from emails;
- April 2, 2009 – 139 pages of documentation from email accounts of senior level staff in the former Governor’s Office;
- April 21, 2009 – 56 pages of documentation from two boxes of information not previously made available to auditors;
- May 18, 2009 – 259 pages of documentation from an email account of a senior level manager in the former Governor’s Office.

REPORT ORGANIZATION

The remainder of this report is organized into the following chapters:

- **Chapter Two** examines and reports on issues regarding the processing and awarding of the \$1 million grant to the Loop Lab School, including what persons were involved in the grant award, what controls the Department of Commerce and Economic Opportunity had in place to ensure the grant was awarded to the proper party for the intended purpose, and what actions have been taken to recover the misdirected funds.
- **Chapter Three** examines and reports on issues regarding the processing and awarding of the \$1 million grant to the Pilgrim Baptist Church, including what persons were involved in the grant award, and what controls the Department of

Commerce and Economic Opportunity had in place to ensure the grant was awarded to the proper party for the intended purpose.

- **Appendices** presenting House Resolution 1190, our Audit Methodology, Payments Made from the Fund for Illinois' Future, Projects Paid from the Build Illinois Bond Fund, the Grant Survey Completed by Loop Lab School, the Grant Survey Completed by Pilgrim Baptist Church, and Agency Responses are provided at the end of the report.

Chapter Two

LOOP LAB SCHOOL

CHAPTER CONCLUSIONS

Four agencies were knowledgeable in the activities associated with or conducted activities to provide a \$1 million grant to the School from early 2006 through recovery efforts continuing in April 2009. The four agencies were the **former Governor's Office**, Department of Commerce and Economic Opportunity (DCEO), Governor's Office of Management and Budget (GOMB), and the Department of Human Services. The Governor's Office had at least 24 staff that were knowledgeable of these actions.

The grant to the School was classified as a Governor's miscellaneous grant and DCEO was directed to award and monitor the grant. Governor's miscellaneous grants are coordinated through and approved by the Governor's Office even if a project may have been originally selected by the legislature. Numerous difficulties arose in processing grant payments to Loop Lab School due mainly to **the School not having an official location** from which to operate.

With regard to the funds used for the Loop Lab School grant:

- The \$1 million grant to the Loop Lab School was paid from the Fund for Illinois' Future (Fund).
- DCEO officials indicated, and documentation supports that the Governor's Office, **under the previous administration**, made the decision to utilize the Fund for the grant.
- Significant grant funding was provided through the Fund for Illinois' Future during the time when the grant to Loop Lab School was processed. During FY06, **181 grantees received over \$19 million** in grant funds coordinated and approved by the Governor's Office. In FY07, those numbers increased to **310 grantees and over \$26 million**.
- The State Finance Act outlines the uses for the Fund. Moneys "*may be appropriated for the making of grants and expenditures for planning, engineering, acquisition, . . . of public infrastructure in the State of Illinois, including grants to local governments for public infrastructure, grants to public elementary and secondary school districts for public infrastructure, grants to . . . non-profit corporations for public infrastructure, and expenditures for public infrastructure of the State and other related purposes, including but not limited to expenditures for equipment, vehicles, community programs, and recreational facilities* (30 ILCS 105/6z-47(c))."
- The School purchased property at 318 W. Adams in Chicago that, as of April 2009, has **never** been suitable for school purposes. We question whether the use of this Fund for this purchase, made by a private school that charges tuition, was for "public infrastructure" and an appropriate expenditure from the Fund.

DCEO processed payments to the School as a grant for elementary and secondary educational purposes as defined by the Comptroller. Payment provisions for grant distribution included in Section 2.3 of the executed grant agreement showed that ten percent would be

provided upon execution and the balance once the School provided DCEO with proof of the closing date for the property to be purchased with grant funds. The funds were distributed in two payments, both of which had distribution problems. An examination of the payments showed:

- The Comptroller **issued the initial payment** (\$99,047) on December 14, 2006. The postal service returned the warrant twice to the Comptroller as undeliverable before it was decided that a School official could **pick up the grant payment** with two forms of identification and the presence of the grant manager. On January 31, 2007, the official received the first payment.
- The **initial payment** was endorsed by the School official and deposited into a bank account on February 14, 2007. Over a month later, on March 23, 2007, the seller received the funds as earnest money on the sale.
- The Comptroller issued the **final payment** (\$899,030.46) on March 27, 2007. This warrant was also returned as undeliverable on April 16, 2007. On April 18, 2007, the DCEO grant manager instructed the Comptroller to mail the warrant to the home address of a Loop Lab School official since the School was not able to use the 318 W. Adams mailing address until it closed on the property.
- The final payment was endorsed “Pay to the order of Atty [Attorney Name Omitted] - Atty/Client Trust Fund Acct.” It was also signed by the Loop Lab School Interim Director. This was deposited into a different account than the first payment.

The previous Governor’s Office **did not have** a grant file to show how it authorized the \$1 million to Loop Lab School. Given that the Governor’s Office authorized \$45 million in grants just from the Fund for Illinois’ Future during FY06-07, the lack of grant files shows a **lack of due diligence** by the former Governor and his staff.

While the former Governor promised the Pilgrim Baptist Church \$1 million after the fire in January 2006, communications among Governor’s staff appear to indicate that it was a **member of the Governor’s staff that directed the grant** to the School rather than to the Church. A January 29, 2007 email communication from a Deputy Chief of Staff of the former Governor regarding a potential lien being placed on the Loop Lab School grant included a section which stated: *“In January 2006, the Governor committed \$1 million to the Pilgrim Baptist Church project. [The Deputy Chief of Staff for Communications] directed me to the staff at Loop Lab School, an institution that leased space from the Church, to start processing the grant. Grant funds were to be used for costs associated with acquiring a new school facility. [Legal Counsel] and I worked to walk Loop Lab through the application process.”* Other communications showed:

- Another correspondence between Governor’s Office staff, in March 2008, explained that for the grant in 2006 *“After the announcement, and after a few weeks had passed and the ACLU contacted us, [the Deputy Chief of Staff for Communications] directed the grant to Loop Lab School.”*
- The former Deputy Chief of Staff for Communications, however, provided a different account when she reported to auditors that *“It is her understanding that [Deputy Chief of Staff for Social Services] made the initial recommendation that the grant be awarded to the Loop Lab School, and that [Deputy Governor] approved the recommendation.”*

- The former Deputy Chief of Staff for Communications also told auditors that the Deputy Chief of Staff for Social Services and the Deputy Governor were operating under the assumption that the school and church *were associated with each other* and that the money would be used for the administration building where the school had been housed.
- However, based on an email communication, we know this to not be the case. An email communication dated **January 18, 2006** from legal counsel reported that a letter received on behalf of the School “*clarifies that the School and the Church are separate entities* (emphasis added).” This email went to:
 - The Deputy Governor referenced above;
 - The Deputy Chief of Staff for Communications referenced above;
 - The Deputy Chief of Staff for Social Services referenced above; and
 - The Governor’s General Counsel.

The Governor’s Office under the previous administration had no policies or procedures in awarding and administering of grants. Given that the Governor’s Office was approving and directing millions of taxpayer dollars through grants, prudent practice would be for the Governor to have such policies and procedures in place.

Loop Lab School used a major portion of the \$1 million State grant for its intended purpose as stated in the budget section of the executed grant agreement, the purchase of a building. However, from an overall perspective, Loop Lab School failed to open a school.

The final intended purpose for the State funds to Loop Lab School was not completely the same as the intent in the **initial request** from the School. The previous Governor’s Office **changed the intended use** of the funds (from a purpose which included some operational funds to exclusively the purchase of a building), a move that may have impeded the School from opening.

DCEO classified the grant to Loop Lab School as a Governor’s miscellaneous grant. DCEO has procedures in place to process the grants directed and authorized by the Governor’s Office. Our examination of available documentation found that the Governor’s Office and DCEO **circumvented the internal controls** in place at DCEO to process the grant authorized and directed by the Governor’s Office for the School. Additionally, DCEO procedures should be reviewed to include more safeguards for State monies.

Loop Lab School was delinquent in its filing of progress reports with DCEO per provisions of the grant agreement. While DCEO notified the School it had been referred for recovery of funds in June 2007, it was **approximately nine months later**, on March 3, 2008, that DCEO notified the School it was not in compliance with the terms of the grant agreement. Coincidentally, this was **the same day** a Chicago newspaper published a story questioning whether the previous Governor had broken his promise to the Pilgrim Baptist Church when the funds went to the School.

DCEO has not been timely in completing the recovery process, putting the State funds at risk of not being recovered. As of April 2009, **22 months after first notifying** the School it was referred for recovery, DCEO had still not completed the process and had not requested the Attorney General commence collection. Delays in completing the recovery process at DCEO

have resulted in other entities having claims against the assets of Loop Lab School leaving potentially nothing for the State to collect.

While Loop Lab School was attempting to find an attorney to represent it in the recovery process with DCEO, it did try to sell the 2nd floor at 318 W. Adams that was purchased with the State grant. We found:

- On February 4, 2009, Loop Lab School officials executed a purchase agreement to sell the real estate purchased at 318 W. Adams to a group of other tenants of that same location in Chicago.
- The selling price for the real estate was \$950,000.
- Closing documents prepared for the proposed sale list a number of expenses for Loop Lab School for the sale. These costs included: federal and State tax liens, State and county transfer taxes, property taxes, condominium association fees and dues, commissions, legal fees and consulting fees.
- **After expenses, the amount remaining from the proposed sale totaled \$119,000.**
- On May 20, 2009, DCEO completed the administrative hearing process and Loop Lab School agreed to repay the State grant. **However, with the number of claims against the School, that repayment process may be lengthy and will likely recover very little of the original \$1 million grant.**

In April 2009, the Attorney General filed suit in the Circuit Court of Cook County against the School and two of its directors for violations of the Charitable Trust Act (Act). The suit has two counts:

- In the **First Count**, the lawsuit states that in February 2009, Loop Lab School signed an agreement to sell the charitable asset it held at 318 W. Adams. The Attorney General contended that absent any accounting submitted by Loop Lab School, the Attorney General could not determine whether there was any waste or misuse of charitable assets in this attempted sale.
- The **Second Count** of the lawsuit alleges a breach of fiduciary under Section 15 of the Charitable Trust Act. By not timely filing its registration with the Attorney General, the directors named in the suit are in violation of Sections 15(a)(7) and 15(a)(8) of the Act.

INTRODUCTION

House Resolution 1190 asked the Auditor General to determine how and when funds were provided to Loop Lab School and what process was followed to provide the \$1 million grant. Additionally, we were asked to determine who was involved in the transactions that led to Loop Lab School receiving the State funds. Also, the House Resolution directed us to determine what controls were in place at the Department of Commerce and Economic Opportunity (DCEO) to ensure that grants are awarded to proper parties for intended purposes. And finally, we were directed to determine if State funds provided to Loop Lab School were used for legitimate purposes and whether any efforts were being made to recover the misdirected funds.

We defined the audit period to examine these issues as the period from January 2006, when the fire destroyed the building from where Loop Lab School operated, to April 2009

(which would encompass recovery efforts by DCEO). We reviewed documentation from multiple sources and our summary of the \$1 million grant to Loop Lab School is presented in this chapter.

AGENCIES INVOLVED IN THE GRANT PROCESS

Documentation showed that at least 46 staff from four agencies were knowledgeable in the activities associated with or conducted activities for the \$1 million grant to Loop Lab School from early 2006 through the recovery process that was ongoing as of April 2009. Fifty-two percent (24 staff) were from the Governor’s Office. Our examination of documentation showed participation by the:

- **Governor’s Office** (24 staff) – including the Deputy Governor, Chief of Staff, multiple legal office officials, advisors, and communications staff.
- **Department of Commerce and Economic Opportunity** (18 staff) – including the Director, legislative affairs staff, multiple legal office officials, and grants management staff.
- **Office of Management and Budget** (2 staff) – a budget director and spokesperson.
- **Department of Human Services** (2 staff) – staff from the Childcare and Development bureau and Human Capital Development division.

Exhibit 2-1 provides all the titles of staff we reviewed documentation on during the audit who were either involved or had knowledge of the activities in authorizing and executing the grant to the School.

Exhibit 2-1 LOOP LAB SCHOOL GRANT STAFF TITLES ASSOCIATED WITH ACTIVITIES FOR GRANT AND RECOVERY EFFORTS	
Governor's Office	DCEO
Deputy Governor – 2	Director
Chief of Staff	Chief Operating Officer
Deputy Chief of Staff – 2	Budget Director
Deputy Chief of Staff – Communications	General Counsel
Deputy Chief of Staff – Economy/Environment	Acting General Counsel
Deputy Chief of Staff – Social Services	Deputy Legal Counsel
Deputy Chief of Staff – Legislative Affairs	Attorney – 2
Deputy Director – Communications	Accounting Manager
General Counsel	Director – Legislative Affairs
Senior Counsel	Grant Manager
Senior Advisor	Grant Monitor – 2
Policy Advisor	Assistant Director – Grants Management
Legal Counsel/Attorney – 4	Special Projects Liaison
Director – Boards/Commissions	Legislative Affairs – 2
Director – Public Safety	Administrative Assistant
Grant Administrator	
Dunn Fellow	
Assistants – 2	
GOMB	DHS
Budget Director	Director – Childcare & Development
Spokesperson	Director – Human Capital Development
Source: OAG summary of DCEO and Governor's Office documentation.	

FUNDING AND PAYMENTS PROVIDED TO LOOP LAB SCHOOL

Department of Commerce and Economic Opportunity officials indicated that the grant to Loop Lab School was classified as a Governor's miscellaneous grant. Governor's miscellaneous grants are coordinated through and approved by the Governor's Office even if a project may have been originally selected by the legislature. Over \$45 million in grants were coordinated and approved using this process in FY06 and FY07. Numerous difficulties arose in processing grant payments to Loop Lab School due mainly to the School not having an official location from which to operate.

Funding Source

The \$1 million grant to Loop Lab School by the Department of Commerce and Economic Opportunity was paid from the Fund for Illinois' Future (Fund). According to Comptroller information, 30 entities have spending authority from the Fund; however, it is administered by DCEO. DCEO officials indicated, and documentation supports, that the Governor's Office, **under the previous administration**, made the decision to utilize the Fund for the grant.

Significant grant funding was provided through the Fund for Illinois' Future during the time when the grant to Loop Lab School was processed. During FY06, 181 grantees received over \$19 million in grant funds coordinated and approved by the Governor's Office. In FY07, those numbers increased to 310 grantees and over \$26 million. Appendix C has a complete listing of all grantees, grant descriptions and amounts for the two fiscal years.

The State Finance Act outlines the uses for the Fund for Illinois' Future. Moneys in the Fund for Illinois' Future "may be appropriated for the making of grants and expenditures for planning, engineering, acquisition, construction, reconstruction, development, improvement, and extension of public infrastructure in the State of Illinois, including grants to local governments for public infrastructure, grants to public elementary and secondary school districts for public infrastructure, grants to universities, colleges, community colleges, and non-profit corporations for public infrastructure, and expenditures for public infrastructure of the State and other related purposes, including but not limited to expenditures for equipment, vehicles, community programs, and recreational facilities (30 ILCS 105/6z-47(c))."

When we questioned whether a private school like Loop Lab was considered "public infrastructure," **DCEO replied** that it

"is instructed, by either the Governor's Office or the legislature, to use specific appropriations for Governor's Miscellaneous or Legislative Member grants. . . . Section 115 is the FY07 appropriation that was identified for DCEO to use for the Loop Lab grant. This appropriation allows DCEO to issue grants to "not-for-profit organizations for education and training, infrastructure improvements and other capital projects". The authorization DCEO used (20 ILCS 605/605-55) allows us to make grants to non-profit corporations and educational institutions as authorized pursuant to appropriations by the General Assembly from the Fund for Illinois' Future. In the scope of work of the grant agreement, it notes that the "Grantee's primary goal is to provide educational opportunities for the children of parents working in Chicago's downtown area" and that the grantee charges a flat weekly rate per child regardless of household income. It further states that the ". . . 'Child Care Initiative', offered via the State of Illinois, is available for students whose parents are unable to afford the Grantee's fees independently." The scope demonstrates that the enrollment for this non-sectarian school is open to all children regardless of their background or family income level. The Grant to Loop Lab School was made in fulfillment of the above stated statutory authority."

Loop Lab School purchased property that, as of April 2009, has never been suitable for school purposes. The argument then reverts back to whether this purchase, made by a private school that charges tuition, was for "public infrastructure" and is an appropriate expenditure from the Fund for Illinois' Future.

There has been little public oversight of Loop Lab School by the Illinois State Board of Education and the Attorney General's Charitable Trust Bureau **due to** very limited submission of information by Loop Lab School.

USE OF THE FUND FOR ILLINOIS' FUTURE	
RECOMMENDATION NUMBER 2	<i>The Office of the Governor should ensure that only qualified grants are paid out of the Fund for Illinois' Future.</i>
GOVERNOR'S OFFICE RESPONSE	The Office of the Governor concurs with the recommendation of the Auditor General.

Grant Payments to Loop Lab School

DCEO processed payments to Loop Lab School as a grant for elementary and secondary educational purposes as defined by the Comptroller. Additionally, State payments made under this grant were returned as “undeliverable” multiple times resulting in personal acceptance of \$100,000 in grant payments and the other \$900,000 being mailed to the home address of the new director of the School.

Payment provisions for grant distribution included in Section 2.3 of the executed grant agreement between DCEO and Loop Lab School showed that:

“**Ten percent (10%)** of the grant award will be authorized for disbursement upon the Department’s execution of this Agreement. Authorization for disbursement of the balance of the grant funds shall be attained once the Grantee provides the Department with proof of the closing date for the property to be purchased with grant funds...and proof of approval of the financing necessary to pay the balance of the property purchase costs...”

Based on the provisions of the grant agreement, Loop Lab School was to receive \$100,000 upon execution of the grant agreement and the remaining \$900,000 once it provided DCEO with proof of the closing date for 318 W. Adams, Suite 200 and proof of the financing necessary to pay the balance of 318 W. Adams, Suite 200 purchase costs.

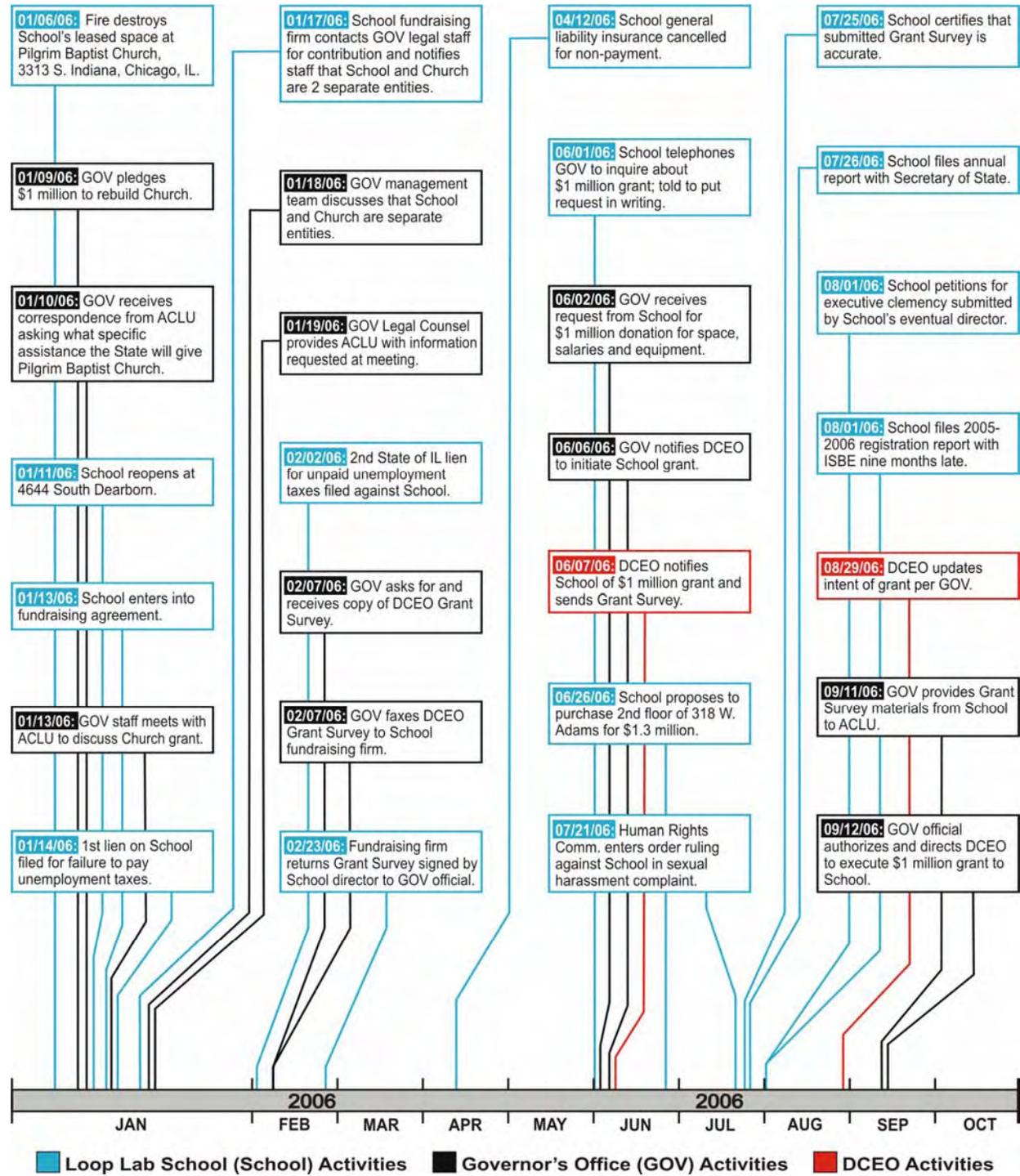
Loop Lab School had difficulties receiving both grant payments. The Comptroller issued the initial payment (\$99,047) on December 14, 2006, to the 318 W. Adams St address. The warrant was returned to the Comptroller approximately two weeks later on December 31, 2006. Prior to the warrant being re-mailed, a Loop Lab School official contacted the DCEO grant manager to say that the warrant was returned by the landlord of 318 W. Adams. DCEO and Comptroller officials agreed, on January 3, 2007, to re-mail the initial warrant, again to 318 W. Adams. The warrant was returned to the Comptroller for a second time approximately three weeks later on January 18, 2007. DCEO and Comptroller officials agreed that the Loop Lab School official could **pick up the grant payment** with two forms of identification and the presence of the grant manager. On January 31, 2007, DCEO and Comptroller officials met the Loop Lab School official in Springfield where she was required to show her Illinois driver’s license and passport to receive the initial grant payment.

The initial payment was endorsed by the school official and deposited into a bank account on February 14, 2007. Over a month later, on March 23, 2007, the seller received the funds as earnest money on the sale.

The Comptroller issued the final payment on March 27, 2007. The final warrant was returned to the Comptroller on April 16, 2007, which was approximately three weeks after it was issued. Based on conversations with the Loop Lab School official and the DCEO accounting supervisor, on April 18, 2007, the DCEO grant manager instructed the Comptroller official to mail the warrant to the Loop Lab School official's attention and her home address since Loop Lab School officials were not able to use the 318 W. Adams mailing address until they closed on the property. On that same day, April 18, 2007, the Comptroller re-mailed the final warrant.

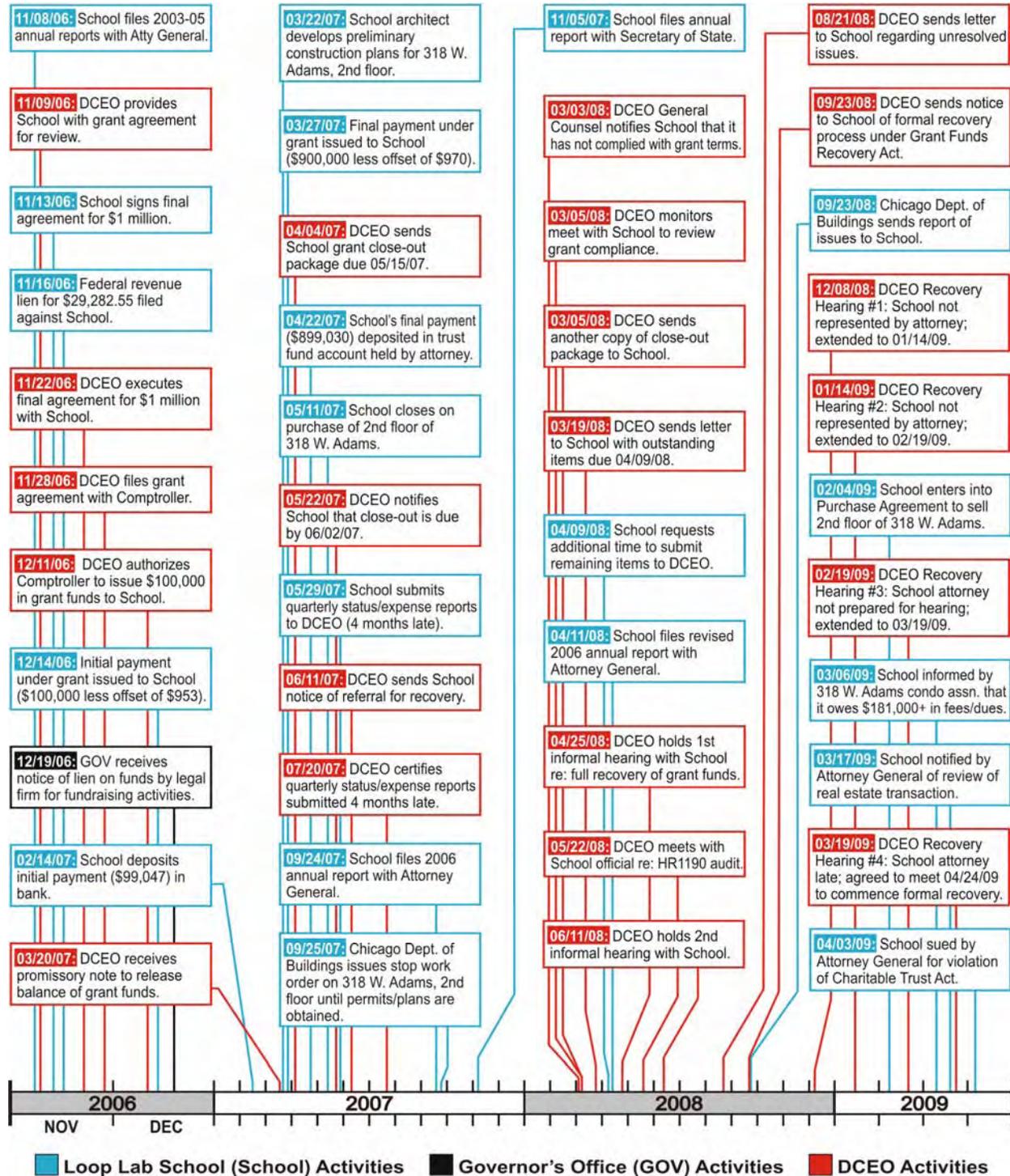
The second payment of \$899,030.46 was endorsed "Pay to the order of Atty [Attorney Name Omitted]- Atty/Client Trust Fund Acct." It was also signed by the Loop Lab School Interim Director. This was deposited into a different account than the first payment. We asked School officials for an audit trail of bank records for the deposit of these State funds but were not provided the information. A timeline of these and other activities relative to the grant for the School is contained in Exhibit 2-2.

Exhibit 2-2 LOOP LAB SCHOOL GRANT TIMELINE OF EVENTS FY06-FY09



Source: OAG developed from DCEO and Governor's Office documentation.

Exhibit 2-2 LOOP LAB SCHOOL GRANT TIMELINE OF EVENTS FY06-FY09



Source: OAG developed from DCEO and Governor's Office documentation.

DECISION TO PROVIDE GRANT TO LOOP LAB SCHOOL

The former Governor called the grant that went to the School a bureaucratic mistake. While the previous Governor’s Office did not maintain documentation to support who made the final decision to award a grant, and did not have any policies and procedures for these grant activities, communications we were able to obtain and testimonial evidence showed members of the Governor’s management team were involved in the \$1 million grant going to the School.

While we requested **all** communications relative to the grant to the Loop Lab School, the **previous Governor’s Office** did not provide **all** requested information. Some responses also had multiple redactions. Knowing that there were undisclosed communications we again requested the information from the current administration and were provided the additional information in an unredacted form.

Role of Governor’s Office

The previous Governor’s Office **did not have** a grant file to show how it authorized the \$1 million to Loop Lab School. Given that the Governor’s Office authorized \$45 million in grants just from the Fund for Illinois’ Future during FY06-07, it shows a **lack of due diligence** by the former Governor and his staff.

While the former Governor promised the Pilgrim Baptist Church \$1 million after the fire in January 2006, communications among Governor’s staff appear to indicate that it was a **member of the Governor’s staff that directed the grant** to the **School**. A January 29, 2007 communication from a Deputy Chief of Staff of the former Governor regarding a potential lien being placed on the Loop Lab School grant included a section which stated:

“In January 2006, the Governor committed \$1 million to the Pilgrim Baptist Church project. [The Deputy Chief of Staff for Communications] directed me to the staff at Loop Lab School, an institution that leased space from the Church, to start processing the grant. Grant funds were to be used for costs associated with acquiring a new school facility. [Legal Counsel] and I worked to walk Loop Lab through the application process.”

Another correspondence between Governor’s Office staff, in March 2008 while frenetically trying to develop a grant for Pilgrim Baptist Church in response to a news story, explained that for the grant in 2006 *“After the announcement, and after a few weeks had passed and the ACLU contacted us, [the Deputy Chief of Staff for Communications] directed the grant to Loop Lab School.”*

Since the Deputy Chief of Staff for Communications was no longer with the State when we started the audit, we contacted her to inquire what her role was in the grant to the School. Through her attorney, the former employee stated she *“had no policy or decision making authority, and played no role in the decision to make, or direction of, the \$1 million grant to the Loop Lab School.”*

The former Deputy Chief of Staff for Communications also reported to auditors that *“It is her understanding that [Deputy Chief of Staff for Social Services] made the initial recommendation that the grant be awarded to the Loop Lab School, and that [Deputy Governor] approved the recommendation.”*

The former Deputy Chief of Staff for Communications also thought that the Deputy Chief of Staff for Social Services and the Deputy Governor were operating under the assumption that the School and Church were associated with each other and that the money would be used for the Administration Building where the school had been housed.

However, based on email documentation, **we know this to not be the case.** An email communication dated January 18, 2006, from legal counsel reported that a letter received on behalf of the School *“clarifies that the School and the Church are separate entities”* This email went to:

- The Deputy Governor referenced above;
- The Deputy Chief of Staff for Communications referenced above;
- The Deputy Chief of Staff for Social Services referenced above; and
- The Governor’s General Counsel.

A month later, on February 10, 2006, a Governor’s Office employee asked the legal counsel who penned the January 18th email, *“Following up on this as you suggested you would be able to confirm for me that Loop Lab is the grantee and if so, at what amt.”* The legal counsel then requested the Deputy Chief of Staff for Communications and the Deputy Chief of Staff for Social Services call him *“to make sure we’re all on the same page with respect to this potential grant.”*

Lack of Policies and Procedures

When we asked the Governor’s Office under the previous administration for any policies or procedures utilized by the Governor’s Office in awarding and administering of grants, the Governor’s Office responded that there **“are no documents responsive to this Request”** because DCEO administers and monitors grants. Given that the Governor’s Office was approving and directing millions of taxpayer dollars through grants, prudent practice would be for the Governor to have such policies and procedures in place.

In March 2008, the former Governor stated *“If we find out – and we’re hopeful – that this school that is in question is providing good services to kids, then we’re happy that they get an extra million dollars to educate kids.”* This comment came **18 months after** his office authorized \$1 million in taxpayer dollars to the School, and as of that time and to present, **no children had been educated as a result of these public funds.**

POLICIES AND PROCEDURES	
RECOMMENDATION NUMBER 3	<i>The Governor’s Office should develop policies and procedures that detail activities and documentation requirements for the authorizations of grant funds paid by the State at the Governor’s Office direction.</i>
GOVERNOR’S OFFICE RESPONSE	The Office of the Governor concurs with the recommendation of the Auditor General. To the extent that any such policies and procedures have not been documented, and to the extent that the current Governor’s Office ever directs the payment of grant funds, the Governor’s Office will develop policies and procedures that detail activities and documentation requirements for the authorization of grant funds paid by the State at the Governor’s Office direction.

INTERNAL CONTROLS AT DCEO

DCEO classified the grant to Loop Lab School as a Governor’s miscellaneous grant. Further, DCEO has procedures in place to process the grants directed and authorized by the Governor’s Office. Our examination of available documentation found that the Governor’s Office and DCEO **circumvented the internal controls** in place at DCEO to process the grant authorized and directed by the Governor’s Office for the School. Additionally, DCEO procedures should be reviewed to include more safeguards for State monies.

Internal Control Procedures

From development of a procurement business case, through approvals of grant intent, scope and budget, to sending the obligation of funds to the Comptroller, DCEO provided auditors with a set of procedures for processing Governor’s miscellaneous grants. A flowchart of these procedures is presented in Exhibit 2-3. We concluded that some of the internal controls had been circumvented in the processing of the grant to the School. Those issues are discussed below.

Grant Survey

The previous Governor’s Office circumvented DCEO’s established process for providing grantees with the grant survey. The Governor’s Office provided School representatives with a copy of the survey on February 7, 2006, which was **before** the project was assigned to a DCEO grant manager. Documentation provided by DCEO shows that DCEO then provided a second copy of the grant survey approximately 4 months later on June 7, 2006. The School received and returned two separate surveys which did not include the same information. According to a DCEO official and the DCEO process for Governor’s miscellaneous grants, only DCEO faxes out grant surveys to potential grantees.

Grant Approvals

DCEO’s Director’s Office approved all releases before DCEO legal officials approved the grant scope and budget. Based on the approval dates in the FY06/07 Grant Appropriations

System, a project database, DCEO approved all the necessary releases by October 26, 2006, which was **before** DCEO legal officials approved the grant scope and budget on November 17, 2006. According to the process for Governor’s miscellaneous grants, DCEO legal is supposed to review and approve the scope and budget before the Director’s Office reviews and approves the project. At the exit conference on June 23, 2009, DCEO informed auditors that the date legal approved the grant scope and budget was September 11, 2006. While DCEO provided some documentation to support its assertion, it was not consistent with documentation obtained by auditors earlier in the audit.

Grant Agreement

Governor’s Office officials reviewed and approved the grant before DCEO legal officials approved the scope and budget. According to the approval dates noted in the Grant Appropriations System, Governor’s Office officials approved the project on September 14, 2006, which was approximately 2 months before DCEO legal officials approved the scope and budget. Based on DCEO’s process for initiating Governor’s miscellaneous grants, DCEO legal is supposed to review and approve the scope and budget before DCEO even provides the Governor’s Office with the project information.

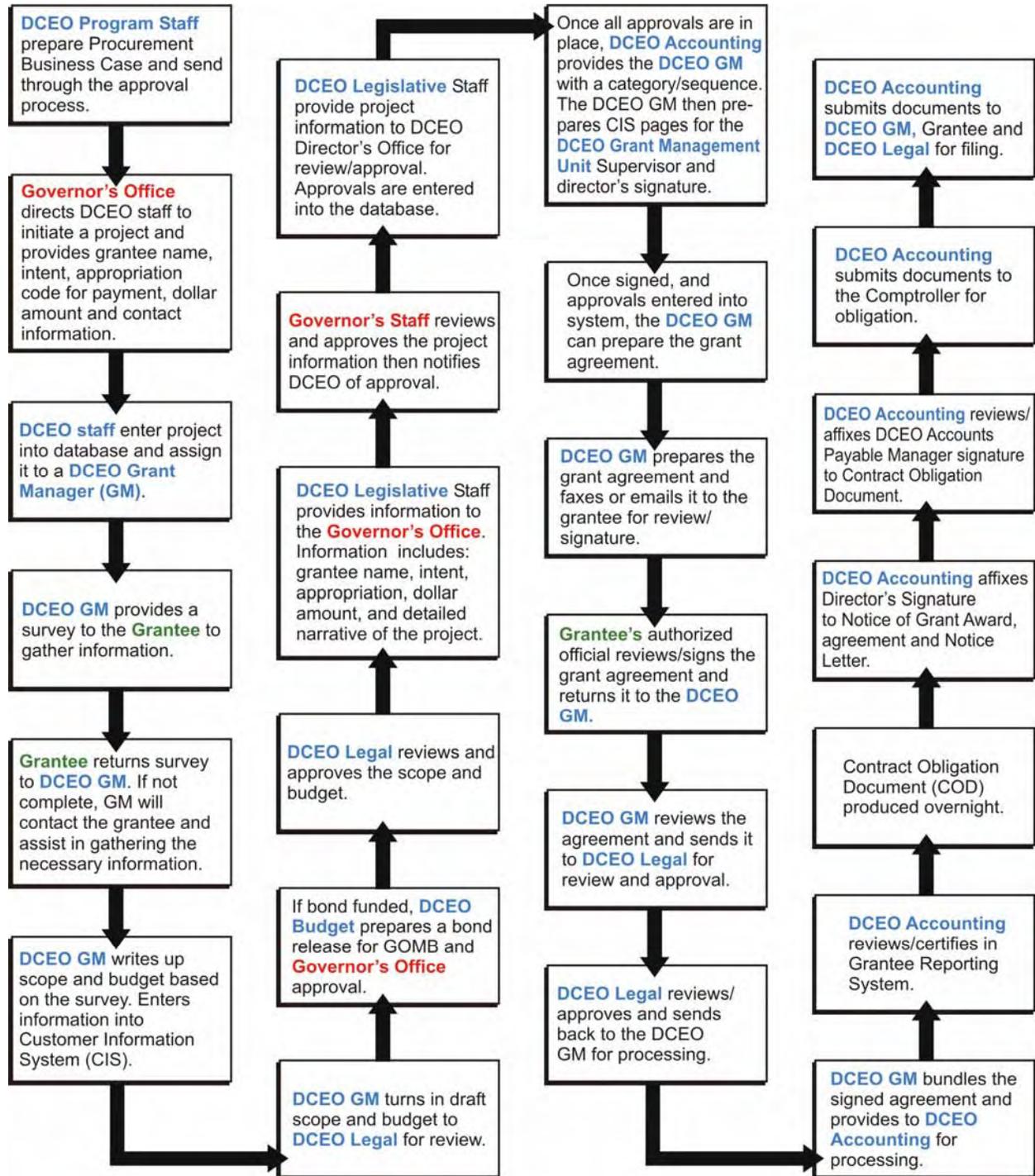
Additional Controls Needed

In March 2008, the former Governor’s spokesperson indicated that “DCEO is reviewing the school’s compliance with the grant agreement. There appear to be some red flags that they’re investigating more closely.” The time to review red flags is not 16 months **after** the grant has been executed but **during** the evaluation process prior to paying out \$1 million in State funds. Lack of adequate controls has resulted in a lengthy recovery process which is detailed later in this Chapter.

Financial Information

The Governor’s Office, **under the previous administration**, directed a \$1 million grant to Loop Lab School in September 2006. The School was, and is, an entity experiencing severe financial difficulties, yet never had an audit of its financial statements. Additionally, DCEO officials stated that its bureaus check the financial viability status of grantees yet **DCEO was unaware** that the School had such financial instability.

**Exhibit 2-3
GOVERNOR'S DIRECTED GRANTS
FLOWCHART OF INTERNAL CONTROLS
DEPARTMENT OF COMMERCE AND ECONOMIC OPPORTUNITY**



Source: OAG developed from DCEO information.

The School first registered as a charitable organization with the Attorney General’s Charitable Trust Bureau in November 2006 – **23 years after its incorporation**. An accountant indicated that the School came to him, during the grant process (September/October 2006), to prepare Annual Report filings for the period 2003 through 2005 so that the School could register with the Attorney General and receive a State grant. Three years of Annual Reports were filed on the same day – November 8, 2006 – with the Charitable Trust Bureau. Destruction of the financial records in the fire made the compilation of the reports difficult. The accountant used bank statements and admitted the filings contained a number of estimates.

Exhibit 2-4 provides a snapshot of the financial condition of Loop Lab School for calendar years 2003-2006. Revenues and expenses declined during all four years resulting in losses in each year. Net assets indicated that Loop Lab School was in a deficit for 2005 – yet the previous Governor’s Office directed a \$1 million grant to purchase real estate.

Exhibit 2-4 LOOP LAB SCHOOL FINANCIAL ANALYSIS Calendar Years 2003-2006				
Year	Revenues	Expenses	Gain/Loss	Net Assets
2006	(\$55,782.00)	\$68,036.00	(\$123,818.00)	(\$37,710.00)
2005	\$187,829.48	\$289,914.28	(\$102,084.80)	(\$32,124.17)
2004	\$435,336.59	\$453,096.79	(\$17,760.20)	\$69,960.63
2003	\$619,423.93	\$669,226.07	(\$49,802.14)	\$87,720.83

Source: OAG summary of Loop Lab School Annual Report filings with Attorney General.

Follow Up on Additional Funding Sources

In the second grant survey completed by the School it **indicated** that a \$500,000 loan was needed to assist in funding for the project. With the \$1 million from the State, the total would have been more than the School was to pay for the floor. Presumably, the School would have then had some needed operating funds.

DCEO did not follow up with the School to see if the loan was provided. Instead, School officials indicated in closing documents that the seller would provide a loan of approximately \$305,000 to the School in the purchase of the floor. Absent any operating funds, the School would have had a difficult time opening its doors. Given the School’s precarious financial situation, DCEO should have ensured that the School had funds to operate a school prior to approving payment of the State dollars for the purchase of space.

DCEO Reliance on Grantee Self Reporting

DCEO staff indicated they **do not perform any cross-checks** with other State agencies to verify any information submitted by grantees on the grant survey form. Instead they rely on self reporting by the grantees. In the case of Loop Lab School, not all relevant information was self-reported by Loop Lab officials.

In section 5.1(A)(10) **of the grant agreement** signed by the School, it certified that it “is not currently operating under or subject to any cease and desist order.” The School signed this agreement on November 13, 2006. In reality the School was under a cease and desist order from

the Illinois Department of Human Rights (IDHR) issued September 1, 2006. Relevant to the cease and desist order:

- On January 29, 2002, IDHR filed a complaint with the Human Rights Commission (Commission) on behalf of a former teacher of the School for allegations of sexual harassment, retaliation, and constructive discharge.
- The School and the administrator charged failed to: respond fully to discovery; supplement their responses following the Commission's granting of a motion to compel; appear at the hearing on the teacher's damages or provide an explanation for their absence; and respond to the teacher's request for fees.
- According to Commission records, following the teacher's resignation, she suffered considerable emotional distress as a result of the alleged behavior. Commission records also note that a considerable amount of the emotional distress was attributed to the personnel manager's actions. Further, Commission records state that following the teacher's departure from the School, her employment was sporadic and her earnings were less than the earnings she received during her tenure at Loop Lab School. The teacher sought compensation for lost pay as well as for emotional distress and attorney's fees.
- The Commission ordered that the School and the personnel manager cease and desist from further acts of sexual harassment and unlawful acts of retaliation. Additionally, the total dollar value of the judgment was \$40,411.05 not including interest.
- The Recommended Order and Decision became the Order and Decision of the Illinois Human Rights Commission on September 1, 2006.
- According to the teacher's attorney, as of April 2009, Loop Lab School had yet to satisfy the financial commitment of the Order.

In March 2008, communications between officials from DCEO and the Governor's Office discussed whether the School should have been precluded from receiving the grant due to the sexual harassment judgment. This communication was in response to a reporter's call. The time to evaluate, review and discuss this issue should have been a year earlier when the State gave the School \$1 million.

INTERNAL CONTROLS	
<p>RECOMMENDATION NUMBER</p> <p style="font-size: 2em;">4</p>	<p><i>The Department of Commerce and Economic Opportunity should consider revising its internal controls over the award and processing of Governor’s miscellaneous grants to include making a determination of whether the grantee is a legitimate going concern before committing State funds. Additionally, the Department should conduct follow up to ensure grantees have secured the additional funding needed to complete the grant project. Finally, the Department should consider cross checks with other State agencies that may have information pertinent to a grantee instead of relying on self reporting by the grantee.</i></p>
<p>DEPARTMENT OF COMMERCE AND ECONOMIC OPPORTUNITY RESPONSE</p>	<p>The Department agrees, in principle, with this recommendation but corrective action to implement the suggested controls is dependent upon resources and cooperation extended to the Department by the General Assembly and other State agencies. As noted in our cover letter (found in the appendix of this report), DCEO has implemented many improvements in grants management and monitoring for all of our agency’s programs in the past two years. We will continue to review potential internal controls to improve the accountability of taxpayer funds and we will make adjustments that can be implemented given our limited staffing and budgetary resources.</p> <p>The recommendation specifically suggests the agency cross-checks with other State agencies to gather more information about the grantee. While we support this idea, it is not feasible from a budget perspective for our agency to undertake this additional responsibility given our current resources. The agency is willing to implement this additional control if the General Assembly provides additional staffing resources for us to pursue a proactive cross checking process. This control also assumes that other State agencies will have the resources to assist the Department in providing information about applicants and grantees. It should be noted, however, that DCEO does use the Illinois Office of the Comptroller’s Offset System to check to see if other State agencies have filed an offset claim for a particular individual or organization. This control identifies if an organization or individual owes the State any money. DCEO ensures that applicants or grantees resolve the offset claim as a condition of their grant award.</p> <div style="border: 2px solid black; padding: 10px; margin-top: 20px;"> <p><i>Auditor Comment #3</i> <i>DCEO indicated that it checks the Comptroller’s Offset System to ensure grantees resolve any offset claims as a condition of their award. In the case of Loop Lab School, DCEO did not resolve the School’s outstanding offset claim prior to processing grant payments. The School’s inability to settle the \$1,900 in prior claims should have been a red flag to DCEO of the School’s financial instability.</i></p> </div>

<p>Agency Response (continued)</p>	<p>DCEO has existing cross-check controls in place for non-governmental entities receiving Governor’s miscellaneous grants. These entities must provide the following to document their “Good Standing Status”:</p> <ul style="list-style-type: none"> • Entities that are incorporated as a not-for-profit corporation under the General Not For Profit Corporation Act of 1986 are required to submit a certificate of good standing from the Illinois Secretary of State’s Office. • Entities that are organized as a Charitable/Not-for-Profit entity, which includes any person, individual, group of individuals, association, not-for-profit corporation, or other legal entity under the Charitable Trust Act are required to submit a letter of good standing from the Charitable Trust Bureau, Office of the Attorney General. • Entities that are considered “tax exempt” by the Internal Revenue Service (IRS) are required to submit a letter verifying such tax exempt status from the IRS. • Entities that are none of the above, but are exempt from paying sales/use tax under Use Tax Act are required to submit a copy of the tax exemption certificate issued by the Illinois Department of Revenue. <p>DCEO also ensures entities have an accepted W-9 form on file with the Office of the Comptroller and, if applicable, an IRS 147-C letter. DCEO also works with other state agencies to ensure proper approvals are in place for grant needing environmental and/or historical reviews and approvals.</p> <p>DCEO also implemented a new grantee certification control in FY09 for Governor’s miscellaneous grants. When grantees complete the required DCEO Grant Survey, they must certify that the information provided and representations made in the survey are accurate and the individual signing is authorized to submit the document.</p> <p>The audit report also recommends that DCEO determine if the grantee is a legitimate going concern before committing State funds. This suggestion appears reasonable but it is not uncommon for the Governor’s Office or the General Assembly to direct DCEO to provide a grant to an entity that does not have the financial resources to undertake a project or program without the State’s financial assistance. DCEO does assume the “but for” role in funding many economic development projects in that a project would not be financially viable but for the financial assistance provided by DCEO. The State’s financial assistance, through DCEO, has helped many worthwhile entities that do not have the financial means successfully complete a project or continue to operate a program and provide services. DCEO issued the award to Loop Lab School in good faith that the entity would be able to operate the school given their twenty year history of providing educational services.</p>
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<p>Agency Response (continued)</p>	<p>Some of the Governor’s miscellaneous grants do seek other funding in addition to the grant funds provided by DCEO for their project. DCEO, in some instances, does require the grantee to provide documentation that they have secured the additional funding. However, DCEO does not currently require that these additional funds be included in the grant scope and budget for Governor’s miscellaneous grants. DCEO will consider a new control to include the grantee-provided funding in the grantee’s budget in those instances in which the additional funding is integral to achieving the requirements of the grant. If the grantee-provided funding is included in the grant budget, the grantee will be required to secure and spend those funds as a condition of receiving DCEO funds.</p> <p>DCEO firmly maintains that it did follow its procedures and complied with internal controls for the processing of the Loop Lab School grant. DCEO only used the survey it sent to the Loop Lab School to develop the grant agreement and did not use the Governor’s Office survey to develop the grant. More importantly, DCEO is uncertain why the auditors state that the Governor’s Office survey process circumvents DCEO’s controls. While DCEO did not use the Governor’s Office survey information, it would be reasonable to assume that this would be consistent with the auditor’s recommendation to gather cross-checking information from other State agencies.</p> <div data-bbox="675 982 1313 1192" style="border: 1px solid black; padding: 5px;"> <p>Auditor Comment #4 <i>DCEO officials reported that DCEO is the only entity that sends grant surveys to potential grantees. However, documentation showed that a survey supplied by DCEO to the former Governor’s staff was provided to Loop Lab School fundraisers.</i></p> </div> <p>DCEO’s Legal Office did approve the scope and the budget on September 11, 2006 which was done in the proper sequence before other approvals were obtained for the grant agreement. As noted in the report, DCEO did provide this documentation to the auditors at the exit conference. DCEO was under the impression that the documentation supporting the September 11, 2006 date was in the grant file in which the auditors reviewed during the audit.</p> <div data-bbox="675 1461 1313 1770" style="border: 1px solid black; padding: 5px;"> <p>Auditor Comment #5 <i>As stated in the audit report, while DCEO provided some documentation to support its assertion, the documentation was not consistent with documentation obtained by auditors earlier in the audit. The documentation supplied by DCEO for legal approval was not dated by the attorney. Additionally, DCEO officials indicated that staff change the approval dates in the project database.</i></p> </div>
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LEGITIMATE USE OF GRANT FUNDS BY LOOP LAB SCHOOL

Loop Lab School used a major portion of the \$1 million State grant for its intended purpose as stated in the budget section of the executed grant agreement, the purchase of a building. However, from an overall perspective, Loop Lab School failed to open a school.

The final intended purpose for the State funds to Loop Lab School was not completely the same as the intent in the **initial request** from the School. The previous Governor's Office **changed the intended use** of the funds, a move that may have impeded the School from opening.

Use of State Grant Funds by Loop Lab School

The School utilized the \$1 million in State funds for the majority of the purchase of the second floor of a building at 318 W. Adams in Chicago, Illinois. The purchase was specifically delineated in the grant agreement with the State. The grant further states that the School will become operational, yet as of April 2009, it had not. The School closed on the property on May 11, 2007.

While the School certified to the State, on July 25, 2006, that the organization had secured all necessary federal, state and local permits and approvals to proceed with the project, it had not. School officials reported to auditors that they relied on the seller of the building to obtain the necessary permits for the build out of the floor for school purposes. Even though the build out began in May 2007, as of August 11, 2008, the Chicago Department of Buildings notified the School of the matters that needed to be addressed which had necessitated a stop work order. These matters included:

- Installation of a Type I fire alarm system;
- Natural light requirement in all class rooms and study rooms;
- Location of exits; and
- Length and width of exit corridors, doorways and stairs.

Change of Intended Purpose of Funds

When School representatives **first approached** the Governor's Office for assistance, on January 17, 2006, they indicated that funds were needed "to pay for the temporary space we are in and to replace equipment and pay our staff and teachers along with other costs." Governor's Office staff responded by sending a DCEO grant survey to the representative. The grant survey was partially completed and there was no indication that land or a building would be purchased. It is clear that the School needed some funding for operational purposes.

As a follow up to a phone conversation between the Governor's Office and the individual who would eventually become the Executive Director, the School sent a letter, on June 2, 2006, to the Governor's staff indicating that with "the donation of \$1,000,000, the school desires most importantly to **purchase land space** in the downtown Chicago area. A small portion of these monies can also be used for **teacher salaries and other administrative costs** to re-build the program... [emphasis added]." Once again, it appears that some monies were to be for operational purposes.

The grant survey **sent by DCEO to the School**, on June 7, 2006, listed the purpose as “for costs associated with space/land acquisition, equipment, materials and items for the Loop Lab School.” DCEO staff reported that the Governor’s Office directs DCEO to process grants and instructs them as to who receives the grant, how much the grant should be issued for, and what the purpose is for the grant. It appeared that as of June 7 the Governor’s Office was fine with the purpose including operational monies.

A School official reported that the Governor’s Office then made it clear to the School that it could only use the \$1 million grant for the purchase of space for the School. The official stated she was told that the School could not pay for salaries with the grant money. The official indicated the School was “boxed in” on the use of the grant money, and that is why they only used the grant to purchase space for the School.

This change of intent was memorialized in the grant survey responses certified by the School on July 25, 2006, to DCEO. The School stated that the “monies appropriated for this project #3-0039 will in its totality go towards the **acquisition of land**. The grant will aid in offsetting the cost of the re-building of Loop Lab School. The property at 318 W. Adams will house the school, ultimately providing this our educational institution with its own ownership.”

An August 29, 2006 entry in the DCEO Grant Appropriations System narrative says that the name and intent were updated per the Governor’s Office; however, the notes do not state the new name and intent. The narrative does provide the old intent, “...for **costs associated with space/land acquisition, equipment, materials and items** for the Loop Lab School”. While the Governor’s Office did have a transmittal letter that directed DCEO to process and execute the grant on September 12, 2006, there was no documentation to support why the Governor’s Office changed the intent of the grant.

Given that the School was in dire financial condition at the time the State grant was executed, it is hard to believe that it could operate financially even after purchasing the space. As of April 2009, the School has not reopened. By changing the grant intent, the Governor’s Office may have contributed to the inability of the School to become operational.

INTENDED PURPOSE OF GRANT FUNDS	
RECOMMENDATION NUMBER 5	<i>The Governor’s Office should maintain documentation to support why it changes the intended purpose for a particular grant.</i>
GOVERNOR’S OFFICE RESPONSE	The Office of the Governor concurs with the recommendation of the Auditor General. To the extent that the Office of the Governor were to change the intended purpose of a particular grant, the Office of the Governor will maintain such documentation.

GRANT RECOVERY PROCESS

Loop Lab School was delinquent in its filing of progress reports with DCEO per provisions of the grant agreement. While DCEO notified the School it had been referred for recovery of funds in June 2007, it was **approximately nine months later**, on March 3, 2008, that DCEO notified the School it was not in compliance with the terms of the grant agreement. Coincidentally, this was **the same day** a Chicago newspaper published a story questioning whether the previous Governor had broken his promise to the Pilgrim Baptist Church when the funds went to the School.

DCEO has not been timely in completing the recovery process, putting the State funds at risk of not being recovered. As of April 2009, **22 months after first notifying** the School it was referred for recovery, DCEO had still not completed the process and had not requested the Attorney General commence collection. Delays in completing the recovery process at DCEO have resulted in other entities having claims against the assets of Loop Lab School leaving potentially nothing for the State to collect. Additionally, on February 4, 2009, Loop Lab School entered into a purchase agreement to sell the 2nd floor at 318 W. Adams that was purchased with the State grant.

After the drafting of this report, DCEO, on May 20, 2009, completed the administrative hearing process and Loop Lab School agreed to repay the State grant. However, with the number of claims against the School that repayment process may be a lengthy process.

Loop Lab School Non Compliance with Grant Agreement

Per section 2.5(b) of the grant agreement, Loop Lab School should have completed a quarterly Status/Expense Report in the format prescribed by DCEO. The reports needed to be submitted quarterly. Since the grant ending period was March 31, 2007, there would only have been one quarterly report required. DCEO received the quarterly report from Loop Lab School, for the period November 2006 through January 2007, on May 29, 2007, four months late.

Per section 2.5(c) of the grant agreement, Loop Lab School was required to complete a close-out package for DCEO within 45 days of the close of the grant period. The grant period for the \$1 million grant to Loop Lab School ended March 31, 2007. DCEO attempted to obtain this grant close-out information from Loop Lab School, via correspondence sent to the 318 W. Adams location, four times:

- April 4, 2007 (with a due date of May 15, 2007),
- May 22, 2007 (with a due date of June 2, 2007),
- June 11, 2007 (notice to Loop Lab School that the grant was formally referred to legal for a recovery action), and
- March 5, 2008 (sent Loop Lab School the close-out package forms requested by the School).

The grant agreement further states that “failure to comply with the Close-out requirements set forth herein...shall be considered a material breach of the performance required by this Agreement and may be the basis to initiate proceedings to recover all funds disbursed to

the Grantee.” As of April 15, 2009, **23 months after the mid-May deadline**, DCEO had still not received the close-out package.

DCEO Recovery Timeliness

DCEO officials from the Grants Management Unit and General Counsel’s Office have been involved in the recovery process for the grant funds provided to Loop Lab School. Twenty-two months **after first notifying** the School it was referred for recovery, DCEO has still not completed the process and requested the Attorney General commence collection. According to an Attorney General official, the Revenue Litigation Department cannot get involved in recovery action until DCEO has completed its due process.

A DCEO official indicated that **informal recovery actions** started in March 2008, a few days after the story broke in the Chicago newspapers. Documentation showed that DCEO actions included:

- March 5, 2008: DCEO officials met with Loop Lab School to review grantee’s compliance with the terms of the agreement.
- March 19, 2008: DCEO informs Loop Lab School of issues that require additional information be submitted by April 9, 2008.
- April 25, 2008: 1st informal hearing with Loop Lab School.
- June 11, 2008: 2nd informal hearing with Loop Lab School.

DCEO determined that Loop Lab School had “failed to act in accordance with the terms and conditions of the grant agreement.” Therefore, DCEO **commenced formal recovery** proceedings pursuant to the Illinois Grant Funds Recovery Act (30 ILCS 705/8) to collect the \$1 million grant on September 23, 2008. In its notification, Loop Lab School had 30 days to return the grant funds as requested or request a hearing within 35 days of the notification. Exhibit 2-5 provides School failures as alleged by DCEO.

Loop Lab School officials indicated to auditors they do not have the funds to repay the State and have requested a hearing on the recovery process.

However, Loop Lab School officials have not cooperated fully with the recovery process instituted by DCEO causing a delay in a final ruling by the administrative law judge. The sequence of hearings and delay issues we found included:

Exhibit 2-5 ALLEGED FAILURES OF LOOP LAB SCHOOL IN RECOVERY ACTION
1. Satisfy the scope of work prescribed in the grant agreement because it did not open a school or obtain the proper permits to affect the build out of the property purchased.
2. Provide or have adequate financial and programmatic records on the financial net worth of the School, the Human Rights Commission judgment against the School, and student population and teacher staffing of the School.
3. Submit required documentation that would include the appropriate filings with SOS and the Attorney General.
4. Expend grant funds under the terms of the agreement because the School spent \$52,000 on operational, financial, and legal services.
5. Allow DCEO monitors to conduct an on-site review of grant related activities.
Source: DCEO information.

- Hearing #1 – December 8, 2008. Loop Lab School **not represented** by attorney, meeting extended to January 14, 2009.
- Hearing #2 – January 14, 2009. Loop Lab School **again not represented** by attorney, meeting extended to February 19, 2009.
- Hearing #3 – February 19, 2009. Loop Lab School attorney not prepared for hearing in that he was retained the day before, on February 18, so hearing was extended to March 19, 2009.
- Hearing #4 – March 19, 2009. Loop Lab School attorney agreed to meet April 24, 2009, to commence formal recovery.

Attempted Sale of Real Estate

While Loop Lab School was attempting to find an attorney to represent it in the recovery process with DCEO, it did try to sell the 2nd floor at 318 W. Adams that was purchased with the State grant. Closing statements showed very little in assets available after the sale to satisfy any repayment to the State.

On February 4, 2009, Loop Lab School officials executed a purchase agreement to sell the real estate purchased at 318 W. Adams to a group of other tenants of that same location in Chicago. The selling price for the real estate was \$950,000.

Closing documents prepared for the proposed sale list a number of expenses for Loop Lab School for the sale. These costs included: federal and State tax liens, State and county transfer taxes, property taxes, condominium association fees and dues, commissions, legal fees and consulting fees. After expenses, the amount remaining from the proposed sale totaled **\$119,000**. Given that the real estate is the only asset Loop Lab School has, that we are aware of, the State would have little to recover from its \$1 million grant. See Exhibit 2-6 for a listing of closing expenses for the attempted sale of the real estate owned by Loop Lab School.

The administrative law judge presiding over the recovery efforts by DCEO issued a temporary restraining order and preliminary injunction preventing Loop Lab School from selling the real estate. The order was issued on March 19, 2009.

Exhibit 2-6 ATTEMPTED SALE CLOSING COSTS 318 W. ADAMS-2ND FLOOR		
	Buyer Credit	Seller Credit
Purchase Price		\$950,000
Earnest Money	\$1,000	
Title	\$2,615	
Comm: Cornerstone	\$66,000	
2007 Taxes	\$33,730	
2008 Taxes	\$37,040	
2009 Taxes	\$11,025	
State Transfer Tax	\$950	
County Transfer Tax	\$475	
Chicago Transfer Tax	\$2,850	
IL State Policy Fee	\$3	
Payoff CARD Mortgage	\$357,644	
318 W. Adams Assoc.	\$183,789	
Federal Revenue Lien	\$40,629	
IL Record Lien Release	\$50	
Depart of Labor Lien	\$9,800	
Human Rights Judgment	\$28,411	
Commitment Fee	\$100	
Water Certificate SCCS	\$90	
Attorney Fees	\$55,000	
Total Buyer Credits	\$831,201	
Balance		\$118,799
Source: OAG summarized from 318 W. Adams Associates.		

Delays in completing the recovery process by DCEO threaten the State’s ability to recover funds from the grant.

TIMELINESS OF RECOVERY PROCESS	
<p>RECOMMENDATION NUMBER</p> <p>6</p>	<p><i>The Department of Commerce and Economic Opportunity should expeditiously complete the formal recovery process and get the appropriate orders issued so that the Attorney General can initiate the collection process and ensure recovery of any applicable State taxpayer funds.</i></p>
<p>DEPARTMENT OF COMMERCE AND ECONOMIC OPPORTUNITY RESPONSE</p>	<p>The Department agrees with this recommendation as the Department has already completed the formal recovery process. The recovery process resulted in a \$1 million judgment against Loop Lab and this was forwarded on May 29, 2009 from the Department to the Office of the Attorney General so they could begin collection proceedings.</p> <p><u>GRANT FUNDS RECOVERY PROCESS</u></p> <p>Any attempt to recover funds from a Grantee is governed by the Grant Funds Recovery Act, 30 ILCS 705 et al. DCEO invokes its authority under the Act after other measures fail to obtain a Grantee’s full compliance with the terms and conditions of its Grant Agreement. Such measures include having DCEO Grant Monitoring staff contact the Grantee through correspondence and oral communications to tell the Grantee what deficiencies exist in their compliance with the Grant Agreement. Only after Monitoring staff is unable to obtain voluntary compliance and corrections of the deficiencies is the matter sent for Recovery Procedures under the Act.</p> <p>The Grant Funds Recovery Act sets out a two step process for pursuing recovery of grant funds from a Grantee. The first step is to place the Grantee in the Informal Hearing stage. A letter is sent to the grantee informing them of their placement into the Grant Funds Recovery process and sets out the issues that need to be resolved. The Grantee may then ask for an informal hearing to discuss these issues. At the informal hearing are DCEO representatives and representatives of the Grantee. An attempt is made to resolve the Grantee’s performance deficiencies through dialogue and discussion. Should this stage fail to result in the Grantee correcting the deficiencies of its performance the matter is taken to the next stage which is Formal Grant Recovery. It should be noted that the length of time a Grantee may stay in Informal Grant Recovery depends on the issues that need to be resolved and the cooperation received from the Grantee.</p> <p>Once a matter is sent to Formal Grant Recovery the process used is, as it name implies, very formal. Pursuant to Section 8 of the Grant Funds Recovery Act a letter is sent to the Grantee setting out the specific failures of the Grantee in relation to the Grant Agreement. The Grantee has 35 days to request a formal hearing of the charges contained in the letter. Once the Grantee requests a formal hearing the matter is assigned to an Administrative Hearing Officer (AHO) who then adjudicates the matter. All proceedings before the AHO are governed by the Illinois</p>

<p>Agency Response (continued)</p>	<p>Administrative Procedures Act (APA), 5 ILCS 100 et al. Under the APA the Grantee is entitled to the full protection of the law including all due process and discovery procedures. The conduct and the duration of the formal grant recovery procedure is determined by the AHO and the APA.</p> <p><u>LOOP LAB SCHOOL</u></p> <p>DCEO followed the standard Grant Funds Recovery procedures with regard to the Loop Lab School (hereinafter “Loop”). The first step was to inform Loop that it had failed to file its close out report regarding the use of the Grant Funds. This notice was sent in June 2007. The legal department of DCEO received a copy of this notice as part of normal procedure. Failing to file a timely close out report is initially viewed as a violation of a ministerial act that a grantee can easily cure. Over the summer and into the fall of 2007 DCEO staff maintained regular communication with Loop in an attempt to gain compliance from the school. It should be noted that as of the summer of 2007 the school had purchased the real estate it was authorized to purchase with the Grant Funds and was representing to DCEO that the school would open in September 2007. At this juncture there was no need to initiate any further recovery procedures against the school.</p> <p>Based on new information DCEO obtained in March, 2008 Loop Lab School was sent a letter initiating Grant Funds Recovery Procedures under the Grant Funds Recovery Act. This consisted of sending Loop a letter informing it of the decision and giving Loop an opportunity, as mandated by state law, to ask for an informal hearing. The letter listed numerous deficiencies in Loop’s performance including the fact that Loop had never reopened as a school. The failure to open and operate as a school was a significant violation of the Grant Agreement. Prior to sending the notice, DCEO monitoring staff made a site visit to Loop to gather information and confirm whether or not Loop had opened its doors. Loop responded by asking for the informal hearing with DCEO. The informal process then consisted of a series of meetings and phone conversations with Loop and its attorneys. By the summer of 2008 the parties were very close to resolving the dispute; however, Loop’s attorney developed a serious illness requiring hospitalization and a long recuperation period. This slowed down the process as Loop needed to obtain new counsel. Upon obtaining new counsel the parties were unable to resolve the matter and DCEO placed the matter into formal Grant Recovery.</p> <div data-bbox="673 1581 1313 1890" style="border: 1px solid black; padding: 5px;"> <p>Auditor Comment #6 <i>During a 5-month period (October 2007 to March 2008) DCEO had no verbal or written communications with Loop Lab School. While DCEO indicated it obtained new information in March 2008, its contact with the School coincided with the publishing of a news story on March 3, 2008 which questioned the former Governor’s pledge to provide \$1 million to the Pilgrim Baptist</i></p> </div>
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<p>Agency Response (continued)</p>	<div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;"> <p><i>Church. It was only on the same day as the news report that DCEO informed the School it was in violation of the grant agreement.</i></p> </div> <p>The letter starting the Formal Grant Recovery process was sent to Loop on September 23, 2008. The letter set out numerous instances of Loop’s failure to comply with material terms and conditions of the Grant Agreement. Loop had 35 days in which to request a formal hearing on the matter or to send DCEO a check for the full amount of the grant. Loop timely requested the formal hearing and the matter was assigned to an Administrative Hearing Officer.</p> <p>At the initial status hearing before the Hearing Officer Loop appeared without an attorney. Loop indicated it was in discussions with an attorney to represent it in the hearing but that he was unable to appear at the hearing. The matter was continued for a few weeks and a second status hearing was held. Again Loop appeared without an attorney and indicated it had been unable to retain one. The Hearing Officer pointed out that as a corporation Illinois law dictated that Loop could only be represented by an attorney and gave them a short continuance to obtain an attorney. At the next status hearing Loop appeared with an attorney and the matter commenced to the discovery stage.</p> <p>Shortly after the new attorney entered the matter DCEO became informed that Loop had entered into a contract to sell the condominium unit that was essentially Loop’s sole asset. It is also the unit that was purchased with the Grant Funds awarded to the school. DCEO took immediate action to stop the sale. On February 19, 2009, the Administrative Hearing Officer entered an injunction preventing Loop from closing on the contract. This swift action by DCEO preserved the real estate for future collection by the State. Loop then changed attorneys once again in an attempt to delay the matter going to a formal evidentiary hearing. The administrative Hearing Officer granted the change in attorneys but kept the expedited hearing schedule requested by DCEO. On the day the matter was set for final hearing Loop consented to the entry of an order requiring Loop to repay to the State the sum of \$1 million. The order, pursuant to the Grant Funds Recovery Act, was signed by the Director of DCEO as a final appealable decision on May 29, 2009. The decision was immediately referred to the Illinois Attorney General for collection proceedings.</p> <p><u>Conclusion</u></p> <p>DCEO followed all of its normal procedures to bring the matter to a successful conclusion. The actions of DCEO through its Grants Fund Recovery system preserved and protected the State’s ability to attempt to recover the grant funds from Loop. DCEO believes its actions were proper and at no time hampered the ability of the State to recover the grant funds. The other liens that have been placed against the Loop property existed prior to any knowledge DCEO may have had that recovery should be attempted. Most if not all of the other lien claims on the property were filed against all of the units in the building at 318 W.</p>
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<p>Agency Response (continued)</p>	<p>Adams St. and no actions by DCEO could have prevented the claims being filed. DCEO used all of the legal methods and tools at its disposal to seek recovery of the Grant Funds. DCEO used those tools to successfully obtain a timely recovery order.</p> <div style="border: 1px solid black; padding: 5px; margin: 10px auto; width: 80%;"> <p>Auditor Comment #7 <i>DCEO contends that there is a successful conclusion to the recovery efforts. Given the minimal equity for Loop Lab School after any sale of the real estate, the limited amount available from the \$1 million grant may not be considered successful recovery.</i></p> </div>
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VIOLATION OF CHARITABLE TRUST ACT

In April 2009, the Attorney General filed suit in the Circuit Court of Cook County (Court) against Loop Lab School and two of its directors for violations of the Charitable Trust Act (Act) (760 ILCS 55). Loop Lab School, while incorporated with the Secretary of State for charitable purposes as of June 7, 1983, only registered with the Attorney General as a charitable entity when the State was processing a \$1 million grant to the School in 2006.

After its initial registration with the Attorney General, Loop Lab School obtained and held a substantial amount of charitable assets, including the State grant. The directors were required, under Section 7 of the Act to maintain the registration with the Attorney General by, in part, filing an annual financial report. Loop Lab School and the named directors failed to file the report for the fiscal period ending December 31, 2007, and had its registration cancelled by the Attorney General on December 1, 2008.

In the **First Count**, the lawsuit states that in February 2009, Loop Lab School signed an agreement to sell the charitable asset it held at 318 W. Adams. The Attorney General contended that absent any accounting submitted by Loop Lab School, the Attorney General could not determine whether there was any waste or misuse of charitable assets in this attempted sale. As a consequence, the Attorney General requests that the School and its directors be “preliminarily and permanently removed from any fiduciary relationship and be restrained and enjoined from acting in any fiduciary capacity” with respect to charitable assets in Illinois. Under this count, the Attorney General asked the Court to enter an Order:

- Finding Loop Lab School and its directors in violation of the Charitable Trust Act;
- Directing Loop Lab School and its directors to make a strict accounting of all assets;
- Finding that all Loop Lab School assets are held in constructive trust;
- Enjoining Loop Lab School and its directors from holding, distributing, transferring or selling any assets until resolution of this cause;
- Surcharging Loop Lab School and its directors for any assets that have been misused or wasted;

- Directing that all funds collected by Loop Lab School be applied to the specific charitable purposes in its Articles of Incorporation;
- Finding that the assets of Loop Lab School are in need of protection;
- Liquidating Loop Lab School and transferring all its marshaled assets to another bona fide existing charity;
- Requiring the defendants to pay costs of this cause; and
- Granting any other relief the Court deems just.

The **Second Count** of the lawsuit alleges a breach of fiduciary under Section 15 of the Charitable Trust Act. By not timely filing its registration with the Attorney General, the directors named in the suit are alleged to be in violation of Sections 15(a)(7) and 15(a)(8) of the Act (760 ILCS 55/15 (a)(7) and (8)). The Count asks for a civil penalty for the directors if an accounting showed that they “intentionally caused more than \$1,000 of LOOP LAB’s charitable assets to be wrongfully disbursed for personal use or benefit within a five-year period.”

Chapter Three

PILGRIM BAPTIST CHURCH

CHAPTER CONCLUSIONS

Four agencies were knowledgeable in the activities associated with or conducted activities to provide a \$1 million grant to the Pilgrim Baptist Church (Church) from the time the funding was first promised in January 2006 through the actual execution of the grant in June 2008. The four agencies were the **former Governor's Office**, Department of Commerce and Economic Opportunity (DCEO), Governor's Office of Management and Budget (GOMB) and the Capital Development Board (CDB). The Governor's Office had at least 37 staff that were knowledgeable of these actions.

The Pilgrim Baptist Church was promised a \$1 million grant on two separate occasions by the former Governor. The **first** promise, on January 9, 2006, did not result in funding for the Church. The **second** promise, on March 3, 2008, did result in a grant agreement and a formal commitment of State funds.

Our review of available documentation found, for the **first promise**, that:

- On January 9, 2006, three days after fire destroyed the Pilgrim Baptist Church, the **former Governor** stood up and **pledged \$1 million** to the Church during an interdenominational service in Chicago. According to the Governor's Deputy Chief of Staff at the time, the decision to give \$1 million to the Church was made by the Deputy Governor.
- On January 10, 2006, the Governor stated, apparently unaware that the Church and Loop Lab School (School) were separate entities, the funds were "to support the reconstruction of its school." The American Civil Liberties Union (ACLU) also asked the Governor's Office about the specific assistance being pledged to the Church.
- A January 18, 2006 communication from Legal Counsel in the Governor's Office to top level staff (Deputy Governor, Chief Legal Counsel, Deputy Chief of Staff for Communications and the Deputy Chief of Staff for Social Services), **12 days after the fire**, reported that a law firm representing the School had sent a communication clarifying "that **the School and Church are separate entities** (emphasis added)." The correspondence stated "*I'm not certain who from the administration has been in contact with the Loop Lab School or any other entities involved in a potential grant to rebuild the school building at Pilgrim Baptist. I also wasn't certain if there was any notion to grant funds to the Loop Lab School, or if they are not involved at all.*"
- At least by June 2006, the Governor's Office knew the \$1 million promised to the Church **would not be expended** on an administration building at the Church site. In a June 14, 2006 correspondence among Governor's Office officials, one official reported "There is **no grant** to Pilgrim Baptist Church. The State is working with the Loop Lab School to provide assistance **as they try to relocate** and rebuild (emphasis added)."

- On September 28, 2006, the Governor’s Office notified the ACLU that the State “has **no intention** to provide direct aid to Pilgrim Baptist Church (emphasis added).”

Our review of available documentation found, for the **second promise**, that:

- On March 3, 2008, the former Governor, in responding to a press story, again promised the Church \$1 million to rebuild the administration building. This was the same administration building that was the focus of the 2006 promise, a promise which had never been fulfilled by the former Governor.
- On June 30, 2008, the State did **execute** a \$1 million grant with the Church as the culmination of four months of extensive communication between State officials and the Church in an attempt to fulfill a commitment made **30 months earlier** by the former Governor to the Church.
- As of the drafting of this report in May 2009, the Church had not received the grant funds.

Our examination found that the Governor’s Office and DCEO **circumvented the internal controls** in place at DCEO to process the grant authorized and directed by the Governor’s Office for the Church. Finally, it is **unclear** whether the Church would have been able to expend the State grant during the grant time period given the lack of planning for the construction of the administration building, the purported use for the \$1 million grant. Our review of available documentation found:

- The Governor’s Office wanted a grant to move expeditiously to the Church.
 - On March 3, 2008 at 9:10 a.m., the Governor’s Chief of Staff directed the DCEO director to “*draft a grant agreement for the church. We want it ready for execution today. [Deputy Governor], who can we get to appear with us today from the church?*”
 - Drafting up a grant agreement without any information from the Church would appear to violate the procedures in place at DCEO.
 - DCEO officials developed the scope of work and budget sections for the grant agreement **before the Church responded** to the grant survey.
- In its haste to process the \$1 million grant to respond to the news report, the Governor’s Office **was not even aware** of what the Church utilized the building for.
 - In a March 3, 2008 correspondence, the GOMB director questioned the use of the Build Illinois Bond Fund as a funding source for the Church grant. A Governor’s Office official indicated the uses were “*Libraries and library systems...materials for scientific and historical surveys; eligible voc ed programs; school shops and labs; capital improvements for univs and comm. colleges; health care facilities . . .*” When questioned as to whether the Church had any community or education program in the administration building, the Governor’s Office official stated “*I know they had an admin building that housed the loop lab school. Presumably, that space was used for other community activities. I see that as the ONLY way we could grant funds to a religious institution – if they have a community building.*”
- At the time the grant process was initiated, in March 2008, the Church was not contemplating reconstruction efforts on the administration building. Given that there is no documentation to show the architectural plans or agreements with contractors to

perform the work, it is difficult to know whether the funds would have been spent on their intended purpose. We noted:

- In the March 5, 2008 grant survey the Church submitted to DCEO, the Church indicated that there were actions and approvals necessary before the start of the project to rebuild the administration building.
- In May 2, 2008 documentation provided to DCEO, the Church noted that the following activities would be housed in a new administration building: Community Food Programs, Community Job Readiness Programs, Community Health Fairs, Community Legal Clinics, Community Literacy Programs, and Community Family Activities.
- On May 28, 2008, approximately three months after the Governor’s Office announced the second promise of \$1 million to the Church, a Church official stated that in time the Church plans to raze the administration building. However, the first priority was to get the Church restored.
- As of September 20, 2008, the day Church officials unveiled the rebuilding plans and **three months after the execution of the State grant agreement**, architects and Church officials stated they planned to focus on the Church first.
- As of January 15, 2009, a Church official noted that the Church had not selected a contractor to rebuild the administration building because it had not received the grant from the State.
- DCEO, per the grant agreement, authorized 100 percent of the grant award for disbursement by the Comptroller upon execution of the agreement by DCEO.

The former Governor’s Chief of Staff directed GOMB to find an appropriate funding source for the Church grant. The decision was to use Build Illinois Bond funds. However, an Interagency Agreement between CDB and DCEO had to be developed to transfer \$1 million in Build Illinois Bond funds to be used for the grant to the Church.

On July 17, 2008, as a result of the grant to the Church, a lawsuit was filed against the Governor, the DCEO Director, and the Comptroller. The lawsuit requests an injunction preventing the release of grant funds to the Church based on the First and Fourteenth Amendments of the United States Constitution and Article I § 3, Article VII § 1, and Article X § 3 of the Illinois Constitution. Due to this legal action, the Comptroller, in consultation with the Attorney General, decided to hold the payment of the \$1 million grant to the Church.

INTRODUCTION

House Resolution 1190 asked the Auditor General to determine when State funds were promised to the Pilgrim Baptist Church (Church), including what parties were involved in the transactions. Additionally, we were directed to determine whether a grant to the Church was being developed and whether any controls were in place to ensure that the funds were to be used only for the intended purposes. This chapter also examines the grant award and monitoring process utilized by the Department of Commerce and Economic Opportunity in the administration of the grant to the Church.

We reviewed documents from multiple sources, as well as interviewed multiple sources, relative to the grant of \$1 million in State funds to Pilgrim Baptist Church. Our conclusions are included in this chapter.

AGENCIES INVOLVED IN THE GRANT PROCESS

Documentation showed that at least 82 staff from four agencies were knowledgeable in the activities associated with or conducted activities for the \$1 million grant to the Pilgrim Baptist Church from the time the funding was first promised in January 2006 through the actual execution of the grant in June 2008. Forty-five percent (37 staff) were from the Governor's Office. Our examination of documentation showed participation by the:

- **Governor's Office** (37 staff) – including the Governor, Deputy Governor, Chief of Staff, multiple legal office officials, advisors, and communications staff. The Governor's Office directed the grant to the Church and communicated with parties that objected to the use of State funds for religious purposes.
- **Department of Commerce and Economic Opportunity** (26 staff) – including the Director, multiple legal office officials, budget/fiscal staff, grants management staff and special projects liaison. DCEO staff were mainly responsible for processing the grant to the Church and developing grant documentation.
- **Governor's Office of Management and Budget** (12 staff) – including the Director, Associate Director, and multiple budget analysts. Staff were responsible in finding an appropriate funding source for the grant to the Church.
- **Capital Development Board** (7 staff) – including the Board Chair, Executive Director and legal staff. Staff worked to develop an interagency funding agreement to provide the funds DCEO needed to pay the grant to the Church.

Exhibit 3-1 provides all the titles of staff we reviewed documentation on during the audit that were either involved or had knowledge of the activities in authorizing and executing the grant to the Church.

Exhibit 3-1 STAFF TITLES ASSOCIATED WITH ACTIVITIES FOR PILGRIM BAPTIST CHURCH GRANT	
<i>Governor's Office</i>	<i>DCEO</i>
Governor	Director
Deputy Governor – 4	Chief of Staff
Chief of Staff	General Counsel
Chief Operating Officer	Director of Operations
Deputy Chief of Staff – 5	Deputy General Counsel
Deputy Chief of Staff – Labor	Acting General Counsel
Director – Communications	Accounting Staff – 3
General Counsel	Budget Office Staff – 5
Deputy General Counsel	Assistant Director – Grants Management
Senior Advisor – 2	Information Systems Analyst II
Policy Advisor to Deputy Governor	Spokesperson
Legal Counsel/Attorney – 3	Special Projects Liaison
Liaison for Constituent Services – 2	Local Government Liaison
Policy Director	Administrative Assistant – 7
Press Office Staff – 4	
Dunn Fellow – 2	
Assistants/Receptionist – 6	
<i>GOMB</i>	<i>CAPITAL DEVELOPMENT BOARD</i>
Director	Executive Director
Associate Director – 2	Acting Executive Director
Senior Budget Analyst	Board Chair
Budget Analyst – 2	Fiscal Officer
Budget Operations	Chief Legal Counsel
Communications Manager	Senior Capital Program Analyst – 2
Communications Director	
Debt Manager	
Assistant/Receptionist – 2	
Source: OAG summary of DCEO and Governor's Office documentation.	

INITIAL GRANT PLEDGE

The Pilgrim Baptist Church was promised a \$1 million grant on two separate occasions by the former Governor, **27 months apart**. The **first** promise, on January 9, 2006, did not result in funding for the Church. The **second** promise, on March 3, 2008, did result in a grant agreement and a formal commitment of State funds.

On January 9, 2006, three days after fire destroyed the Pilgrim Baptist Church, the **former Governor** stood up and **pledged \$1 million** to the Church during an interdenominational service in Chicago. According to the Governor's Deputy Chief of Staff at the time, the decision to give \$1 million to the Church was made by the Deputy Governor. A Governor's Office official indicated that after the fire in 2006, the Governor's Chief of Staff directed DCEO to initiate the process of issuing a grant to the Church.

Prior to the January 9th announcement, the Deputy Governor and the Deputy Chief of Staff for Communications had multiple communications regarding money for the Church:

- January 6, 2006 (the evening of the fire) – the Deputy Governor stated “[*The Governor*] did a few interviews at the church. Maybe we can come up with some ideas and reveal them at the installation on Monday night.”
- January 8, 2006 – “[*Deputy Chief of Staff for Economy and Environment*] looking at what we are and are not allowed to help fund (b/c of sep of church and state). We’ll be able to help in some areas. Once we know how much they need to rebuild, we can set a number for the state (at least \$1m).” We saw no documentation to show that the former administration ever asked how much the Church needed to rebuild.
- January 9, 2006 – The Deputy Governor, in responding to a question of whether an announcement would be made later that night, stated “*I’m reluctant to offer up a certain number that could end up being too high or too low.*”

The next day, January 10, 2006, the Governor announced that the pledge was “to support the reconstruction of *its* school (emphasis added).” It is apparent that, **at the time** of these announcements, **neither the former Governor nor his staff was aware** that the Church and the Loop Lab School were separate entities.

A January 18, 2006 email communication from legal counsel in the Governor’s Office to top level staff, **12 days after the fire**, reported that a law firm representing the School had sent a communication clarifying “**that the School and Church are separate entities** (emphasis added).” The email continued “*I’m not certain who from the administration has been in contact with the Loop Lab School or any other entities involved in a potential grant to rebuild the school building at Pilgrim Baptist. I also wasn’t certain if there was any notion to grant funds to the Loop Lab School, or if they are not involved at all.*” This correspondence was directed to the Deputy Governor, Chief Legal Counsel, Deputy Chief of Staff for Communications and the Deputy Chief of Staff for Social Services.

Later documentation, on March 2, 2008, from a Governor’s Office spokesperson to top level staff presents a different picture. While discussing the pending news story on the Church, the official stated “[*Deputy Governor*] it sounds like you talked to [*Deputy Chief of Staff for Communications*] and she hadn’t known at the time that the school wasn’t affiliated with the church. Do we know if the agreement at least included some language about them using the funds to reconstruct the school part of the bldg? Right now they have us saying we fulfilled our commitment and gave the school \$1 mil. And they have the church saying they didn’t know the money they were promised went to the school – that doesn’t make sense bc the school was their tenant and none of the funds have gone back into the destroyed bldg (so they don’t believe we’ve fulfilled our commitment). And you have legislators saying the Gov can’t be trusted to keep his word.” Given the January 18, 2006 communication regarding the School and Church being separate entities went to both the Deputy Governor and the Deputy Chief of Staff for Communications, this appears to be contradictory to what those individuals reported to others in the Governor’s Office.

A Church official indicated that **at first** they were told that the million dollar grant would be given to them to rebuild the Church, but because of the press and the lawsuit (discussed later in this chapter) the Governor’s Office said it could **only be used** for the administration building.

Almost immediately after the Governor's promise of State funds, the American Civil Liberties Union (ACLU) asked the Governor's Office about the specific assistance being pledged to the Church.

While the Church's administration building, which housed the Loop Lab School operation, was destroyed, the Governor's Office knew, at least by June 2006, that the \$1 million it was giving to Loop Lab School **would not be expended** on an administration building at the Church site. In a June 14, 2006 correspondence among Governor's Office officials, one official reported "*There is **no grant** to Pilgrim Baptist Church. The State is working with the Loop Lab School to provide assistance **as they try to relocate** and rebuild (emphasis added).*"

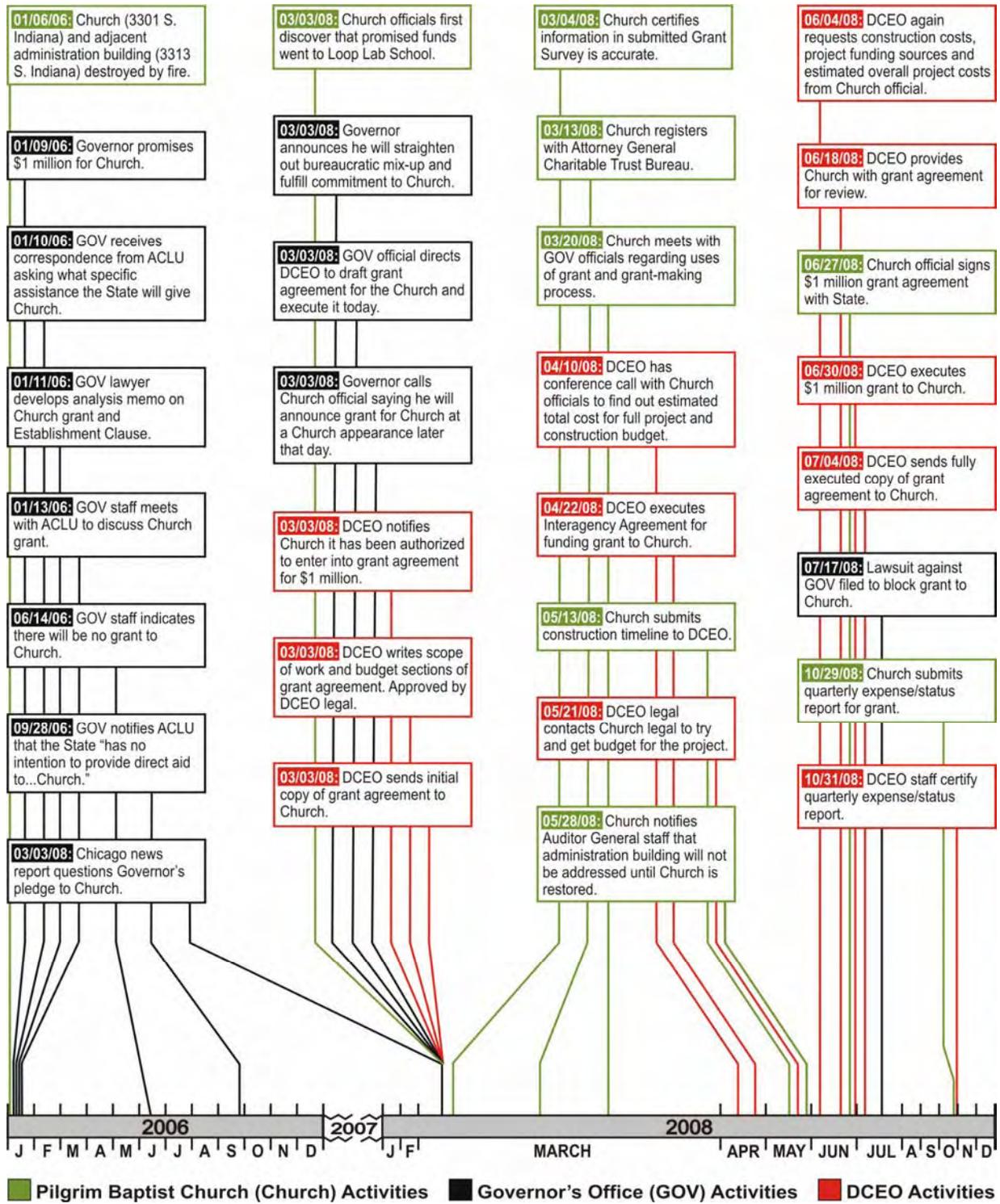
Twenty-one months later, in March 2008, the former Governor apparently found out the money did not go to the Church. On March 3, 2008, the Governor stated that "*I woke up this morning to discover . . . the million dollars went to the wrong place; not to the church community, as it was intended to go.*"

The former Governor, in responding to the State's plan to help the Church in January 2006, stated "*First of all, we do this all the time. . . .When there are needs to help people, we invest into religious institutions through churches [and their social service or educational programs].*"

Even the former Deputy Governor, on January 11, 2006, stated that the pledge to the Church was "*no different than any grant the state has given to Misericordia, Maryville, Loyola, DePaul or a grant we gave recently to the Jewish Federation for homeland security to protect against terrorism. . . .In this case, this church had a school and provided different services to the community.*" The Deputy Governor apparently was not informed, **at the time**, that the Church did not have a school.

On September 28, 2006, the former Governor's Office notified the ACLU that the State "*has no intention to provide direct aid to Pilgrim Baptist Church.*" Nevertheless, in 2008 a \$1 million grant to the Church was authorized by the former Governor's Office. Further, the former Governor all along appeared to believe that the \$1 million was going to the Church. At least that is how he portrayed it in the press. A timeline of these activities, and others discussed throughout this chapter is presented in Exhibit 3-2.

**Exhibit 3-2
PILGRIM BAPTIST CHURCH GRANT TIMELINE OF EVENTS
FY06-FY09**



Source: OAG developed from DCEO and Governor's Office documentation.

ACTUAL STATE GRANT EXECUTION

On June 30, 2008, the State executed a \$1 million grant with Pilgrim Baptist Church as the culmination of four months of extensive communication between State officials and the Church in an attempt to fulfill a commitment made **30 months earlier** by the former Governor to the Church.

Our examination of available documentation found that the Governor's Office and the Department of Commerce and Economic Opportunity **circumvented the internal controls** in place at DCEO to process the grant authorized and directed by the Governor's Office for the Church. Finally, it is **unclear** whether the Church would have been able to expend the State grant during the grant time period given the lack of planning for the construction of the administration building, the purported use for the \$1 million grant.

Governor's Office

On March 3, 2008, the **former Governor** announced that he would straighten out a **bureaucratic mix-up** that sent \$1 million intended for the Church to the Loop Lab School and fulfill his 2006 commitment to the Church. The announcement **came the same day** that a Chicago news story questioned whether the former Governor broke his vow to help the Church rebuild after it experienced the devastating fire.

The news story was anticipated by the Governor's staff as evidenced by a series of communications extending back to the week before the story was published.

Our review of documentation **could not prove** a bureaucratic mix-up occurred but we did find that the former Governor's administration was aware that the Church and Loop Lab School were separate entities **just eight days** after the Governor made his initial pledge of \$1 million in 2006.

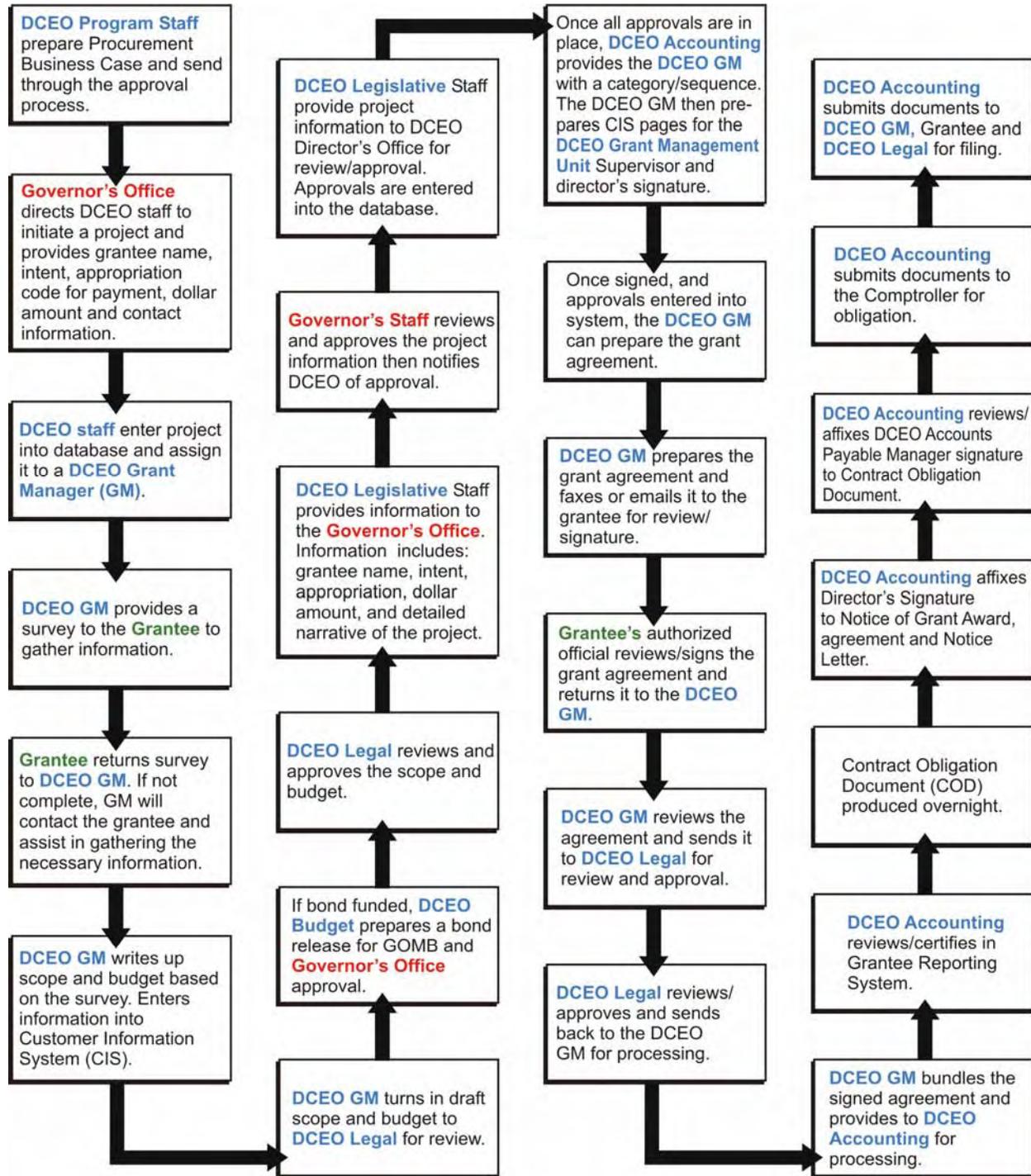
The Governor's Office, in responding to the press story, wanted a grant to move expeditiously to the Church. On March 3, 2008 at 9:10 a.m., the day the news story was published, the Governor's Chief of Staff directed the DCEO director to "*draft a grant agreement for the church. We want it ready for execution today. [Deputy Governor], who can we get to appear with us today from the church?*" Drafting up a grant agreement without any information from the Church would appear to violate the procedures in place at DCEO.

Department of Commerce and Economic Opportunity

DCEO has a control system in place to process the grants authorized and directed by the Governor's Office. A flowchart of these activities is presented in Exhibit 3-3.

Correspondence on March 3, 2008 showed the DCEO director may not have been familiar with the series of events that had taken place which led to the \$1 million in DCEO funds not going to the Church in 2006. The director, who approved the Loop Lab School grant, emailed DCEO staff "*What is the story on this? Let me know asap.*" After being forwarded the press story, a former DCEO employee informed the director that "*We were told who to deal with-the non profit school associated with the church.*"

Exhibit 3-3
**GOVERNOR’S DIRECTED GRANTS
 FLOWCHART OF INTERNAL CONTROLS
 DEPARTMENT OF COMMERCE AND ECONOMIC OPPORTUNITY**



Source: OAG developed from DCEO information.

After the former Governor’s Chief of Staff instructed the DCEO director to execute a grant agreement on March 3, 2008, DCEO officials processed all necessary approvals for the generation of the grant agreement for the \$1 million grant to Pilgrim Baptist Church on the same day. The approvals included: Grant Management approval; CIS Release approval; Appropriation Allotted approval; 2nd Governor’s Office approval; and the Scope/Budget approval.

Also on March 3, 2008, DCEO sent a **grant survey** to the Church, as well as developed the scope of work and budget sections for the grant agreement. DCEO sent an initial copy of the **grant agreement** to the Church on that same day, March 3, 2008. This is prior to the Church even submitting the request and certifying the information on a completed grant survey, which the Church did submit and DCEO received two days later, on March 5, 2008. The completed grant survey can be found in Appendix F. Development of the scope of work and budget would apply to the 6th step in the process listed in Exhibit 3-3.

Unlike the grant to Loop Lab School which had a final approval form signed by the Governor’s Office, the grant documentation for the Church **had no such written approval**. Written approval would apply to the 11th step in the flowchart shown in Exhibit 3-3. According to DCEO staff, that was because attorneys from DCEO and the Governor’s Office handled most of the activities for this grant. Nevertheless, even if the former Governor’s staff was directing this grant process, the DCEO Director actually executed the agreement to commit State funds and thus was responsible for ensuring that the proper documentation was obtained and that internal controls were not circumvented. Lacking documentation for such necessary Governor’s Office approval increases the likelihood that State funds are not properly protected.

GRANT EXECUTION	
RECOMMENDATION NUMBER 7	<p><i>The Governor’s Office should allow appropriate time for the development and execution of grant agreements by the Department of Commerce and Economic Opportunity so as to not circumvent controls in place to safeguard State assets.</i></p> <p><i>The Department of Commerce and Economic Opportunity should ensure that all documentation is in place prior to developing a scope of work section for grants directed by the Governor’s Office.</i></p>
GOVERNOR’S OFFICE RESPONSE	The Office of the Governor concurs with the recommendation of the Auditor General.
DEPARTMENT OF COMMERCE AND ECONOMIC OPPORTUNITY RESPONSE	<p>The Department agrees with the recommendation.</p> <p>It is necessary to clarify the DCEO processing of the grant to the Pilgrim Baptist Church. The processing of any grant agreement is tantamount to a dialogue with the potential grantee. In having the dialogue the preparation of documents for the grant involves making changes and revisions before the final documents are ready to be signed. DCEO does not sign and process any final grant agreements until all the necessary paperwork has been reviewed and approved by the various sections of DCEO responsible for issuing grants.</p>

<p>Agency Response (continued)</p>	<p>DCEO disagrees that its regular processes and controls were circumvented and ignored.</p> <p>While the report is correct in stating that on March 3, 2008 a grant agreement was drafted and received various internal approvals it is incorrect in postulating that the approvals circumvented the normal processes. A draft grant agreement was created on March 3, 2008 to start the discussion with the grantee regarding the grant. It was never intended to be the final grant document. It was presented to the Grantee for their review with their professional advisors to determine if any changes were needed.</p> <div style="border: 1px solid black; padding: 10px; margin: 10px 0;"> <p>Auditor Comment #8 <i>As stated in the report, the former Governor’s Chief of Staff, on March 3, 2008, directed DCEO to “draft a grant agreement for the Church. We want it ready for execution today.” When asked at the exit conference on June 23, 2009, how many times the Governor’s Office had directed DCEO to process a grant in 1 day, DCEO officials stated the grant to the Pilgrim Baptist Church was the only one.</i></p> <p><i>While DCEO contends that the March 3, 2008, document provided to the Church was a “draft” grant agreement, we did not find evidence to support that claim. Church officials provided grant survey information on scope and budget on March 5, 2008 – two days after DCEO provided the grant agreement. DCEO procedures dictate that a grant agreement is drafted after, not before, receipt of grant survey information.</i></p> </div> <p>The actual events leading up to the signing of the final draft of the grant agreement shows that DCEO followed its normal internal processes to complete the grant. After the draft agreement was prepared DCEO and the Church had many discussions and meetings to obtain all of the necessary information to complete the process. Meetings were held with the attorneys and architects for the Church that resulted in the scope of work for the grant agreement being revised to reflect the information obtained during the course of the discussions. Ultimately the grant agreement was executed on June 30, 2008 after and only when all of the internal processes and controls had been fulfilled and followed.</p>
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Funds Use by Pilgrim Baptist Church

In its haste to process the \$1 million grant to respond to the news report, the Governor’s Office **was not even aware** of what the Church utilized the building for. It is unclear whether the State grant, with a two-year grant period ending in 2010, would even be used in the

construction process by the Church. At the time the grant process was initiated, in March 2008, the Church was not contemplating reconstruction efforts on the administration building.

Governor’s Office/Governor’s Office of Management and Budget (GOMB)

In a March 3, 2008 email at 9:20 a.m., Governor’s Office and DCEO staff were asked by the GOMB Director “*Where can we find \$1 m that we can give to the Pilgrim Baptist Church/admin and classroom building, as was originally intended? Need ASAP.*” Staff responded that “*We have the BI-C [Build Illinois Bond Fund category C] education category through CDB, but doesn’t sound like this project fits that categories use.*”

When the uses of the Build Illinois Bond Fund were questioned by the GOMB Director, a Governor’s Office official indicated the uses were “*Libraries and library systems...materials for scientific and historical surveys; eligible voc ed programs; school shops and labs; capital improvements for univs and comm. colleges; health care facilities...*” When questioned as to whether the Church had any community or educational program in the administration building, the Governor’s Office official stated “*I know they had an admin building that housed the loop lab school. Presumably, that space was used for other community activities. I see that as the ONLY way we could grant funds to a religious institution – if they have a community building.*” These communications all happened by 10:09 a.m. on March 3, 2008.

Church Construction Plans

On May 28, 2008, approximately three months after the Governor’s Office announced the second promise of \$1 million to the Church, a Church official stated that in time the Church planned to raze the administration building. However, the first priority was to get the Church restored. Even as of September 20, 2008, the day Church officials unveiled the rebuilding plans and **three months after the execution of the State grant agreement**, architects and Church officials stated they planned to focus on the Church first.

In the grant survey the Church submitted to DCEO on March 5, 2008, the Church indicated that there were actions and approvals necessary before the start of the project to rebuild the administration building. These included reviewing of bids and hiring construction architects and other appropriate trades. The Church official estimated completion of these actions and approvals by June 2008. Additionally, the Church indicated that any permits and approvals deemed necessary would be secured before the start of the project. Apparently none of these actions were completed by June 2008.

State officials, in April, May and June 2008, worked with the Church on multiple occasions to get information on the budget and construction costs to rebuild the administration building.

In May 2, 2008 documentation provided to DCEO, the Church noted that the following activities would be housed in a new administration building:

- Community Food Programs
- Community Job Readiness Programs
- Community Health Fairs

- Community Legal Clinics
- Community Literacy Programs
- Community Family Activities.

However, when we asked Church officials what the facility had been utilized for prior to the fire, the officials stated that before the fire the administration building was used for teen outreach and the Church’s day care. Later, it ultimately was used by a private day care center and then leased by Loop Lab School. For at least the time when Loop Lab School leased the facility from the Church, it was not being used for a public purpose.

As of January 15, 2009, a Church official noted that the Church had not selected a contractor to rebuild the administration building because it had not received the grant from the State. The official explained they have to wait until they receive the grant money in order to cover the total cost of rebuilding the administration building.

Section 2.3 of the grant agreement between the State and the Church outlines payment provisions. In the case of the Church grant, DCEO was to authorize 100 percent of the grant award for disbursement by the Comptroller upon execution of the agreement by DCEO.

Although there is no documentation to show the architectural plans or agreements with contractors to perform the work, DCEO planned to make full payment of funds to the Church prior to any work being completed. Given the difficulties described in Chapter Two of this report on the recovery process for the grant to Loop Lab School, without receiving documentation it is difficult to know whether the funds would have been spent on their intended purposes.

GRANT DISBURSEMENT	
RECOMMENDATION NUMBER 8	<i>The Department of Commerce and Economic Opportunity should authorize disbursement of grant funds only after receiving documentation to ensure that State funds are being utilized for intended purposes.</i>
DEPARTMENT OF COMMERCE AND ECONOMIC OPPORTUNITY RESPONSE	The Department agrees with this recommendation and will limit the advancement of funds for Governor’s miscellaneous grants. DCEO recognizes that some entities and projects require start-up funding so DCEO will limit advanced funding to 25% of the grant amount for these grants unless an exception is warranted and adequately documented. In addition, DCEO will be implementing new documentation and reporting standards for FY10 grants as outlined in our cover letter. Governor’s miscellaneous grants will require quarterly reports to be filed by grantees for both expenditures and project status. These required reports will allow DCEO to monitor the grantees’ progress toward their grant defined goals and their due diligence in their fiscal management and recordkeeping. The balance of DCEO payments will be contingent upon both the grantees’ compliance with submitting required reports and documentation and DCEO’s review and approval of this information including but not limited to cost reporting.

FUNDING SOURCE

While the Governor’s Office wanted DCEO to process the grant to the Church, it had to look to another agency, the Capital Development Board (CDB), for funding. An Interagency Agreement between CDB and DCEO transferred \$1 million in Build Illinois Bond funds to be used for the grant to the Church.

GOMB was directed to find an appropriate funding source for the Pilgrim Baptist Church grant after the decision was made to award. A GOMB official reported that the request came from the Governor’s Chief of Staff. The only documented criteria, according to the GOMB official, are the bonding statutes.

Build Illinois Bond Fund

Unlike the Governor’s Office direction to use the Fund for Illinois’ Future when paying the Loop Lab School grant in 2006 and 2007, that same funding source was not available when the grant was developed for the Church. An April 18, 2008 correspondence from a Governor’s Office staff member to the Chief of Staff indicated *“Because the GA [General Assembly] took away our capital lumps in DCEO’s budget for 08, we need to move through those they retained in CDB. We have one category in particular that allows us to do grants for technology/higher ed/resources...it is loose enough that we’ve been able to make it apply to certain situations. It is what we’re using for Pilgrim.”*

The \$1 million grant to the Church by DCEO was taken from the Build Illinois Bond Fund (Fund). According to Comptroller information, 23 agencies have spending authority from the Fund; however, it is administered by DCEO. Documentation showed that GOMB was directed to determine a source of funds for the Church’s grant.

According to CDB information, projects financed similarly to the Church grant totaled \$18 million in FY08 and \$9 million in FY09 (through March 30, 2009) for the specific provision of the Build Illinois Bond Fund. The projects were basically for State agencies and universities or units of local government. Appendix D has a complete listing of all grantees, locations, descriptions and amounts for the two fiscal years.

The Build Illinois Bond Act (Act) (30 ILCS 425) outlines the uses for the issued bonds. In section 425/4(c) of the Act, bonds are issued for the development and improvement of educational, scientific, technical and vocational programs and facilities and the expansion of health and human services for all citizens of Illinois.

LAWSUIT

On July 17, 2008, as a result of the grant to the Church, a lawsuit was filed against the following Illinois public officials: the Governor, the Director of the Department of Commerce and Economic Opportunity, and the Comptroller. The lawsuit requests an injunction to prevent the public officials mentioned above from distributing the grant to the Church, alleging such action would violate the First and Fourteenth Amendments of the United States Constitution and

Article I § 3, Article VII § 1, and Article X § 3 of the Illinois Constitution. Exhibit 3-4 provides a description of the alleged violations.

Of the 10 counts filed, 4 were directed at the Governor, 4 at the Director of DCEO, and 2 at the Comptroller. The federal First Amendment and three articles associated with the State Constitution were each filed against the Governor and the Director of DCEO. The lawsuit enjoined the Comptroller to the lawsuit against the Governor and the Director of DCEO to prevent the violation of the federal First Amendment Establishment Clause and the Illinois Constitution. The petitioner asked the Court, "...for leave to file the attached complaint to restrain and enjoin the disbursement of public funds..."

Exhibit 3-4 ALLEGED VIOLATIONS WITH THE PILGRIM BAPTIST CHURCH GRANT	
Alleged Constitutional Violation	Description
First Amendment <i>(federal)</i>	Right of all citizens to be free from unconstitutional establishment of religion.
Fourteenth Amendment <i>(federal)</i>	Makes the first amendment applicable to the State of Illinois.
Article I, § 3 <i>(State)</i>	"No person shall be required to...support any ministry or place of worship against his consent, nor shall any preference be given by law to any religious denomination or mode of worship."
Article VII, § 1 <i>(State)</i>	"Public funds...shall be used only for public purposes."
Article X, § 3 <i>(State)</i>	Forbids the "General Assembly...or any public corporation" from making any appropriation "from any public fund whatever, anything in aid of any church or sectarian purpose, or to help support or sustain any school, academy... controlled by any church or sectarian denomination whatever,"..."nor shall any grant or donation of...money...ever be made by the State, or any such public corporation, to any church, or for any sectarian purpose."
Source: Excerpts from lawsuit.	

Factual Allegations

The lawsuit alleges that on March 3, 2008, the Governor authorized and instructed the Director of DCEO to approve a \$1 million grant to the Pilgrim Baptist Church. The lawsuit further mentions the stated purpose of the grant which is to pay for a portion of the costs associated with capital construction expenses for the Church facility and its administrative office/daycare center building which were both destroyed in the January 2006 fire.

Additionally, the lawsuit contends that the grant agreement states that the Church as Grantee "shall not use grant funds to perform or to further the performance of sectarian activities." Based on the following interpretation of the stated purpose of the grant, the petitioners argue:

- Use in the construction of a Church and its adjacent facility that will be identified as a Church facility will promote religion and religious purposes;
- No meaningful way to segregate religious and non-religious purposes and uses of the buildings constructed; and
- A means to divert \$1 million of its own funds toward the promotion of its religion or religious activities.

The petitioners also note that the “Grant Agreement provides no provision of such restrictions beyond the life of the Grant, which may encompass most, if not all, of the period required for actual construction.” In other words, based on the terms of the grant, the Church will be able to perform sectarian activities following its construction which is after the end of the term of the grant agreement.

Due to this legal action, the Comptroller, in consultation with the Attorney General, decided to hold the payment of the \$1 million grant to the Church pending the resolution of the lawsuit. A DCEO official indicated that the request for payment of the grant was returned to DCEO by the Comptroller in early 2009.

APPENDICES

APPENDIX A
HOUSE RESOLUTION 1190



STATE OF ILLINOIS
NINETY-FIFTH GENERAL ASSEMBLY
HOUSE OF REPRESENTATIVES

House Resolution No. 1190

Offered by Representatives Jack D. Franks-Chapin Rose-Raymond Poe, Joseph M. Lyons, Lou Lang, Naomi D. Jakobsson, Linda Chapa LaVia, Fred Crespo, Mark H. Beaubien, Jr., Daniel J. Burke and Susana A Mendoza

WHEREAS, In 2006, Governor Rod Blagojevich promised to provide State money to Pilgrim Baptist Church (the "Church") in Chicago to rebuild following a fire; and

WHEREAS, In March of 2007, a \$1 million grant allegedly intended for the Church was misdirected to the private Loop Lab School, which had previously occupied space in a Church building, but is otherwise unaffiliated with it; and

WHEREAS, The grant was provided by funds appropriated to the Illinois Department of Commerce and Economic Opportunity; and

WHEREAS, Loop Lab School reportedly used the \$1 million grant from the State of Illinois to purchase space in a downtown high-rise, but has not yet reopened as a school facility; and

WHEREAS, Reportedly, the Governor's Office and Church officials are negotiating a new grant agreement to provide the Church with the promised assistance; and

WHEREAS, In the meantime, no attempts at recovering the funds misdirected to Loop Lab School have been made; therefore, be it

RESOLVED, BY THE HOUSE OF REPRESENTATIVES OF THE NINETY-FIFTH GENERAL ASSEMBLY OF THE STATE OF ILLINOIS, that the Auditor General is directed to conduct a management audit of the process involved in the \$1 million grant to Loop Lab School; and be it further

RESOLVED, That this management audit include, but not be limited to, the following determinations:

(1) how and when the funds were promised to the Church, and what process was followed,
if any;

(2) how and when the funds were provided to the Loop Lab School, and what process was followed, if any;

(3) what person or persons were involved in these transactions;

(4) what internal controls are present in the grant award process at the Illinois Department of Commerce and Economic Opportunity, and whether those internal controls were followed and are adequate to ensure that grants are awarded to proper parties for intended purposes;

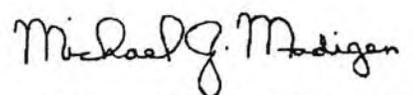
(5) what actions, if any, are being followed to either recover the misdirected funds and/or determine the purpose for which the funds have been used, and whether they have been used for a legitimate purpose; and

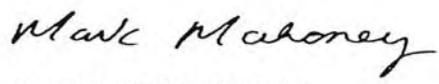
(6) whether a grant to the Church is currently being developed and, if so, what controls will be put in place to ensure the funds, if provided, are used for their intended purpose; and be it further

RESOLVED, That we urge that the Illinois Department of Commerce and Economic Opportunity, the Office of the Governor, and any other entity having information relevant to this audit cooperate fully and promptly with the Auditor General's Office in the conduct of this audit; and be it further

RESOLVED, That the Auditor General commence this audit as soon as possible and report his findings and recommendations upon completion in accordance with the provisions of Section 3-14 of the Illinois State Auditing Act.

Adopted by the House of Representatives on May 1, 2008.


Michael J. Madigan, Speaker of the House


Mark Mahoney, Clerk of the House

APPENDIX B
AUDIT METHODOLOGY

AUDIT METHODOLOGY

This audit was conducted in accordance with generally accepted government auditing standards and the audit standards promulgated by the Office of the Auditor General at 74 Ill. Adm. Code 420.310. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit objectives for this audit were those as delineated in House Resolution 1190 (see Appendix A), which directed the Auditor General to conduct a management audit of the process involved in the grant of \$1 million to the Loop Lab School. The audit objectives are listed in the Introduction section of Chapter One. The majority of fieldwork for the audit was completed between October 2008 and February 2009.

In conducting the audit, we reviewed applicable State laws, administrative rules and Department of Commerce and Economic Opportunity (DCEO) policies pertaining to the awarding of grants. We reviewed compliance with those laws and rules to the extent necessary to meet the audit's objectives. Any instances of non-compliance we identified or noted are included in this report.

We also reviewed management controls and assessed risk relating to the audit's objectives. A risk assessment was conducted to identify areas that needed closer examination. Any significant weaknesses in those controls are included in this report.

During the audit, we met with staff from the Governor's Office, both the previous administration and current administration. Additionally, we met with DCEO staff responsible for the processing and monitoring of the grants as well as DCEO legal staff regarding repayment of the grant by Loop Lab School. We conducted Statement on Auditing Standards (SAS) 99 fraud interviews with staff from DCEO that had roles in processing the grants. We contacted former staff from the Governor's Office that were identified as having roles in the grant to Loop Lab School. We contacted the Comptroller's Office regarding the payment of funds to Loop Lab School and Pilgrim Baptist Church under the State grant agreements. We also contacted officials at the Department of Human Services and reviewed documentation on Loop Lab School use of childcare funding provided by the State. Additionally, we examined documentation at the State's oversight entity for the childcare initiative.

We interviewed officials from the Loop Lab School and reviewed documentation regarding school operations and the grant of State funds. Additionally, we interviewed Loop Lab School insurance and real estate agents as well as the accounting firm hired to assist with filings to the Attorney General to obtain the \$1 million grant. We obtained information on amounts owed by Loop Lab School from the condominium association

where Loop Lab School used the State funds to purchase a floor in the building at 318 West Adams in Chicago, Illinois.

We interviewed officials from the Pilgrim Baptist Church regarding the \$1 million grant announced by the State in July 2008. Additionally, we reviewed information provided by the church regarding the administration building destroyed by fire that Loop Lab School has leased from the church.

During the audit we had cooperation problems and a number of difficulties obtaining requested information from Loop Lab School and the **Governor's Office under the previous administration**. Loop Lab School officials indicated that virtually all documentation, including financial records, was destroyed in the fire. However, Pilgrim Baptist Church officials reported that after the fire, the current Loop Lab School Executive Director, family members and attorneys came to the church and removed file cabinets from the damaged facility. Information Loop Lab School failed to provide, or provide in a timely manner, included:

- After the fire in January 2006, a Chicago law firm undertook a fundraising project to obtain funds for the Loop Lab School. We asked, on October 29, 2008, for an accounting of these efforts since funds raised would appear to have made opening a school possible. Loop Lab School officials could not or would not provide any documentation on this matter.
- Also on October 29, 2008, we requested an audit trail for the transfer of the State funds to the Loop Lab School real estate broker to determine whether any interest had been earned on the State funds by either Loop Lab School or the broker. Loop Lab School officials could not or would not provide any documentation on this matter.
- To determine whether Loop Lab School had any insurance coverage, we requested information, on June 4, 2008, on any policy in effect at the time of the fire. Loop Lab officials finally provided the policy information to auditors, after additional requests by us, on January 14, 2009 – **over seven months later**. However, the information was forwarded from its insurance agent to Loop Lab School officials on June 10, 2008, just six days after our initial request.

When Loop Lab School signed the grant agreement with the State, it agreed to cooperate with any audit conducted by the Office of the Auditor General. Instances as shown above indicate that Loop Lab School was not fully cooperative with the audit directed by House Resolution 1190.

The lack of cooperation during the audit was not limited to Loop Lab School. The **Governor's Office under the previous administration** also was untimely in providing information to auditors during the audit. The **previous Governor** stated in early 2008 that the funds that went to Loop Lab School were part of a bureaucratic mistake by a couple of ex-staffers. We first requested the identities of these two individuals on May 27, 2008. After numerous additional requests, a Governor's Office official reported on January 20, 2009, **nearly eight months later**, that as *"a follow up to your inquiry, the Governor was asked about the identity of the two staffers referenced.*

The Governor recalls being told by a staffer that two individuals were responsible for the miscommunication that resulted in the grant being disbursed to Loop Lab School. Given the passage of time, the Governor cannot recall, with any certainty, who the staffer was that communicated this information to him or whether the names of the two individuals referenced were ever mentioned to him.” The Governor’s Office official then described the conversation with the Governor as attorney-client privileged communication.

APPENDIX C
PAYMENTS/GRANTS FROM THE
FUND FOR ILLINOIS' FUTURE
FY06 – FY07

Appendix C			
GOVERNOR'S MISCELLANEOUS GRANTS FROM THE FUND FOR ILLINOIS' FUTURE			
FY06			
	Grantee	Description	FY06 Amount
1	4 Counties for Kids	After school program	\$74,500.00
2	A Knock at Midnight, Inc.	Prevention education services	\$25,000.00
3	Albany Park Community Center	Purchase of telephone system	\$30,000.00
4	Albany Park Multicultural Academy	Laptop purchase	\$5,000.00
5	Arbor Park School District #145	Solar powered crossing systems	\$15,000.00
6	Arden Shore Child & Family Services	Program and operational needs	\$20,000.00
7	Assn for Wolf Lake Initiative	Recreational programs	\$25,500.00
8	Benton School District #47	Building construction	\$250,000.00
9	Black United Fund of IL	Roof repairs	\$25,000.00
10	Black United Fund of IL	Equipment upgrade	\$25,000.00
11	Boys & Girls Club of Chicago	Youth programs in Little Village	\$50,000.00
12	Boys & Girls Club of Chicago	Facility renovation at General Woods	\$100,000.00
13	Boys & Girls Club of Chicago	Utility renovation in Little Village	\$100,000.00
14	Bureau County 911	911 system costs	\$20,000.00
15	Calhoun CUSD #40	Roof repairs	\$200,000.00
16	Catholic Charities Housing DC	Construction costs	\$40,000.00
17	Catholic Charities Housing DC	Security improvements	\$25,000.00
18	Champaign County Soil/Water District	Watershed renovation project	\$50,000.00
19	Chicago Assn for Retarded Citizens	Property renovations	\$100,000.00
20	Chicago Black Nurses Assn	Program promotion	\$460,000.00
21	Chicago Board of Education	Harper High School-technology	\$30,100.00
22	Chicago Board of Education	Rogers Elementary-security	\$5,000.00
23	Chicago Board of Education	Jamieson School-lockers	\$20,000.00
24	Chicago Board of Education	Peterson Elementary-equipment	\$20,000.00
25	Chicago Public Schools	Wildwood Elementary-fire doors	\$5,000.00
26	Chicago State University	Costs associated with Student Center	\$300,000.00
27	Chicago West Side Christian School	Debt reduction	\$200,000.00
28	Children's Museum of Oak Park	Capital improvements	\$25,000.00
29	Chouteau Township	Water line improvements	\$10,000.00
30	Christian Friendliness Assn	Center expansion	\$100,000.00
31	City of Berwyn	Operational needs	\$100,000.00
32	City of Canton	Planning costs	\$20,000.00
33	City of East Moline	Staircase replacement	\$4,945.00
34	City of Fairbury FD	Fire protection equipment	\$15,000.00
35	City of McHenry	Baseball fields	\$100,000.00
36	City of Naperville	Construction costs	\$40,000.00
37	City of North Lake	Tornado siren costs	\$18,000.00

Appendix C			
GOVERNOR'S MISCELLANEOUS GRANTS FROM THE FUND FOR ILLINOIS' FUTURE			
FY06			
	Grantee	Description	FY06 Amount
38	City of Pekin	Patching machine	\$50,000.00
39	City of Raymond Fire Dept	Debt reduction	\$50,000.00
40	City of Rock Island	Newsletter costs	\$2,500.00
41	Clarence Culver School-Niles Elem.	Electronic equipment	\$5,000.00
42	Coal City CUSD	Defibrillators/CPR training	\$7,000.00
43	Colona Grade School District #190	Building improvements/computers	\$11,500.00
44	Concerned Citizens, Inc	Building costs	\$10,000.00
45	Cook County Forest Preserve	Educational room	\$50,000.00
46	Counseling Center of Lake View	HVAC system	\$59,000.00
47	County of Peoria	Memorial construction	\$25,000.00
48	Cropsey Township	Design for new water system	\$22,500.00
49	Cumberland County	Water improvements	\$100,000.00
50	East Moline School District #37	Glenview MS-blinds	\$25,518.00
51	East Prairie School District #73	Chair lift	\$5,000.00
52	Easter Seals Joliet	Facility expansion	\$20,000.00
53	Emergency Fund	Operational needs	\$50,000.00
54	Evanston CCSD #65	Oakton Elementary-mural restoration	\$100,000.00
55	Exodus Renewal Society, Inc	Operational needs	\$25,000.00
56	Fairview School District #72	Laptop purchase	\$5,000.00
57	Family Focus, Inc	Facility renovations	\$150,000.00
58	Family Service & MH Center	Loudspeaker system	\$8,450.00
59	Fifth City Chicago Reformulation	Restroom renovations	\$30,000.00
60	Fifth City Child Development Institute	Repairs and maintenance	\$10,000.00
61	FORUM	Windows	\$69,000.00
62	FORUM	Boiler and carpeting	\$20,000.00
63	Franklin County Animal Control	Construction costs	\$10,000.00
64	Franklin Hospital	Upgrade for ambulance services	\$4,500.00
65	Gardner CCSD #72-C	Bus lane renovation	\$25,000.00
66	George Washington Carver Assn, Inc	Office equipment	\$50,000.00
67	Golden Circle Sr. Citizens Council	Kitchen remodeling	\$30,000.00
68	Great True Vine Missionary Baptist	Program funding	\$49,654.04
69	Hannah Solomon Elementary School	Locker purchase	\$20,000.00
70	Haymarket Center	Air conditioner/renovations	\$650,000.00
71	Holocaust Memorial Foundation	Facility construction	\$25,000.00
72	Howard Brown Health Center	Building improvements	\$100,000.00
73	Hyde Park Art Center	Building costs	\$100,000.00
74	IL Conf-United Church of Christ	After school program	\$60,000.00
75	IL Theatre Center of Park Forest	Building improvements	\$17,700.00

Appendix C			
GOVERNOR'S MISCELLANEOUS GRANTS FROM THE FUND FOR ILLINOIS' FUTURE			
FY06			
	Grantee	Description	FY06 Amount
76	Institute for Positive Living	Program costs	\$200,000.00
77	Institute of Cultural Affairs	Terra cotta tile replacement	\$200,000.00
78	Intervention Instruction, Inc	Online DUI education program	\$25,000.00
79	Jobs for Youth	Capital improvements	\$50,000.00
80	John A. Logan College	Recruitment newsletter	\$30,000.00
81	Kelvyn Park High School	Computer lab costs	\$50,000.00
82	Korean American Cultural Center	Office equipment and van	\$15,000.00
83	Lansing Old Timers, Inc	Concession stand	\$115,000.00
84	LaRabida Children's Hospital	Fire protection equipment	\$50,000.00
85	LaSalle County Easter Seals	Roofing and carpet costs	\$46,000.00
86	Latin Center/Universidad Popular	Kitchen remodeling	\$25,000.00
87	Lincoln Jr. High School	New whiteboards	\$5,000.00
88	Lincolnwood Public Library	Parking lot expansion	\$10,000.00
89	Lincolnwood School District #74	Lincoln Hall MS-electrical upgrades	\$20,000.00
90	Lincolnwood School District #74	Lincoln Hall MS-improvements	\$20,000.00
91	Lincolnwood School District #74	Rutledge Hall Elem.-improvements	\$5,000.00
92	Lincolnwood School District #74	Todd Hall Elem.-improvements	\$5,000.00
93	Lincolnwood School District #74	Todd Hall Elem.-wiring work	\$5,000.00
94	Little Village Chamber	Internet website development	\$30,000.00
95	Maria High School	Center improvements	\$25,000.00
96	Maria High School	Infrastructure improvements	\$5,000.00
97	Maria High School	Purchase fire curtains	\$50,000.00
98	Meadowbrook Fire District	Storm warning system	\$75,000.00
99	Menard County Economic Develop	Feasibility study	\$25,000.00
100	Mercer County VFW #1571	Bathroom renovations	\$25,000.00
101	Metro East Humane Society	Capital improvements	\$25,000.00
102	Metropolitan Family Services	Facility construction	\$200,000.00
103	Misericordia	Capital improvements	\$500,000.00
104	Morning Star Mission Ministries, Inc	Construction costs	\$10,000.00
105	Morton Grove Public Library	Internet access/outside depository	\$10,000.00
106	Nameoki Township	Roofing costs	\$10,000.00
107	Natural Land Institute	Wetland restoration	\$95,000.00
108	Neighborhood House Assn	Capital and program funding	\$75,000.00
109	NeighborSpace	Land acquisition	\$75,000.00
110	Nicasa	Service costs	\$25,000.00
111	Niles Township Special ED Dist #807	Center improvements	\$10,000.00
112	Niles Public Library	Damper replacement	\$10,000.00
113	North Chicago Public Library	Genealogy program	\$16,000.00

Appendix C			
GOVERNOR'S MISCELLANEOUS GRANTS FROM THE FUND FOR ILLINOIS' FUTURE			
FY06			
	Grantee	Description	FY06 Amount
114	Northeastern Illinois University	Research-Transatlantic Slave Trade	\$100,000.00
115	Northeastern Illinois University	Research-Transatlantic Slave Trade	\$100,000.00
116	Northern Illinois University	Establishment of graduate program	\$1,000,000.00
117	Oak Lawn CHSD #229	Football field lighting	\$25,000.00
118	Oak Park Development Corp	Advertising/recruitment	\$50,000.00
119	Oak Park/River Forest Infant Welfare	Dental clinic expansion	\$26,500.00
120	Onward Neighborhood House	Debt reduction	\$450,000.00
121	Orland Fire Protection District	Renovation of training facility	\$25,000.00
122	Our Lady of the Snows School	Playground and computer equipment	\$10,000.00
123	Park Forest School District #163	School renovation	\$20,000.00
124	Park Lawn Assn, Inc	Center upgrades	\$25,000.00
125	Passages Alternative Living Program	Computer lab renovations	\$40,000.00
126	Puerto Rican Arts Alliance	Building costs	\$75,000.00
127	Puerto Rican Arts Alliance	Building development	\$300,000.00
128	Puerto Rican Parade Committee	Renovation costs and equipment	\$300,000.00
129	Quad City Arts	Gallery exhibit	\$5,000.00
130	Reddick Community Fire Protection	Equipment purchases	\$10,000.00
131	Riverview Center, Inc	Advertising costs	\$22,000.00
132	Rock Island County Historical Society	Building restoration	\$60,000.00
133	Rockridge CUSD #300	Capital expenses/athletic field	\$12,500.00
134	Rockridge CUSD #300	Capital expenses/athletic facilities	\$36,100.00
135	Roosevelt High School	Equipment for guitar program	\$10,000.00
136	SE Environmental Task Force	Planning/educational activities	\$35,000.00
137	SIU Public Policy Institute	Capital campaign	\$175,000.00
138	Skokie Public Library	Computer purchases	\$10,000.00
139	Skokie School District #69	Classroom lighting	\$5,000.00
140	Skokie School District #69	Mechanical system renovation	\$20,000.00
141	Skokie School District #73	Program costs	\$15,000.00
142	Skokie School District #73	School renovation	\$5,000.00
143	South Chicago Parents/Friends RC	Garage construction	\$25,000.00
144	South Suburban Major Crimes TF	Operating expenses	\$50,000.00
145	St. Bernard Hospital	Mammography services	\$100,000.00
146	St. Gall School	Playground repaving	\$10,000.00
147	St. Leonard's Ministries	New building construction	\$30,000.00
148	St. Patrick High School	Swimming pool renovation	\$12,500.00
149	St. Paul Our Lady of Vilna School	Renovation/construction costs	\$75,000.00
150	Stephen Mather High School	Electrical/heating repairs	\$5,000.00
151	Stone Elementary Scholastic Academy	Outside lighting	\$5,000.00

Appendix C			
GOVERNOR'S MISCELLANEOUS GRANTS FROM THE FUND FOR ILLINOIS' FUTURE			
FY06			
	Grantee	Description	FY06 Amount
152	The Beloved Community	Business Resource Center	\$25,000.00
153	The Lincoln Foundation	Training development	\$250,000.00
154	The N'Digo Foundation	Security improvements	\$50,000.00
155	The N'Digo Foundation	Prior television production costs	\$100,000.00
156	The Parkview Foundation	Renovation/construction costs	\$120,000.00
157	The Woodlawn Organization	Facility renovations	\$175,000.00
158	Tim Ardis Foundation for Hope	Education program	\$25,000.00
159	Town of Cicero	Rain gear for crossing guards	\$6,853.00
160	Trinity Universal Center	Building renovations	\$150,000.00
161	Union League Boys & Girls Club	Youth programs	\$60,000.00
162	Village of Bartonville PD	Squad car and equipment	\$30,000.00
163	Village of Coal City	Renovation of warning sirens	\$11,850.00
164	Village of Forest Park	911 upgrades	\$225,000.00
165	Village of Hampton PD	Radio equipment	\$11,300.00
166	Village of Palos Park	Portable radios	\$15,000.00
167	Village of Ridgeway	Construction of fire station	\$20,000.00
168	Village of Steger	Planning	\$50,000.00
169	Village of Worth	Traffic signals/police vehicle	\$100,000.00
170	Vision House	Equipment/administrative costs	\$100,000.00
171	Vision House, Inc	Facility renovations	\$50,000.00
172	Wheeling Township	Land acquisition	\$35,000.00
173	White County Agricultural Society	Construction costs	\$25,000.00
174	WILCO Area Career Center	Engineering services	\$20,000.00
175	Will Feed Community Organization	After school program	\$25,000.00
176	YMCA Metro Chicago	Baseball fields	\$20,500.00
177	YWCA of Alton	Furnace costs	\$45,000.00
178	Capital Development Board	Grants to State agencies	\$790,000.00
179	Environmental Protection Agency	Grants to State agencies	\$200,000.00
180	Department of Natural Resources	Grants to State agencies	\$5,202,388.70
181	Department of Transportation	Grants to State agencies	\$925,238.93
FY06 Total			\$19,020,097.67

Appendix C			
GOVERNOR'S MISCELLANEOUS GRANTS FROM THE FUND FOR ILLINOIS' FUTURE			
FY07			
	Grantee	Description	FY07 Amount
1	Alliance of Logan Square Organization	Violence prevention program	\$50,000.00
2	Alternatives for the Older Adult	Relocation costs	\$9,450.00
3	American Indian Center, Inc	Windows and front doors	\$60,000.00
4	American Ukrainian Youth Assn	Renovation of center	\$240,000.00
5	Amy Schulz Child Advocacy Center	Building purchase	\$50,000.00
6	Amy Schulz Child Advocacy Center	Building purchase	\$50,000.00
7	Anointed Harvesters, NFP	Film development program costs	\$950,000.00
8	ANSWERS	Operating expenses	\$50,000.00
9	Archdiocese of Chicago	Adult education program	\$50,000.00
10	Associated Talmud Torahs of Chicago	Facility painting	\$35,000.00
11	Back of the Yards Neighborhood	Land purchase	\$50,000.00
12	Batelle Memorial Institute	Facility costs	\$250,000.00
13	Beacon Hill Prep Academy	After school program	\$25,000.00
14	Berwyn Development Corp	Office equipment	\$10,000.00
15	Berwyn Public Health District	Dental screening program	\$50,000.00
16	Beverly Area Planning Assn	Computer upgrades	\$15,000.00
17	Bickerdike Redevelopment Corp	Youth program costs	\$50,000.00
18	Big Buddies Youth Services, Inc	Personnel costs	\$30,000.00
19	Board of Education District #148	Washington School-asbestos	\$70,000.00
20	Booker Washington Assn, Inc	HVAC system/paratransit garage	\$60,000.00
21	Boulevard Arts Center	Summer program	\$75,000.00
22	Boys/Girls Club of Mississippi Valley	Property purchase	\$20,000.00
23	Boys/Girls Club of Rockford	Bleacher replacement	\$35,000.00
24	Brand New Beginnings	Building rehabilitation	\$15,000.00
25	Breakthrough Urban Ministries	Building rehabilitation	\$50,000.00
26	Bremen Youth Services	New facility construction	\$50,000.00
27	Bridging the Tys to Jordan, Inc	HIV/AIDS prevention services	\$50,000.00
28	Calumet City	Computer modernization program	\$150,000.00
29	Camp Butterfly	Operating expenses	\$50,000.00
30	Career Resource Center, Inc	Facility renovations	\$60,000.00
31	Catholic Charities of Joliet	Building improvements	\$20,000.00
32	Cave Eastern Fire Protection District	Equipment purchase	\$25,000.00
33	CCSD #146	Fulton/Sandidge School-playground	\$40,000.00
34	CCSD #146	Fulton/Sandidge School-equipment	\$10,000.00
35	Center for Women in Transition	Building purchases/renovation	\$50,000.00
36	Centro San Bonifacio	Community health education	\$30,000.00
37	Chicago Area Project	After school program	\$100,000.00

Appendix C			
GOVERNOR'S MISCELLANEOUS GRANTS FROM THE FUND FOR ILLINOIS' FUTURE			
FY07			
	Grantee	Description	FY07 Amount
38	Chicago Better Housing Assn	Building construction	\$20,000.00
39	Chicago Board of Education	Vaughn HS-venting system	\$50,000.00
40	Chicago Board of Education	Irving Park MS-water fountains	\$25,000.00
41	Chicago Board of Education	Peck Elem.-ventilation system	\$10,000.00
42	Chicago Board of Education	Fort Dearborn School-bathrooms	\$50,000.00
43	Chicago Board of Education	Palmer School-computer upgrade	\$20,000.00
44	Chicago Board of Education	Edgebrook Elem.-equipment	\$5,000.00
45	Chicago Board of Education	Sawyer Elem.-staircase repairs	\$10,000.00
46	Chicago Board of Education	Castellanos MS-surveillance cameras	\$10,000.00
47	Chicago Board of Education	Kellogg School-play equipment	\$25,000.00
48	Chicago Board of Education	Kellogg School-construction	\$25,000.00
49	Chicago Board of Education	Decatur Classical School-computers	\$20,000.00
50	Chicago Board of Education	Julian HS-gym repairs	\$75,000.00
51	Chicago Board of Education	Irving Park MS-window shades	\$5,000.00
52	Chicago Board of Education	Vaughn HS-new exhaust system	\$5,000.00
53	Chicago Board of Education	Brentano Academy-sound system	\$20,000.00
54	Chicago Board of Education	Canty Elem.-capital improvements	\$10,000.00
55	Chicago Board of Education	Schurz HS-locker room	\$5,000.00
56	Chicago Board of Education	DeWitt Clinton School-internet	\$5,000.00
57	Chicago Board of Education	Northside Learning-security	\$5,000.00
58	Chicago Board of Education	Sauganash School-repair lockers	\$5,000.00
59	Chicago Board of Education	Von Steuben HS-renovations	\$20,000.00
60	Chicago Family Center	Building expansion	\$100,000.00
61	Chicago Family Center	Building expansion	\$50,000.00
62	Chicago Park District	Gompers Park-improvements	\$10,000.00
63	Chicago Park District	Kelly Park-ball fields	\$50,000.00
64	Chicago Park District	Wilson Center-gym improvements	\$25,000.00
65	Chicago Park District	McGuane Park-lighting costs	\$50,000.00
66	Chicago Park District	Dvorak Park-pool lockers	\$50,000.00
67	Chicago Police Memorial Foundation	Building costs	\$100,000.00
68	Chicago Public Schools #299	Tonti Elem.-electrical wiring	\$5,000.00
69	Chicago Public Schools #299	Sandoval Elem.-gym equipment	\$10,000.00
70	Chicago Public Schools	Boone Elem.-library improvements	\$5,000.00
71	Children's Advocacy Center	Building improvements	\$20,000.00
72	Children's Memorial Hospital	New building costs	\$10,000.00
73	Christian Family Ministries	Building renovations	\$20,000.00
74	Circle Theatre of Forest Park	HVAC improvements	\$25,000.00
75	City of North Chicago	Equipment purchase	\$108,000.00

Appendix C			
GOVERNOR'S MISCELLANEOUS GRANTS FROM THE FUND FOR ILLINOIS' FUTURE			
FY07			
	Grantee	Description	FY07 Amount
76	City of Park City	Engineering study	\$10,000.00
77	City of Peoria	Fire department defibrillators	\$50,000.00
78	City of Streator	Parking lot improvements	\$50,000.00
79	City of West Frankfort	Apprenticeship program	\$25,000.00
80	Clinton County Senior Services	Building renovations/home meals	\$25,000.00
81	Community Action Council	Program costs	\$60,000.00
82	Community Christian Academy	Roof repairs/renovations	\$100,000.00
83	Community College District #508	Harvey College-program costs	\$35,000.00
84	Community College District #536	Lewis & Clark College-study	\$50,000.00
85	Community Health Improve Center	Remodeling new facility	\$50,000.00
86	Community HS District #218	Eisenhower HS-renovations	\$75,000.00
87	Community Male Empower Project	Building rehabilitation	\$30,000.00
88	Community Support Services, Inc	Family support services	\$100,000.00
89	Concern Organization Who Cares	School fair costs	\$9,000.00
90	Consolidated HS District #230	Building renovations	\$40,000.00
91	Cook County School District #130	Playground equipment	\$30,000.00
92	Cornerstone Services Inc	Repaving parking lot	\$50,000.00
93	County of Rock Island	Animal cages	\$5,000.00
94	Crusaders Central Clinic Assn	HVAC improvements	\$20,000.00
95	Davis Square Park	Landscape improvements	\$50,000.00
96	DBCC Organization	Nutrition and health education	\$100,000.00
97	DesPlaines Community Senior Center	Building expansion	\$175,000.00
98	Division St Business Develop Assn	Renovation project	\$50,000.00
99	East Village Youth Program	Computer equipment	\$50,000.00
100	Easter Seals DuPage County	Debt reduction	\$1,000,000.00
101	Easter Seals Metro Chicago	New therapeutic school/center	\$1,000,000.00
102	Easter Seals Metro Chicago	New construction costs	\$50,000.00
103	Edgebrook Chamber of Commerce	Landscaping	\$25,000.00
104	Enfield Fire Protection District	Equipment purchase	\$18,400.00
105	Epiphany Church	Epiphany School-security	\$5,000.00
106	Fallick Cancer Support Center	Technology upgrades	\$5,000.00
107	Family Focus, Inc	Program expenses	\$50,000.00
108	Family Guidance Centers, Inc	Computer network upgrades	\$700,000.00
109	Family Rescue, Inc	Facility rehabilitation	\$25,000.00
110	Family Services of Champaign County	Capital improvements	\$50,000.00
111	FORUM	Boiler repairs	\$50,000.00
112	Fountain of Life Academy	Building improvements	\$60,000.00
113	Franciscan Outreach Association	Capital projects	\$40,000.00

Appendix C			
GOVERNOR'S MISCELLANEOUS GRANTS FROM THE FUND FOR ILLINOIS' FUTURE			
FY07			
	Grantee	Description	FY07 Amount
114	Fred & Margaret Smith Senior Group	Program costs	\$125,000.00
115	Friends of Colonel Stephenson House	Building improvements	\$28,950.00
116	Friends of Moline Softball	Bleachers	\$12,000.00
117	Friends of Moline Softball	Dugout covers	\$5,000.00
118	Game Time, Inc	Operational expenses	\$18,000.00
119	Gill Park Cooperative	Capital improvements	\$50,000.00
120	Gordon Tech HS	Electrical renovations	\$25,000.00
121	Goreville CUSD #1	Goreville/Vienna HS-safety	\$20,000.00
122	Grand Boulevard Federation	Asthma education program	\$50,000.00
123	Grand Prairie Services	Building renovation	\$10,000.00
124	Greater St. John Center of Hope	After school program	\$50,000.00
125	Green Hills Public Library	Furnishings and equipment	\$15,000.00
126	Griffin Theatre Company	Engineering services	\$75,000.00
127	Guardian Angel Community Services	Building renovation	\$20,000.00
128	Hansen Community Center	Building renovations	\$20,000.00
129	Harvey Brooks Foundation	Building renovation	\$20,000.00
130	Harvey Park District	Purchase defibrillators	\$12,720.00
131	Haven of Rest Missionary Baptist	Parking lot renovations	\$50,000.00
132	Healthcare Alternatives Systems	Special project prevention	\$15,000.00
133	Helping Hand Outreach Corp	Building renovations	\$20,000.00
134	Heritage Community Develop Corp	Building purchase	\$50,000.00
135	Hero St. Monument Committee	Monument costs	\$12,000.00
136	Hispanic Housing Development Corp	Workforce development program	\$75,000.00
137	Holy Cross Hospital	Mobile teen pregnancy program	\$200,000.00
138	Holy Cross/Immaculate Heart of Mary	Neighborhood youth initiative	\$50,000.00
139	Holy Family Ministries	Capital costs	\$14,889.47
140	Hyde Park Art Center	New building costs	\$100,000.00
141	Hyde Park Neighborhood Club	Gym renovation	\$50,000.00
142	Hyde Park Neighborhood Club	Gym renovation	\$50,000.00
143	IL Coalition for Immigrants/Refugees	We learn English initiative	\$300,000.00
144	IL Youth Advocate Program	Educational programs	\$10,000.00
145	Indo-American Center	Kitchen upgrades	\$25,000.00
146	Institute for Positive Living	Computer purchases	\$50,000.00
147	Janet Wattles Center	New building costs	\$20,000.00
148	Jewish Council for Youth Services	Building costs	\$15,000.00
149	Jewish Federation of Metro Chicago	Safety/security improvements	\$50,000.00
150	Jobs for Youth	Phone and data systems	\$50,000.00
151	Joliet Area Community Hospice	Retention pond improvements	\$20,000.00

Appendix C			
GOVERNOR'S MISCELLANEOUS GRANTS FROM THE FUND FOR ILLINOIS' FUTURE			
FY07			
	Grantee	Description	FY07 Amount
152	Jordan Temple M.B. Church	Summer enrichment program	\$50,000.00
153	Julia Center, Inc	Operating expenses	\$25,000.00
154	Kenwood Improvement Assn	Equipment purchase	\$30,000.00
155	Keshet	Computer purchases	\$50,000.00
156	Kirby School District #140	Grissom School-roof replacement	\$30,000.00
157	Korean American Community Services	HVAC/roof renovations	\$25,000.00
158	LaCausa Community Committee	Building renovations	\$20,000.00
159	Lakeside Community Committee	Capital expansion project	\$40,000.00
160	Lane Tech Century Foundation	Lane Tech HS-sports fields	\$40,000.00
161	Lane Tech Century Foundation	Lane Tech HS-lighting	\$20,000.00
162	LaSalle County Sheriff	Prisoner transport vehicle	\$14,000.00
163	Latino Organization of SW	Increase program capacity	\$25,000.00
164	Laura Lee Fellowship House Assn	New construction costs	\$75,000.00
165	Leo High School	Construction costs	\$1,000,000.00
166	Lester & Rosalie Anixter Center	Youth program costs	\$75,000.00
167	Let's Talk, Let's Test Foundation	Building renovation	\$500,000.00
168	Lifescape Community Services, Inc	Garage construction	\$20,000.00
169	Little Black Pearl	Capital costs for construction	\$25,000.00
170	Local Motions, Inc	After school program	\$25,000.00
171	Logan Square Neighborhood Assn	After school program	\$25,000.00
172	<i>Loop Lab School, Inc</i>	<i>Space purchase</i>	<i>\$1,000,000.00</i>
173	Love Foundation	Program costs	\$25,000.00
174	Love to Serve	Program costs	\$25,000.00
175	Luther North School Assn, Inc	Interior renovations	\$20,000.00
176	Lutheran Social Services of IL	Capital improvements	\$48,500.00
177	Martin Luther King Center	Bathroom renovations	\$38,000.00
178	Mary Crane League	Model Classroom costs	\$100,000.00
179	Matteson Scholl District #162	Technology training	\$20,000.00
180	Matthew House	Building renovation	\$35,000.00
181	Matthew House	Building renovation	\$25,000.00
182	Metropolitan Family Services	Capital projects	\$25,000.00
183	Metropolitan Family Services	Construction costs	\$25,000.00
184	Metropolitan Youth Program	Program costs	\$5,000.00
185	Midwest Writing Center	Publishing costs	\$3,500.00
186	Misericordia Home	Building purchase	\$40,000.00
187	Misericordia Home	Building renovation	\$25,000.00
188	Moline High School	Cafeteria expansion	\$125,000.00
189	Moline School District #40	Jefferson Center-field trips/equip	\$8,700.00

Appendix C			
GOVERNOR'S MISCELLANEOUS GRANTS FROM THE FUND FOR ILLINOIS' FUTURE FY07			
	Grantee	Description	FY07 Amount
190	Moline School District #40	Public sports facility	\$25,000.00
191	MOMENTA, Inc	Capital improvements	\$12,240.00
192	Northwest Community Center	Building expansion	\$10,000.00
193	Namaste Charter School, Inc	Program costs	\$39,657.64
194	National Italian American Sports HOF	Construction costs	\$200,000.00
195	Near NW Neighborhood Network	Program costs	\$89,510.41
196	New Kingdom Trailriders	Equipment purchase	\$10,000.00
197	North River Commission	Computer equipment purchase	\$10,000.00
198	North Shore Church of Christ	Van purchase	\$20,000.00
199	Northside College Prep	Resodding soccer fields	\$100,000.00
200	Northwest Neighborhood Federation	Window replacement/renovations	\$20,000.00
201	Northwest Neighborhood Federation	Program costs	\$35,000.00
202	Norwood Park School Foundation	Virtual expansion costs	\$150,000.00
203	NW Special Recreation Assn	Window replacement/renovations	\$267,000.00
204	Oak Park/River Forest HS	Poetry program costs	\$40,000.00
205	Old Town Merchants & Residents Assn	Beautification project costs	\$13,531.00
206	Orchard Village	Building improvements	\$10,000.00
207	Orland Historical Society	Purchase of equipment	\$5,000.00
208	Our Lady of Tepeyac	Teen reach	\$25,000.00
209	Park Avenue Assisted Living Services	Building affordable housing	\$460,000.00
210	Park Forest/Chicago Heights #163	Implementing math program	\$20,000.00
211	Patriot's Gateway Community Center	Rock climbing wall	\$20,000.00
212	Peter Claver Center	Building/parking lot renovations	\$20,000.00
213	Pilsen Little Village CMHC	Program costs	\$200,000.00
214	PLOWS Council on Aging	Computer upgrades	\$25,000.00
215	Polish American Assn	Building purchase	\$40,000.00
216	Positive Anti Crime Thrust, Inc	Operating expenses	\$50,000.00
217	Progressive Life Giving Word Cath.	Property improvements	\$50,000.00
218	Project Butterfly	Building renovations	\$25,000.00
219	Public Image Partnership, Inc	Trailer purchase	\$25,000.00
220	Puerto Rican Cultural Center	Program costs	\$50,000.00
221	Puerto Rican HS, Inc	Tuition and registration	\$30,000.00
222	Quinn Community Service Alliance	After school program	\$25,000.00
223	Redeem the Dream Foundation	Internet costs	\$20,000.00
224	Renaissance Adult Day Services, Inc	Capital improvements	\$25,000.00
225	Rhema Community Development Corp	Facility renovations	\$50,000.00
226	Ridgewood High School	Equipment purchase	\$50,000.00
227	Rock Island County ROE	Equipment purchase	\$11,188.00

Appendix C			
GOVERNOR'S MISCELLANEOUS GRANTS FROM THE FUND FOR ILLINOIS' FUTURE			
FY07			
	Grantee	Description	FY07 Amount
228	Rock Island Girls Softball League	Softball field construction	\$10,000.00
229	Rock Island Girls Softball League	Softball field lights	\$10,000.00
230	Rock Island School District #41	Blacktop expansion/resurfacing	\$10,000.00
231	Rockford College	Operational expenses	\$500,000.00
232	Rush Copley Foundation	Defibrillator purchase	\$8,500.00
233	Saline County Industrial Development	Debt reduction	\$100,000.00
234	San Miguel Febres Cordero School, Inc	Building renovation	\$100,000.00
235	Save Another Life	Unknown	\$50,000.00
236	School District #135	Century Jr High-running track	\$30,000.00
237	SE Alcohol & Drug Abuse Center	Sewer system costs	\$50,000.00
238	SE Calumet Heights Homeowners Assn	Neighborhood beautification	\$24,500.00
239	SE Calumet Heights Homeowners Assn	After school program	\$25,000.00
240	Serbian Orthodox Metropolitanate	Roof replacement	\$265,000.00
241	Sertoma Centre, Inc	Building purchase/renovation	\$40,000.00
242	Sertoma Centre, Inc	Building purchase/renovation	\$10,000.00
243	Sesser Jr. Baseball, Inc	Ball field lighting	\$50,000.00
244	Social Service/Community Develop	Building improvements/security	\$20,000.00
245	South Berwyn School District #100	Komensky School-laptops	\$5,000.00
246	South Berwyn School District #100	Hiawatha School-equipment	\$5,000.00
247	South Central Community Services, Inc	Building renovation	\$50,000.00
248	South Shore Little League	Equipment purchase	\$25,000.00
249	South Suburban Council on ASA	Prescription medication costs	\$10,000.00
250	St. Agnes of Bohemia	Playground equipment/computers	\$10,000.00
251	St. Agnes School	Remodeling and construction	\$125,000.00
252	St. Bruno's School	Defibrillator purchase	\$5,000.00
253	St. Francis of Assisi Church	Gym tuck pointing	\$25,000.00
254	St. Hyacinth Basilica	Shelter renovations	\$100,000.00
255	St. Juliana Parish	Building renovations/repairs	\$50,000.00
256	St. Mark United Methodist Church	Air conditioning units	\$23,000.00
257	St. Monica Parish	Science lab construction	\$50,000.00
258	St. Nicholas of Tolentine School	Equipment purchase	\$10,000.00
259	St. Nicholas of Tolentine School	Defibrillator purchase	\$2,500.00
260	St. Odilo Church	Catholic school building repairs	\$10,000.00
261	St. Patrick High School	Swimming pool renovation	\$37,500.00
262	St. Viator Parish	St. Viator Elem.-playground	\$25,000.00
263	Steckman Studio of Music	After school program	\$23,895.32
264	Sullivan House	Costs of extracurricular activities	\$15,000.00
265	Summit Hill School District #161	Running track construction	\$20,000.00

Appendix C			
GOVERNOR'S MISCELLANEOUS GRANTS FROM THE FUND FOR ILLINOIS' FUTURE			
FY07			
	Grantee	Description	FY07 Amount
266	SW Special Recreation Assn	Vehicle purchase	\$20,000.00
267	SW Women Working Together	Capital improvements	\$2,695.95
268	Swedish Covenant Hospital	Program costs	\$73,000.00
269	Teachers Emeritus Corps	Educational supplies	\$10,000.00
270	The Beloved Community, Inc	Program costs	\$274,307.00
271	The Love Foundation	Operating expenses	\$24,000.00
272	The Night's SHIELD	Sprinkler system costs	\$25,000.00
273	The Support Group	After school program	\$30,000.00
274	The West Humbolt Park Center	Operational expenses	\$50,000.00
275	Together We Cope	Parking lot resurfacing	\$50,000.00
276	Total Resource Community Orgn.	Program costs	\$100,000.00
277	Town of Cicero	Gang prevention program	\$200,000.00
278	Town of Cicero	Literacy program	\$150,000.00
279	Town of Cicero	Senior citizen transport	\$100,000.00
280	Town of Cicero	Youth related program	\$150,000.00
281	Trinity Services, Inc	Building rehabilitation	\$50,000.00
282	Trinity Services, Inc	Building rehabilitation	\$50,000.00
283	UCP of Will County	Roof replacement	\$20,000.00
284	Union County	Purchase of hand held radios	\$25,000.00
285	United Negro College Fund	Program costs	\$1,000,000.00
286	United Way of Elgin	New telephone system	\$50,000.00
287	University of Chicago Hospitals	New construction costs	\$100,000.00
288	Uptown United	Building improvements	\$360,000.00
289	Victor C Neumann Assn	Bathroom renovations	\$50,000.00
290	Village of Justice	New construction costs	\$250,000.00
291	Village of Olympia Fields	Wireless video cameras	\$50,000.00
292	Village of Olympia Fields	Vehicle purchase/tree chipper	\$55,000.00
293	Village of Orland Park	Paratransit bus purchase	\$68,000.00
294	Village of Richton Park	Construction of fishing piers	\$15,000.00
295	Village of Robbins	Economic development study	\$100,000.00
296	Village of Stonefort	Firefighting equipment	\$15,407.00
297	Waukegan FD	Vehicle accessories	\$68,060.00
298	Westside Baseball of Oak Lawn	Lighting purchase	\$15,000.00
299	Westside Holistic Family Services	Elevator upgrade/Facility renovation	\$1,000,000.00
300	Will-Grundy Center for Ind. Living	Building renovations	\$20,000.00
301	Will-Grundy Center for Ind. Living	Building renovations	\$50,000.00
302	William E Dever Elementary School	Remodeling classroom	\$10,000.00
303	Wings Program, Inc	Debt reduction	\$575,000.00

Appendix C			
GOVERNOR'S MISCELLANEOUS GRANTS FROM THE FUND FOR ILLINOIS' FUTURE			
FY07			
	Grantee	Description	FY07 Amount
304	Woodlawn Preservation Corp	Building improvements	\$1,500,000.00
305	WWII Black Navy Veterans	Park renovations	\$30,000.00
306	Wyatt Community/Family Life Center	Center renovations	\$75,000.00
307	Youth Service Project	Youth leadership development	\$50,000.00
308	Youth Services - Glenview/Northbrook	New kitchen construction	\$50,000.00
309	Department of Natural Resources	Grants to State agencies	\$1,147,799.34
310	Department of Transportation	Grants to State agencies	\$113,551.81
FY07 Total			\$26,285,952.94
Source: DCEO information.			

APPENDIX D
PROJECTS PAID FROM THE
BUILD ILLINOIS BOND FUND
FY08 – FY09
(as of March 30, 2009)

**Appendix D
PROJECTS PAID FROM THE BUILD ILLINOIS BOND FUND
FY08**

Project #	Agency Name	Location	Description	Amount
076	School Construction Program	Cook Co.	Ford Heights School District 169	\$17,000.00
005	IL Community College Board	Truman City College-Chicago	Student Services Building	\$438,065.18
050	Chicago State University	Chicago State University-Cook Co.	Construction of Convocation Center	\$681,645.20
051	Chicago State University	Chicago State University-Cook Co.	Construct Library	\$20,140.05
004	Western Illinois University	Rock Island Educational Center	Renovate Riverfront Campus	\$169,662.80
143	Southern Illinois University	Southern Illinois University-Carbondale	Construct Transportation Education Center	\$653,811.28
067	Southern Illinois University	Southern Illinois University-Edwardsville	New Science Building/Renovation	\$1,155,644.61
327	University of Illinois	University of Illinois Urbana-Champaign	Lincoln Hall Remodeling	\$2,020,282.74
332	University of Illinois	University of Illinois Urbana-Champaign	Post Harvest Processing Center	\$387,737.55
277	Local Governments	Statewide Program for Local Governments	Grant to Loyola University	\$3,600,000.00
278	Local Governments	Statewide Program for Local Governments	Grant to Northwestern University	\$3,600,000.00
279	Local Governments	Statewide Program for Local Governments	Grant to DePaul University	\$900,000.00
287	Local Governments	Statewide Program for Local Governments	Grant to Alexian Brothers Hospital	\$450,000.00
288	Local Governments	Statewide Program for Local Governments	Grant to Lewis & Clark College	\$3,060,000.00
297	Local Governments	Statewide Program for Local Governments	Grant to Jacksonville HS District 117	\$202,500.00
298	Local Governments	Statewide Program for Local Governments	Grant to Franklin Co. Animal Shelter	\$25,000.00
301	Local Governments	Statewide Program for Local Governments	Grant to the Lincoln Challenge Academy	\$250,000.00
			Total FY08	\$17,631,489.41

Source: OAG summary of Capital Development Board information.

**Appendix D
PROJECTS PAID FROM THE BUILD ILLINOIS BOND FUND
FY09 (as of March 30, 2009)**

Project #	Agency Name	Location	Description	Amount
716	Department of Veterans' Affairs	Quincy Veterans' Home-Adams Co.	Asbestos Abatement	\$8,135.00
058	Department of Veterans' Affairs	Manteno Veterans' Home-Kankakee Co.	Install Nurse Call Stations	\$17,232.42
012	Department of Veterans' Affairs	LaSalle Veterans' Home-LaSalle Co.	80 Bed Addition and Replace Roof	\$93,746.39
088	Department of Human Services	Choate MHDC Anna	Emergency Roof Repairs Dogwood	\$17,728.92
085	Department of Human Services	Jacksonville DC Morgan Co.	Upgrade Coal Bunker/Conveyor	\$287,215.42
048	Department of Human Services	Singer MHC Rockford	Replace Breaker Panels/Generator	\$669,683.52
015	Illinois Board of Higher Education	Illinois Math & Science Academy-Aurora	Replace Fire Alarm System	\$521,938.12
005	Illinois Community College Board	Truman City College Chicago	Student Services Center	\$472,534.09
050	Chicago State University	Chicago State University-Cook Co.	Construction of Convocation Center	\$295,332.75
004	Western Illinois University	Rock Island Educational Center	Renovate Riverfront Campus	\$221,401.90
143	Southern Illinois University	Southern Illinois University-Carbondale	Construct Transportation Education Center	\$727,400.87
067	Southern Illinois University	Southern Illinois University-Edwardsville	New Science Building/Renovation	\$322,462.21
709	Southern Illinois University	Southern Illinois University-Edwardsville	Abate Asbestos	\$3,410.00
001	Southern Illinois University	Consolidated Lab Springfield	Plan Addition to Consolidated Lab	\$106,786.31
327	University of Illinois	University of Illinois Urbana-Champaign	Lincoln Hall Remodeling	\$255,764.73
332	University of Illinois	University of Illinois Urbana-Champaign	Post Harvest Processing Center	\$368,851.45
001	Local Governments	CDB Grants to Other State Agencies	CDB Grants to Other State Agencies	\$1,000,000.00
277	Local Governments	Statewide Program for Local Governments	Grant to Loyola University	\$800,000.00
290	Local Governments	Statewide Program for Local Governments	Grant to Chicago State University	\$2,250,000.00
297	Local Governments	Statewide Program for Local Governments	Grant to Jacksonville HS District 117	\$247,500.00
299	Local Governments	Statewide Program for Local Governments	Grant to City of West Frankfort	\$360,000.00
			Total FY09	\$9,047,124.10

Source: OAG summary of Capital Development Board information.

APPENDIX E
GRANT SURVEY
LOOP LAB SCHOOL
\$1 MILLION GRANT

RECEIVED
JUL 26 2006

DCEO Grant Unit



DCEO Grant Survey

1) GRANTEE/PROJECT INFORMATION

Project No.: 3-0039
(Provided on survey cover memo.)

Legal Name of Grantee: Loop Lab Schools, Inc.

Address: 318 W. ADAMS

City: Chicago State: IL ZIP + 4: 60606-5111

County: Cook Business Phone: (312) [REDACTED] ext. [REDACTED]
(Mandatory)

Fax: () - - E-mail address: _____

Web site Address: _____

Name and Title of Person Authorized to Sign Legal Documents for Grantee (see Appendix 2):
ELMIRA MAYES

Name of Project Contact/Administrator of Grant (if other than listed above):
DR. CHANDRA GILL

Title: Volunteer Contact's Phone: (312) [REDACTED] ext. [REDACTED]
cell

Address: 318 W. ADAMS

City: Chicago State: IL ZIP + 4: 60606-5111

Fax: (217) [REDACTED] E-mail address: [REDACTED]

FEIN: [REDACTED] (9 digit federal taxpayer identification number)

Legal Name of Owner of FEIN Elmira Mayes
(NOTE: You must provide the FEIN number of the entity that will directly receive the grant funds from DCEO. Do not use the FEIN number of any Subgrantee or affiliate of the Grantee. Providing an incorrect FEIN will cause a delay in grant processing.)

GRANTEE'S FISCAL YEAR: Beginning Date: Month Aug. Day 1, 2006
Ending Date: Month June Day 1, 2007

CERTIFICATION: As of this submittal date, the information provided herein is accurate, and the individual signing below is authorized to submit this document.

Elmira Mayes Director 07/25/06
Authorized Official (signature) Title Date

Elmira Mayes
Typed Name



DCEO Grant Survey

TYPE OF ORGANIZATION (Check only one):

- Individual
 - Sole Proprietor
 - Partnership/Legal Corporation
 - Tax-exempt
 - Corporation providing or billing medical and/or health care services
 - Corporation NOT providing or billing medical and/or health care services
 - Governmental
 - Nonresident alien
 - Estate or legal trust
 - Pharmacy (Non-Corp.)
 - Pharmacy/Funeral Home/Cemetery (Corp.)
- Other :
 - Not-for-profit Corporation
 - Charitable/Not-for-profit entity
 - Tax exempt entity
 - If your organization or entity is not named above, please identify or describe the type of organization/entity that will be receiving grant funds:

Entities that are not governmental entities MUST provide the following information:

Indicate the year that the organization was legally established: 1983

Attach documentation of Good Standing Status:

- Entities that are incorporated as a not-for-profit corporation under the General Not For Profit Corporation Act of 1986 (805 ILCS 105/1.01.01 et seq.) are required to submit a certificate of good standing from the Illinois Secretary of State's Office, Department of Business Services, 217/782-7880 or 217/782-6961 (TDD: 800/252-2904).
- Entities that are organized as a Charitable/Not-For-Profit entity, which includes any person, individual, group of individuals, association, not-for-profit corporation, or other legal entity under the Charitable Trust Act (760 ILCS 55/1 et seq.) are required to submit a letter of good standing from the Charitable Trust Bureau, Office of the Illinois Attorney General, 100 W. Randolph Street, 3-400, Chicago, Illinois 60601, 312/814-2595 (TTY: 312/814-3374).
- Entities that are neither of the above, but are exempt from paying sales/use tax under Use Tax Act (35 ILCS 105/1 et seq.) are required to submit a copy of the tax exemption certificate issued by the Illinois Department of Revenue, Central Registration, P.O. Box 19030, Springfield, Illinois 62794-9030, 217/785-3707 (TDD: 800/544-5304).



DCEO Grant Survey

- 2) **SCOPE OF WORK:** Please use the space below to describe what you intend to do with the funding. This must include a *detailed narrative* description of the activities *which will be funded by the grant* (e.g. land, property, easement, right-of-way acquisition; construction/renovation activities; equipment; development/delivery of programs and services (including administrative activities); or other activities). This information will be included in the Grant Agreement as the Scope of Work.

SEE ATTACHED (SA)

- a) Provide details to identify the items that will be included in each line of the budget (*attach information as needed*).

(SA)

- b) If the grant activities involve purchase of land/structure and/or construction activities, provide the address of the location(s) being purchased or improved.

(SA)

- c) If the location of the project activity is different from the address given under Grantee/Project Information on page 2, please provide information regarding the project location.

(SA)

- d) If the grant-funded activities are a component of a larger project (*that is being funded through other sources*), please provide a general description of the *overall* project.

(SA)

- e) If the grant will be used to reimburse a prior-incurred debt (loan, mortgage, bond issuance, etc.), please state whether the financing instrument was taxable or tax-exempt.

(SA)



DCEO Grant Survey

If your organization is a non-governmental entity, please provide the answers to questions 3 through 5 as an attachment to this survey. * If not, please skip to question 6.

SEE ATTACHED

- 3) YOUR ORGANIZATION: a) What is your organization's mission statement? b) What are the primary goals of your organization? (Attach pamphlets or flyers explaining your organization and its programs/services, if necessary.)
- 4) YOUR PROGRAMS/SERVICES: a) Provide a detailed description of the goals of your programs (if additional information can be provided beyond the response to 3b, above), and state how long each program has been in existence. b) Describe the services provided to eligible participants. c) If there are different levels of eligibility (such as ranges of income, or membership or other affiliation), please describe the services provided to each level if they are not identical. d) State the cost to participants for these programs and services, and specify whether a sliding scale (i.e., cost for services is reduced or waived, based on income or ability to pay) is enacted. e) Describe the manner in which services are advertised or made available to the public. f) If the services are available at reduced cost and/or are free to those who are unable to pay, describe the manner in which the public is notified. If services are not available in such a manner, explain why not. g) Detail any assistance your organization receives from other state agencies to support these programs/services.
- 5) YOUR PARTICIPANTS: a) Describe any eligibility criteria for participation in your program(s) (i.e., income level, age, employment status, etc.). b) Describe how participants are identified or recruited, or describe who refers participants to your organization for services. c) If services cannot be provided to all that apply, describe the manner in which participants are selected (i.e., standardized testing; first-come, first served).
- 6) PUBLIC PURPOSE: What is the public purpose? Why is this project necessary? What is the expected benefit of this project (i.e., city will no longer be on IEPA restricted status list; unemployed persons will receive job training, etc.)
- 7) PUBLIC BENEFIT: Estimate the number of persons to benefit or be served by the proposed project: 150. State the percentage of current or projected participants who are disadvantaged or low-income: 75%. State the percentage of participants who receive (or will receive) services at no cost or a reduced fee: 50%. State the number of permanent jobs (i.e., not construction jobs) that will be created as a result of this project: 25.

* Note: If your program is viewed to be consistent with the goals of the Federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), further information may be requested.



DCEO Grant Survey

8) LOCAL SUPPORT: Attach copies of any public hearings, newspaper articles, or other documents that would evidence local support for this project (if available).

9) LOCAL OPPOSITION: Do you anticipate any opposition to this project? Yes No If yes, please describe:

10) ESTIMATED TIMETABLE FOR COMPLETION: Start Date: 8, 1, 06 Completion Date: 9, 1, 06

If you are providing a program or service, please be specific about the length of the program or service delivery, whether it is a one-time offering or an ongoing program/service, how many times it will be provided, etc.

(NOTE: Grant-funded activities must be completed within a two-year time frame. The start date should reflect the date the Grantee anticipates incurring costs against this grant award, or, if costs have already been incurred, the date that the Grantee actually started to incur costs. The grant manager will work with the Grantee to establish the appropriate grant term).

ONLY for capital projects (i.e., real property purchase/acquisition, construction or renovation), please complete questions 10a through 10g.

a) Provide an estimated monthly expenditure of grant funds once the project starts (NOTE: BOND-FUNDED PROJECTS ONLY):

Month 1: \$ 1,000,000.00	Month 13: \$ _____
Month 2: _____	Month 14: _____
Month 3: _____	Month 15: _____
Month 4: _____	Month 16: _____
Month 5: _____	Month 17: _____
Month 6: _____	Month 18: _____
Month 7: _____	Month 19: _____
Month 8: _____	Month 20: _____
Month 9: _____	Month 21: _____
Month 10: _____	Month 22: _____
Month 11: _____	Month 23: _____
Month 12: _____	Month 24: _____

(NOTE: Include only grant funds in this estimated monthly cash flow. Do not include funds from other sources.)



DCEO Grant Survey

b) If applicable, describe any actions/approvals that must be completed prior to the start of this project, with corresponding time frames for completion. Examples of such actions/approvals may include: hiring staff to implement the project, securing a location from which to operate the program, approval by your organization's board of directors, etc.

None

c) Has your organization secured all necessary federal, state and local permits and approvals to proceed with this project? YES If not, please identify permits/approvals to be obtained and provide a reasonable, estimated timetable to secure such permits/approvals.

d) If grant funds are to be utilized to make capital improvements to real property (structures/land) that your organization does not own, please provide a copy of the lease or other agreement (i.e., easements, rights-of-way, etc.) between your organization and the property owner that will allow your organization to continue to use the improved premises, for an appropriate length of time, consistent with applicable state law and rules. N/A

If the project involves the purchase of land or building(s), you must answer questions 10e-10g and attach supplementary explanatory materials as needed.

e) Does your organization have an executed contract for the purchase/acquisition of the land/building in question? YES If not, when do you expect to have an executed contract? _____

f) If your organization is a governmental entity, is it acquiring the land/building through an outright purchase, or through eminent domain/condemnation proceedings? N/A If acquiring through eminent domain/condemnation, when do you realistically expect to finalize the acquisition? _____

g) Is your organization aware of any existing (or reasonably anticipated) legal proceedings such as zoning issues, objections of nearby property owners, etc., relating to the proposed use of the land/building being purchased with grant funds? NO If yes, please attach a detailed explanation.

h) Provide the name, address, phone number and email address (if applicable) of the entity from which the land/building(s) is/are being purchased. If multiple owners, please provide this information for each.

John Thomas CEO
318 W. Adams, Flr. 18
Chicago, IL 60606-5111 312-627-1125

page 7



DCEO Grant Survey

11a) BUDGET FOR NON-CONSTRUCTION PROJECTS

ACTIVITY LINE ITEM	GRANT AMOUNT *
1. Personnel **	\$
2. Fringe Benefits	
3. Travel	
4. Equipment (must itemize in #2, Scope of Work)	
5. Commodities/Printing/Postage	
6. Rent/Utilities (list address in #2, Scope of Work)	
7. Contractual/Consultant (including service contracts)†	
8. Audit/Accounting/Legal	
9. Training/Conferences††	
10. Marketing/Advertising/Web Site	
11. Other (please specify)	
TOTAL	\$

* Grant amount column must total the grant amount to be received from DCEO. Please be as accurate as possible when specifying line item amounts. If actual spending varies by more than 10 percent, a grant modification will be required.

** For all personnel being paid in-full or in-part with Grant Funds, a complete job description must be included. Please also include details on the number of persons to be hired in each job title, and specify the number of months each person is expected to be paid with grant funds.

† Provide details in #2, Scope of Work, regarding the type of contractor/consultant and the services to be provided by each.

†† Provide details in #2, Scope of Work, regarding how many events are planned, how many people will participate in each, location(s), etc.



DCEO Grant Survey

11b) BUDGET FOR CONSTRUCTION PROJECTS

(NOTE: BOND FUNDED PROJECTS MUST COMPLY WITH APPENDIX I: BONDABILITY GUIDELINES.)

ACTIVITY LINE ITEM	GRANT AMOUNT *
1. Plans & Specs _____	\$ _____
2. Architectural/Engineering Fees _____	_____
3. Printing (Construction Documents) _____	_____
4. Equipment (must itemize in #2, Scope of Work) _____	_____
5. Land Purchase _____	_____
6. Labor _____	_____
7. Excavation _____	_____
8. Wiring/Electrical _____	_____
9. Construction/Renovation Materials _____	_____
10. Paving/Concrete/Masonry _____	_____
11. Construction Management and Oversight _____	_____
12. Mechanical Systems _____	_____
13. Site Preparation/Demolition _____	_____
14. Building/Structure Purchase _____	\$ 1,000,000 ⁰⁰
15. Plumbing _____	_____
16. New Construction "Bid as a Whole"*** _____	_____
17. Other Construction Expenses _____	_____
18. Contingency _____	_____
TOTAL	\$ 1,000,000 ⁰⁰

* Grant amount column must total the grant amount to be received from DCEO. Please be as accurate as possible when specifying line item amounts. If actual spending varies by more than 10 percent, a grant modification will be required.

** No line item detail must be provided if 1) the project is bid as a whole, and 2) the grant is for construction of a new structure (i.e., this line item cannot be used for renovation). Use of this line item will be subject to Department Legal approval.



DCEO Grant Survey

12) OTHER FUNDING:

- a) Are other funds necessary to complete the *grant scope of work* (i.e., the activities for which this grant is being used)?
 Yes No
- b) Are other funds necessary to complete the *overall project* (of which this grant is just one component)?
 Yes No

If "yes" to either question above, please indicate the source, status and amount of those funds below. This information MUST correlate with your answers to 2a) through 2c) on page 4.

SOURCES OF FUNDING	Approved	Pending	Not Yet Applied For	Activities in Grant Scope of Work — see page 4 of survey, questions 2a) and 2b)	Overall Project — see page 4 of survey, question 2c)
Federal Funds (list:)					
				\$	\$
				\$	\$
				\$	\$
Other State Funds (list funds from any state source/program:)					
				\$	\$
				\$	\$
				\$	\$
Other Funds (list your organization's funds, bank and other loans, fundraising, donations, etc.):					
LOANS			✓	\$	\$ ~500,000 ⁰⁰
				\$	\$
				\$	\$
TOTALS				\$	\$

- 13) PREVIOUS GRANTS: In order to be eligible to receive the anticipated grant(s), Grantee must be in compliance with requirements of all grants previously received from DCEO. List any other grants this Grantee received from DCEO within the last three years (i.e., CDAR, Tourism Attraction Program, etc.). Provide DCEO Grant Number:

N/A

Loop Lab School
318 W. Adams, Floor 2
Chicago, IL 60606
Project #3-0039

DCEO Grant Survey (Responses)

2.)

The monies appropriated for this project #3-0039 will in its totality go towards the acquisition of land. The grant will aid in offsetting the cost for the re-building of Loop Lab School. The property at 318 W. Adams will house the school, ultimately providing this our educational institution with its own ownership.

- a. Land acquisition
- b. 318 W. Adams Suite 200; Chicago, IL 60606
- c. n/a
- d. The costs associated with the overall project include supplies and varying other materials needed for the re-building of Loop Lab School. These materials include, but are not limited to, computers, books, desks, (and other furniture), student materials, etc. Additionally, the project to re-build the Loop Lab School includes too an operating budget for salaries and other administrative cost. Lastly, the total cost to acquire the property, exceeds the total amount appropriated with this grant by an excess of \$300,000.00.
- e. n/a

3.)

Mission: Loop Lab School endeavors to enlighten, educate, and enhance the minds of children, better preparing them for a world that is evolving.

The primary goals of this organization are couched in providing an educational opportunity for parents that work in the downtown area of Chicago. With this in mind, the Loop Lab School desires to build on this concept of convenience. Considering the educational and societal woes of our nation and specific to this state, the Loop Lab School endeavors to continually educate children of varying backgrounds with the intent of enhancing the educational value offered to all children. Additionally, new emerging pedagogical concepts alongside state of the art materials are being sought to further advance the mission of Loop Lab School as a potential state of the art institute. Lastly, a greater goal is to target well-equipped (educationally) and best-informed entities as administrators (i.e. a principal) and teachers.

4.)

- a. In step with its goals since its inception in 1983, the Loop Lab School seeks to better prepare children as forward and critical thinkers.
- b. Services include foreign languages such as French and Spanish, an excellent choir within the curriculum of music that has successfully captured the Chicago Music Award 1st place distinction (twice), and a sound and viable curriculum centered

- on caring for each child individually and collectively.
 - c. All services offered are available to each child registered in the school regardless of income.
 - d. The associated cost for the educational 'service' is a flat rate of \$100.00 per week for all enrolled students, regardless of income. The Child Care Initiative, via the State of Illinois, is intact however for students unable to afford the cost independently.
 - e. Through brochures, 'free day' visits, etc., the school has successfully advertised its very existence and viable service.
 - f. Traditionally, reduced rates through the Child Care Initiative, via the State of Illinois, have provided reduced rates for eligible students. The public is made aware through its advertising component of walk-ins, consultations, etc...
 - g. n/a
- 5.)
- a. We happily cater to children of all backgrounds with no selection process nor any limitations on services offered. The school is established for children in grades pre-K through 8th grade.
 - b. As stated in the abovementioned, our success has depended largely on a highly successful model of convenience and an educational institution couched in caring for all of its population as a school in the downtown area. Due to our various successes, many hear of us and through word-of-mouth we obtain students. Historically, we have had referrals from past parents, teachers, staff, neighboring businesses, and other entities.
 - c. We welcome all parents seeking a private education for their children. We have accepted children on a first-come, first-served basis.
- 6.)
- The educational crisis facing children in the State of Illinois is severe. The educational crisis facing children in marginalized and under-represented communities are horrific. The State of Illinois currently ranks at the bottom when the discussion on educational disparities emerges. Whereas the Loop Lab School has not traditionally, specifically solicited the aforementioned category of children, it has often bolstered on average a 90-95% African-American student population. Its twenty-year history has led to the success of many graduating students often testing 2-3 years above grade level. These important and pertinent realities are crucial to the public, city and statewide. The pandemic of educational and societal woes within school sectors are resolved, at the fore as emerging literature has suggested, through a model of caring for each and every child regardless of their race, ethnicity, background, social status, class, differing abilities, etc... Overall, the public purpose is to now in contemporary terms create a society of critical thinkers with a belief in themselves as individuals and a desire and hope for a better world as American citizens.

In the spirit of Hurricane Katrina, the end results can be fatalistic. In that same spirit, one comes to realize the hard reality of losing all that is worked for and obtained over a long period of time in just one relatively short moment. This project is beyond necessary because of its value to the city and state. The Loop Lab School had existed for more than two decades, and in just one relatively short moment, all was 'lost'. All tools needed to educate a child, teach a child, mold a child, etc. caught fire on that cold day in January, 2006. Despite this reality, of losing those tools to the fire, the entities capable of operating those tools survived, alongside the students in need, educationally. With this in mind, the necessity of continuing on is obvious in that the school itself can continue on with its mission of educating children while simultaneously serving as a model of success on the backs of tribulations and in the midst of adversity. We can avoid the 'fatality' component as an end result to this story. The dismal statistics associated with educating children unsuccessfully will cease with continued models such as the abovementioned.

List of Principal Individuals and Board Members:

- 1.) Ms. Elmira Mayes
[REDACTED] Chicago, IL 60615
[REDACTED]
- 2.) Dr. Chandra Gill
[REDACTED] Champaign, IL 61822
[REDACTED]
- 3.) Ms. Cheryl Gill
[REDACTED] Chicago, IL 60636
[REDACTED]

**APPENDIX F
GRANT SURVEY
PILGRIM BAPTIST CHURCH
\$1 MILLION GRANT**

RECEIVED

MAR 05 2008



DCEO Grant Survey

DCEO Grant Unit

1) GRANTEE/PROJECT INFORMATION

Project No: GOV80001
(Provided on survey cover sheet)

Legal Name of Grantee: PILGRIM BAPTIST CHURCH
Address: 3300 S. INDIANA
City: CHICAGO State: IL ZIP + 4: 60616-3839
County: COOK Business Phone: (312) 842-4417 ext. _____
Fax: 312 842-7838 E-mail address: _____
Web site Address: _____

Name and Title of Person Authorized to Sign Legal Documents for Grantee (see Appendix 2 on page 15):
ROBERT H. VAUGHN, CHAIRMAN BOARD OF TRUSTEES

Name of Project Contact/Administrator of Grant (if other than listed above):
CYNTHIA M. JONES
Title: VICE CHM BOARD OF TRUSTEES Contact's Phone: 312 _____ ext. _____
Address: 3300 S. INDIANA
City: CHICAGO State: IL ZIP + 4: 60616-3839
Fax: 773 _____ E-mail address: _____

FEIN: _____ (9 digit federal taxpayer identification number)
Legal Name of Owner of FEIN: PILGRIM BAPTIST CHURCH
(NOTE: You must provide the FEIN number of the entity that will directly receive the grant funds from DCEO. Do not use the FEIN number of any Subgrantee or affiliate of the Grantee. Providing an incorrect FEIN will cause a delay in grant processing.)

GRANTEE'S FISCAL YEAR: Beginning Date: Month MAR Day 1 Year 2008
Ending Date: Month FEB Day 28 Year 2010

CERTIFICATION: As of this submittal date, the information provided herein is accurate, and the individual signing below is authorized to submit this document. (Please refer to page 15 for listing of Authorized Signatories)

Robert H. Vaughn Chairman, Board of Trustees 03/04/08
Authorized Official (signature) Title Date
Robert H. Vaughn
Typed Name

DCEO0041



DCEO Grant Survey

TYPE OF ORGANIZATION (Check only one):

- | | |
|---|---|
| <input type="checkbox"/> Individual | <input type="checkbox"/> Other: |
| <input type="checkbox"/> Sole Proprietor | <input type="checkbox"/> Not-for-profit Corporation |
| <input type="checkbox"/> Partnership/Legal Corporation | <input type="checkbox"/> Charitable/Not-for-profit entity |
| <input type="checkbox"/> Tax-exempt | <input checked="" type="checkbox"/> Tax exempt entity |
| <input type="checkbox"/> Corporation providing or billing medical and/or health care services | <input type="checkbox"/> If your organization or entity is not named above, please identify or describe the type of organization/entity that will be receiving grant funds: |
| <input type="checkbox"/> Corporation NOT providing or billing medical and/or health care services | _____ |
| <input type="checkbox"/> Governmental | _____ |
| <input type="checkbox"/> Nonresident alien | _____ |
| <input type="checkbox"/> Estate or legal trust | _____ |
| <input type="checkbox"/> Pharmacy (Non-Corp.) | _____ |
| <input type="checkbox"/> Pharmacy/Funeral Home/Cemetery (Corp.) | _____ |

All non-governmental entities **MUST** provide all of the following information:

Indicate the year that the organization was legally established: 1921

Attach documentation of Good Standing Status:

Entities that are incorporated as a not-for-profit corporation under the General Not For Profit Corporation Act of 1986 (805 ILCS 105/101.01 et seq.) are required to submit a certificate of good standing from the Illinois Secretary of State's Office, Department of Business Services, 217/782-7880 or 217/782-6961 (TDD: 800/252-2904).

Entities that are organized as a Charitable/Not-For-Profit entity, which includes any person, individual, group of individuals, association, not-for-profit corporation, or other legal entity under the Charitable Trust Act (760 ILCS 55/1 et seq.) are required to submit a letter of good standing from the Charitable Trust Bureau, Office of the Illinois Attorney General, 100 W. Randolph Street, 3-400, Chicago, Illinois 60601, 312/814-2595 (TTY: 312/814-3374).

Entities that are considered "tax exempt" by the Internal Revenue Service are required to submit a letter verifying such tax exempt status from the Internal Revenue Service, Exempt Organizations and Agreements, P.O. Box 2508, Cincinnati, Ohio 45201, 877/829-5900. See the "Notice to Grantees" on page 16.

Entities that are none of the above, but are exempt from paying sales/use tax under Use Tax Act (35 ILCS 105/1 et seq.) are required to submit a copy of the tax exemption certificate issued by the Illinois Department of Revenue, Central Registration, P.O. Box 19030, Springfield, Illinois 62794-9030, 217/785-3707 (TDD: 800/544-5304).

NOTE: All Good Standing letters (Secretary of State, Attorney General, and Internal Revenue Service) must list the exact same entity name (i.e. the ABC Services, Inc). No exceptions, and all such letters must be dated within the past three months.

*If either the Secretary of State, or the Attorney General's office indicate grantees does not have to file, a letter is required from the agency indicating that fact and dated within the past three months.

Handwritten notes:
Mailed 3/15/08
P. 3/15/08



DCEO Grant Survey

2) SCOPE OF WORK: Please use the space below to describe what you intend to do with the funding. This must include a detailed narrative description of the activities which will be funded by the grant (e.g., land, property, easement, right-of-way acquisition; construction/renovation activities (including all ADA compliance covered by the project); equipment; development/delivery of programs and services (including administrative activities); or other activities). This information will be included in the Grant Agreement as the Scope of Work.

GRANT FUNDS WILL BE USED TO PAY FOR PORTION OF THE COSTS FOR CAPITAL CONSTRUCTION EXPENSES OF LABOR + MATERIALS TOWARD REBUILDING FACILITY SPECIFICALLY TO BENEFIT THE SECULAR / NON RELIGIOUS PROGRAMS RUN BY CHURCH SUCH AS BUT NOT LIMITED TO EDUCATIONAL, HUMAN SERVICE AND RELATED PROGRAMS.

a) Provide details to identify the items that will be included in each line of the budget (attach information as needed).

CONSTRUCTION EXPENSES
MATERIAL AND LABOR COST

b) If the grant activities involve purchase of land/structure and/or construction activities, provide the address of the location(s) being purchased or improved.

3313 So. INDIANA
CHICAGO, IL 60616

c) If the location of the project activity is different from the address given under Grantee/Project Information on page 2, please provide information regarding the project location.

ADMINISTRATION / DAY CARE FACILITY

d) If the grant-funded activities are a component of a larger project (that is being funded through other sources), please provide a general description of the overall project.

REBUILDING ADMINISTRATION / DAY CARE FACILITY

e) If the grant will be used to reimburse a prior-incurred debt (loan, mortgage, bond issuance, etc.), please state whether the financing instrument was taxable or tax-exempt.

f) If the property is being improved, is the property owned by the grantee? Yes No, or leased by the grantee? Yes No

RECONSTRUCTION @ FIRE



DCEO Grant Survey

If your organization is a non-governmental entity, please provide the answers to questions 3 through 5 (which are required of all non-governmental entities) as an attachment to this survey. * If not, please skip to question 6.

3) YOUR ORGANIZATION: a) What is your organization's mission statement? b) What are the primary goals of your organization? (Attach pamphlets or flyers explaining your organization and its programs/services, if necessary.)

Pilgrim Baptist Church is a place of worship that serves as a beacon of light to its surrounding community. The primary goal is to provide community services to the immediate & surrounding communities that have impoverished & needy singles children, families & seniors thru secular/non-religious programs such as educational & human services.

4) YOUR PROGRAMS/SERVICES: a) Provide a detailed description of the goals of your programs (if additional information can be provided beyond the response to 3a, above), and state how long each program has been in existence. b) Describe the services provided to eligible participants. c) If there are different levels of eligibility (such as ranges of income, or membership or other affiliation), please describe the services provided to each level if they are not identical. d) State the cost to participants for these programs and services, and specify whether a sliding scale (i.e., cost for services is reduced or waived, based on income or ability to pay) is enacted. e) Describe the manner in which services are advertised or made available to the public. f) If the services are available at reduced cost and/or are free to those who are unable to pay, describe the manner in which the public is notified. If services are not available in such a manner, explain why not. g) Detail any assistance your organization receives from other state agencies to support these programs/services.

FOOD PANTRY, HEALTH FAIRS, LEGAL CLINICS, COMMUNITY MEETINGS, DAY CARE, AFTER SCHOOL PROGRAMS, & CLOTHING DISTRIBUTION. (NO INCOME MEMBERSHIP OR OTHER AFFILIATION REQUIRED FOR ANY SERVICES)

5) YOUR PARTICIPANTS: a) Describe any eligibility criteria for participation in your program(s) (i.e., income level, age, employment status, etc.). b) Describe how participants are identified or recruited, or describe who refers participants to your organization for services. c) If services cannot be provided to all that apply, describe the manner in which participants are selected (i.e., standardized testing, first-come, first served).

COMMUNITY RESIDENTS - ANY ONE IMPROVERISHED OR NEEDY.

(SEE COVER LETTER) → ATTACHED, FOLLOWING

DAY CARE COULD BE LOOKED AT IN THE FUTURE FOR SLIDING SCALE FEE.

* Note: If your program is viewed to be consistent with the goals of the Federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), further information may be requested.



DCEO Grant Survey

6) PUBLIC PURPOSE: What is the public purpose? Why is this project necessary? What is the expected benefit of this project (i.e., city will no longer be on IEPA restricted status list; unemployed persons will receive job training, etc.)?

GRANT FUNDING will allow Pilgrim to Rebuild Facility, WITHOUT GRANT COULD NOT SECURE NEEDED FUNDS TO CONSTRUCT FACILITY FOR PROGRAMS. THE BENEFIT TO THE PUBLIC IS TO HELP IMPOVERISHED AND NEEDED RESIDENTS TO INCREASE THEIR HEALTH AWARENESS AND TO ESTABLISH EDUCATIONAL PROGRAMS FOR COMMUNITY RESIDENTS

7) PUBLIC BENEFIT: Estimate the number of persons to benefit or be served by the proposed project: 500. State the percentage of current or projected participants who are disadvantaged or low-income: 100%. State the percentage of participants who receive (or will receive) services at no cost or a reduced fee: 100%. State the number of permanent jobs (i.e., not construction jobs) that will be created as a result of this project: 0.

DCEO0045



DCEO Grant Survey

8) LOCAL SUPPORT: Attach copies of any public hearings, newspaper articles or other documents that would evidence local support for this project (if available).

9) LOCAL OPPOSITION: Do you anticipate any opposition to this project? Yes No If yes, please describe:

10) ESTIMATED TIMETABLE FOR COMPLETION: Start Date: 3/1/2008 Completion Date: 2/29/2010

If you are providing a program or service, please be specific about the length of the program or service delivery, whether it is a one-time offering or an ongoing program/service, how many times it will be provided, etc.

(NOTE: Grant-funded activities must be completed within a two-year time frame. The start date should reflect the date the Grantee anticipates incurring costs against this grant award, or, if costs have already been incurred, the date that the Grantee actually started to incur costs. The grant manager will work with the Grantee to establish the appropriate grant term).

(Grant term to be completed by DCEO grant manager: Start Date _____ End Date _____)

Please complete question 10a through 10g. Include only grant funds in this estimated monthly cash flow. Do not include funds from other sources.

a) All entities MUST provide an estimated monthly expenditure of grant funds once the project starts:

Month 1: \$ _____	Month 13: \$ 50,000-
Month 2: _____	Month 14: 50,000-
Month 3: _____	Month 15: 50,000-
Month 4: _____	Month 16: 50,000-
Month 5: _____	Month 17: 50,000-
Month 6: 50,000	Month 18: 50,000-
Month 7: 50,000	Month 19: 50,000-
Month 8: 50,000	Month 20: 50,000-
Month 9: 50,000	Month 21: 50,000-
Month 10: 50,000	Month 22: 50,000-
Month 11: 50,000	Month 23: 50,000-
Month 12: 50,000	Month 24: 100,000-



DCEO Grant Survey

b) If applicable, describe any actions/approvals that must be completed prior to the start of this project, with corresponding time frames for completion. Examples of such actions/approvals may include: hiring staff to implement the project; securing a location from which to operate the program; approval by your organization's board of directors, etc.

Reviewing of bids and hiring construction architects and other appropriate trades. completion estimated 6/08

c) Has your organization secured all necessary federal, state and local permits and approvals to proceed with this project? If not, please identify permits/approvals to be obtained and provide a reasonable, estimated timetable to secure such permits/approvals.

UNDETERMINED AT THIS TIME - ANY PERMITS APPROVALS DEEMED NECESSARY WILL BE SECURED BEFORE START OF PROJECT

d) If grant funds are to be utilized to make capital improvements to real property (structures/land) that your organization does not own, please provide a copy of the lease or other agreement (i.e., easements, rights-of-way, etc.) between your organization and the property owner that will allow your organization to continue to use the improved premises, for an appropriate length of time, consistent with applicable state law and rules.

DNA

If the project involves the purchase of land or building(s), you must answer questions 10c-10g and attach supplementary explanatory materials as needed.

e) Does your organization have an executed contract for the purchase/acquisition of the land/building in question? If not, when do you expect to have an executed contract?

f) If your organization is a governmental entity, is it acquiring the land/building through an outright purchase, or through eminent domain/condemnation proceedings? If acquiring through eminent domain/condemnation, when do you realistically expect to finalize the acquisition?

g) Is your organization aware of any existing (or reasonably anticipated) legal proceedings such as zoning issues, objections of nearby property owners, etc., relating to the proposed use of the land/building being purchased with grant funds? If yes, please attach a detailed explanation.

h) Provide the name, address, phone number and email address (if applicable) of the entity from which the land/building(s) is/are being purchased. If multiple owners, please provide this information for each.



DCEO Grant Survey

11b) BUDGET FOR CONSTRUCTION PROJECTS
 (NOTE: BOND FUNDED PROJECTS MUST COMPLY WITH APPENDIX B: BONDABILITY GUIDELINES.)

ACTIVITY LINE ITEM	GRANT AMOUNT	
1. Plans & Specs	\$ _____	
2. Architectural/Engineering Fees	_____	Usually limited to 10% - 15% of total grant funding.
3. Printing (Construction Documents)	_____	
4. Equipment (must itemize in #2, Scope of Work)	_____	
5. Land Purchase	_____	
6. Labor	_____	
7. Excavation	_____	
8. Wiring/Electrical	_____	
9. Construction/Renovation Materials	_____	
10. Paving/Concrete/Masonry	_____	
11. Construction Management and Oversight	_____	Limited to 10% - 15% of total grant funding.
12. Mechanical System	_____	
13. Site Preparation/Demolition	_____	
14. Building/Structure Purchase	_____	
15. Plumbing	_____	
16. New Construction "Bid as a Whole"	_____	
17. Other Construction Expenses (must itemize in #2, Scope of Work)	1,000,000	Limited to 10% - 15% of total grant funding.
18. Contingency	_____	
TOTAL	\$ 1,000,000	

* Grant amount column must total the grant amount to be received from DCEO. Please be as accurate as possible when specifying line item amounts. If actual spending varies by more than 10 percent, a grant modification will be required.
 ** No line item detail must be provided if 1) the project is bid as a whole, and 2) the grant is for construction of a new structure (i.e., this line item cannot be used for renovation). Use of this line item will be subject to Department Legal approval.

DCEO0048



DCEO Grant Survey

UNDETERMINED AT PRESENT TIME

12) OTHER FUNDING:

- a) Are other funds necessary to complete the grant scope of work (i.e., the activities for which this grant is being used)?
 Yes No
- b) Are other funds necessary to complete the overall project (of which this grant is just one component)?
 Yes No

If "yes" to either question above, please indicate the source, status and amount of those funds below. This information MUST correlate with your answers to 2a) through 2c) on page 4.

SOURCES OF FUNDING	Approved	Pending	Not Yet Applied For	Activities in Grant Scope of Work — see page 4 of survey, questions 2a) and 2b)	Overall Project — see page 4 of survey, question 2c)
Federal Funds (list)					
				\$	\$
				\$	\$
				\$	\$
Other State Funds (list funds from any state source/program:)					
				\$	\$
				\$	\$
				\$	\$
Other Funds (list your organization's funds, bank and other loans, fundraising, donations, etc.)					
				\$	\$
				\$	\$
				\$	\$
TOTALS				\$	\$

13) PREVIOUS GRANTS: In order to be eligible to receive the anticipated grant(s), Grantee must be in compliance with requirements of all grants previously received from DCEO. List any other grants this Grantee received from DCEO within the last three years (i.e., CDAP, Tourism Attraction Program, etc.). Provide DCEO Grant Number:

PILGRIM BAPTIST CHURCH
3300 SOUTH INDIANA AVE.
CHICAGO, ILLINOIS 60616

March 5, 2008

DCEO Grant Unit
Attn: David Parr
DCEO Grant Manager

Dear David,

As you know the Pilgrim Baptist Church Building and the Pilgrim Baptist Church Administration/Day Care Building was destroyed by a fire in January 2006. Unfortunately all programmatic information, media and publicity information was data stored in computers that were destroyed as well. The administration building served as the day care center and included all of our classrooms, our commercial kitchen that stored food for our day care facility and our after school teen program, the various meeting rooms for our health fairs, legal clinics, community meetings and our space for food and clothing distributions. This building also included our administration offices for our various community programs. All statistical data for these various service programs was stored on our computers as well and we did not have the IT infrastructure in place for back up to our systems.

In our current location we have provided some minimal services such as food distributions, clothes distributions and community meetings due to the limited space of our interim location at our Community Center. The method of notification to the community has been poster board postings in local businesses for both the food distribution and the clothing distribution. We have had three food distributions (approximately 50-75 participants each time) and two clothing distributions (approximately 25-40 participants each time) within the past year.

Please contact me if you need additional information or clarity on any issues.

DCEO0051

Thanks for all of your assistance during these hectic times.

Warmest Regards,

A handwritten signature in cursive script, appearing to read "Cynthia M. Jones".

Cynthia M. Jones, Vice Chairman
Board of Trustees

DCEO0052

Pilgrim Baptist Church
3300 South Indiana Avenue
Chicago, Illinois 60616

Board of Trustees

Names	Address	Telephone #	Cell #
Robert H. Vaughn Chairman	[REDACTED]	[REDACTED]	[REDACTED]
Cynthia M. Jones Vice Chairman	[REDACTED]	[REDACTED]	[REDACTED]
Alphonso Carrington	[REDACTED]	[REDACTED]	[REDACTED]
Leroy Gary	[REDACTED]	[REDACTED]	[REDACTED]
Linda Granderson	[REDACTED]	[REDACTED]	[REDACTED]
Tyrone R. Jordan	[REDACTED]	[REDACTED]	[REDACTED]
Valerie Miles	[REDACTED]	[REDACTED]	[REDACTED]
Mark L. Reed	[REDACTED]	[REDACTED]	[REDACTED]
William E. Stewart	[REDACTED]	[REDACTED]	[REDACTED]
Frank Warren	[REDACTED]	[REDACTED]	[REDACTED]
Jacqueline E. Washington	[REDACTED]	[REDACTED]	[REDACTED]

APPENDIX G
AGENCY RESPONSES



OFFICE OF THE GOVERNOR
JRTC, 100 W. RANDOLPH, SUITE 16-100
CHICAGO, ILLINOIS 60601

PAT QUINN
GOVERNOR

June 30, 2009

William G. Holland
Auditor General
Office of the Auditor General
Hes Park Plaza
740 E. Ash Street
Springfield, IL 62703

Dear Auditor General Holland:

Enclosed is the Office of the Governor's response to the audit of the \$1 million grant to Loop Lab School. As you know, this matter involved the prior administration. Should you have any questions, please contact me at (312) 814-3931. We look forward to continuing to work with your office.

Sincerely,

A handwritten signature in black ink that reads "Keesner Bienvenu".

Keesner Bienvenu
Associate General Counsel

**Office of the Governor Responses to
Auditor General Loop Lab School Recommendations**

Recommendation 2: The Office of the Governor should ensure that only qualified grants are paid out of the Fund for Illinois' Future.

Response:

The Office of the Governor concurs with the recommendation of the Auditor General.

Recommendation 3: The Governor's Office should develop policies and procedures that detail activities and documentation requirements for the authorizations of grant funds paid by the State at the Governor's Office direction.

Response:

The Office of the Governor concurs with the recommendation of the Auditor General. To the extent that any such policies and procedures have not been documented, and to the extent that the current Governor's Office ever directs the payment of grant funds, the Governor's Office will develop policies and procedures that detail activities and documentation requirements for the authorization of grant funds paid by the State at the Governor's Office direction.

Recommendation 5: The Governor's Office should maintain documentation to support why it changes the intended purpose for a particular grant.

Response:

The Office of the Governor concurs with the recommendation of the Auditor General. To the extent that the Office of the Governor were to change the intended purpose of a particular grant, the Office of the Governor will maintain such documentation.

Recommendation 7: The Governor's Office should allow appropriate time for the development and execution of grant agreements by the Department of Commerce and Economic Opportunity so as to not circumvent controls in place to safeguard State assets.

Response:

The Office of the Governor concurs with the recommendation of the Auditor General.



Pat Quinn, Governor

Illinois Department of Human Services

Carol L. Adams, Ph.D., Secretary

100 South Grand Avenue, East • Springfield, Illinois 62762
401 South Clinton Street • Chicago, Illinois 60607

June 29, 2009

Mike Maziarz, Audit Manager
Office of the Auditor General
Iles Park Plaza
740 East Ash
Springfield, Illinois 62703-3154

Dear Mr. Maziarz:

Thank you for the opportunity to respond to your audit of the \$1 million grant to Loop Lab School pursuant to Illinois House Resolution Number 1190.

Recommendation #1: The Department of Human Services should ensure that recipients of child care funds do not utilize those funds for unallowable tuition payments.

Department Response: The Bureau of Child Care and Development partially agrees with the Office of Auditor General's (OAG) recommendation. Various steps have already been taken by the DHS Bureau of Child Care and Development and are in place to address this issue.

Auditor Comment #1

While the Department responds that it partially agrees with the auditors' recommendation, its response is unclear with which aspect of the recommendation they do not agree. The Department agrees with the auditors that the use of child care payments for tuition purposes is prohibited; states that it has implemented or is in the process of implementing corrective action requiring certifications from Providers that they are not utilizing child care funds for unallowable tuition payments; and states that Contracted Providers will be monitored in order to verify that they do not utilize child care funds for unallowable tuition payments.

The Child Care Program Manual, Section 01.04.02 – School Age Children, Policy Statement states that, “Funds may not be expended for students enrolled in grades 1 through 12 years for:

- 1). Any service provided to such students during the regular school day;
- 2). Any service for which such students receive academic credit toward graduation; or
- 3). Any instructional services that supplant or duplicate the academic program of any public or private school.”

In addition, the Site Administered Child Care Program Manual under I.

INTRODUCTION/DEFINITIONS

Under B. (Definitions) Fees for additional services – states, “Any other mandatory service fees, special fees or additional charges of any type for regular child care services to IDHS subsidized clients may not be imposed by the Site Administered Child Care provider.”

Under B. Child Care Program Field Review Objectives, it states:

“The objectives for Child Care Program compliance monitoring reviews are as follows:

To determine that child care services are being provided in compliance with rules and agreements, as well as efficiency, effectiveness, and economy of the program relative to IDHS.

To ascertain if the determination of program eligibility for client application and redetermination is adequately documented, timely, and performed within the guidelines defined in the Bureau of Child Care & Development Program Manual.

To determine if the services billed were delivered, are appropriately documented, and eligible for reimbursement.”

Therefore, billing for tuition would be a violation of an objective for Child Care Program compliance monitoring reviews, as well as of the Bureau of Child Care and Development Program Manual policy.

In addition, review of the ILLINOIS COMPILED STATUTES: Section 225 ILCS 10/2.06 Child care institution contains language which specifically states that such an institution does not include Any bona fide boarding school in which children are taught branches of education corresponding to those taught in public schools, grades one through 12, or taught in public elementary schools, high schools, or both elementary and high schools and which operates and which operates on a regular academic school year basis; ... Section 225 ILCS 10/2.09 day care center, also contains similar language.

Finally, Section 305 ILCS 5/9A-11 Child Care of the Illinois Compiled Statutes indicates under (c) that payment shall be made for child care that otherwise meets the requirements of this section and applicable standard of State and local law and regulation, including any requirements the Illinois Department promulgates by rule in addition to the licensure requirements promulgated by the Department of Children and Family Services and Fire Prevention and Safety requirements promulgated by the State Fire Marshal and is provided in any of the following:

- (1) a child care center...
- (2) a licensed child care home or home exempt from licensing;
- (3) a licensed group child care home;
- (4) other types of child care, including child care provided by relatives or persons living in the same home as the child,...

Nowhere does it state that payments shall be expended for students enrolled in grades 1 through 12 years for: service provided to such students during the regular school day; service for which such students receive academic credit toward graduation; or any instructional services that supplant or duplicate the academic program of any public or private school .

The DHS Bureau of Child Childcare and Development has implemented additional corrective action requiring Providers to certify on their Monthly Enrollment Reports that they do not utilize child care funds for unallowable tuition payments. Providers will also be required to certify on their Child Care Center Certificates, and Site Administered Monthly Enrollment Reports that they do not utilize child care funds for unallowable tuition payments.

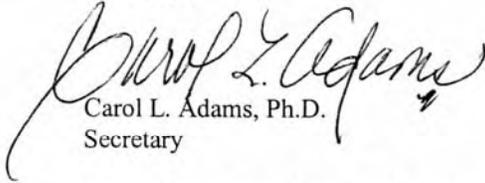
Contracted Providers are required to certify in their contracts, by reference, to the Child Care Program Manual Attachment I, that they will not utilize child care funds for unallowable tuition payments. In addition, Contracted Providers will be monitored in order to verify that they do not utilize child care funds for unallowable tuition payments.

Auditor Comment #2

The controls cited by the Department to detect Provider's inappropriate use of child care payments for tuition purposes were not effective in identifying such use by the Loop Lab School. Hopefully, the additional controls and monitoring planned by the Department will be more effective.

If you have any questions, please feel free to contact Albert Okwuegbunam, Chief, Audit Liaison Bureau at (217) 785-7797.

Sincerely,



Carol L. Adams, Ph.D.
Secretary

cc: Grace Hou, Assistant Secretary
Jerome Butler, Assistant Secretary
Marva Arnold, Director, Division of Human Capital Development
Linda Saterfield, Chief, Bureau of Child Care and Development
Robert Stanek, Chief Financial Officer.
Solomon Oriakhi, Director, Office of Fiscal Services
Albert Okwuegbunam, Chief, Audit Liaison Bureau

June 30, 2009

Honorable William G. Holland
Auditor General
Hes Park Plaza
740 East Ash Street
Springfield, IL 62703-3154

Dear Mr. Holland:

Enclosed are our responses to the management audit per House Resolution Number 1190.

The Department of Commerce and Economic Opportunity (Department) understands the importance of grants management and monitoring and appreciates the work performed by your office as it will help us to continue to improve in this area. As you know, accountability is not new to government but there is much greater demand and pressure placed on the public sector today to improve accountability. We began our efforts to improve our grant management and monitoring systems in July 2006, well ahead of many of the current accountability initiatives recently proposed and enacted by both our state and federal government.

In November 2007, a new Office of Accountability (OA) was created in the Department to oversee grant monitoring and reporting, performance management and the agency's administrative and fiscal control environment. The mission of the OA is to provide a progressive and standardized approach to grants management and performance resulting in more successful partnerships and better achievement of the Department's strategic priorities and economic development program goals.

We have been working hard to implement a new grants management and monitoring approach. The following are some of our recent accomplishments:

- A new enterprise-wide grants management system, called eGrants, was implemented in FY09. eGrants is currently being used to provide an automated workflow for the different program units and administrative offices to electronically review, approve and process grants. We are continuing to further develop eGrant to allow the agency to manage and monitor grants from the beginning of the grant cycle through its end.
- We completed an initial draft of new agency wide policies and procedures to govern grantee monitoring for all of our grant programs. Implementation of these policies and procedures will correspond with the continuing development of the eGrants system.

Internet Address <http://www.commerce.state.il.us>

620 East Adams Street
Springfield, Illinois 62701-1615

217/782-7500
TDD: 800/785-6055

James R. Thompson Center
100 West Randolph Street, Suite 3-400
Chicago, Illinois 60601-3219

312/814-7179
TDD: 800/785-6055

2309 West Main, Suite 118
Marion, Illinois 62959-1180

618/997-4394
TDD: 800/785-6055

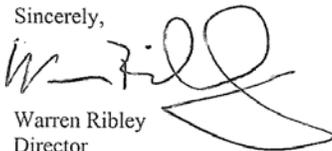
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- The Department implemented a new grant agreement boilerplate in FY09. Grant agreements are now generated electronically through eGrants. These changes have improved our administrative and fiscal controls, and also ensures each grant agreement has adequate provisions concerning scope, budget, reporting requirements, audit requirements and monitoring requirements.
- The Department implemented a welcome package in April 2009 that is sent to all grantees along with their grant agreement. The welcome package is an additional tool to improve the communication of the Department's reporting requirements, reporting due dates and other important grant award information to grant recipients.
- In April 2009, the Department implemented an OA section on our website that contains additional resources for grantees: It contains information about the OA, an overview of the grant process, details about the Department's monitoring and reporting requirements, and information about the non-compliance process.

The Department's OA is currently working on other improvements. In FY10, new standardized financial expense and program status reports will be used by all grant programs. Grantees will be required to submit these reports on a quarterly basis. Standardized reports will improve efficiencies for staff, while also providing them with clearer guidelines on what information is required from all grantees. It will also improve the communication of the Department's expectations to all grant recipients. We are also currently establishing an automated report tracking system in eGrants. Through this improved automation, the report tracking mechanism will notify grantees on reporting deadlines and will advance the Department's follow-up efforts and noncompliance processes.

The actions listed above are just some of the steps we have taken to date to ensure greater accountability of public funds. We will continue to work toward improving grants management and monitoring within the Department. We appreciate the work of your office and the value it provides to us in improving our Department's operations to better serve the citizens and businesses of Illinois.

Sincerely,

A handwritten signature in black ink, appearing to read 'Warren Ribley', with a large, stylized flourish extending from the bottom right.

Warren Ribley
Director

Attachment

**DCEO Responses to Management Audit of the Loop Lab School
House Resolution 1190
June 30, 2009**

Recommendation Number 4: The Department of Commerce and Economic Opportunity should consider revising its internal controls over the award and processing of Governor’s miscellaneous grants to include making a determination of whether the grantee is a legitimate concern before committing State funds. Additionally, the Department should conduct follow up to ensure grantees have secured the additional funding needed to complete the grant project. Finally, the Department should consider cross checks with other State agencies that may have information pertinent to a grantee instead of relying on self reporting by the grantee.

DCEO Response: The Department agrees, in principle, with this recommendation but corrective action to implement the suggested controls is dependent upon resources and cooperation extended to the Department by the General Assembly and other State agencies. As noted in our cover letter (found in the appendix of this report), DCEO has implemented many improvements in grants management and monitoring for all of our agency’s programs in the past two years. We will continue to review potential internal controls to improve the accountability of taxpayer funds and we will make adjustments that can be implemented given our limited staffing and budgetary resources.

The recommendation specifically suggests the agency cross-checks with other State agencies to gather more information about the grantee. While we support this idea, it is not feasible from a budget perspective for our agency to undertake this additional responsibility given our current resources. The agency is willing to implement this additional control if the General Assembly provides additional staffing resources for us to pursue a proactive cross checking process. This control also assumes that other State agencies will have the resources to assist the Department in providing information about applicants and grantees. It should be noted, however, that DCEO does use the Illinois Office of the Comptroller’s Offset System to check to see if other State agencies have filed an offset claim for a particular individual or organization. This control identifies if an organization or individual owes the State any money. DCEO ensures that applicants or grantees resolve the offset claim as a condition of their grant award.

Auditor Comment 3

*DCEO indicated that it checks the Comptroller’s Offset System to ensure grantees resolve any offset claims as a condition of their award. In the case of Loop Lab School, DCEO **did not resolve** the School’s outstanding offset claim prior to processing grant payments. The School’s inability to settle the \$1,900 in prior claims should have been a red flag to DCEO of the School’s financial instability.*

DCEO has existing cross-check controls in place for non-governmental entities receiving Governor’s miscellaneous grants. These entities must provide the following to document their “Good Standing Status”:

- Entities that are incorporated as a not-for-profit corporation under the General Not For Profit Corporation Act of 1986 are required to submit a certificate of good standing from the Illinois Secretary of State's Office.
- Entities that are organized as a Charitable/Not-for-Profit entity, which includes any person, individual, group of individuals, association, not-for-profit corporation, or other legal entity under the Charitable Trust Act are required to submit a letter of good standing from the Charitable Trust Bureau, Office of the Attorney General.
- Entities that are considered "tax exempt" by the Internal Revenue Service (IRS) are required to submit a letter verifying such tax exempt status from the IRS.
- Entities that are none of the above, but are exempt from paying sales/use tax under Use Tax Act are required to submit a copy of the tax exemption certificate issued by the Illinois Department of Revenue.

DCEO also ensures entities have an accepted W-9 form on file with the Office of the Comptroller and, if applicable, an IRS 147-C letter. DCEO also works with other state agencies to ensure proper approvals are in place for grant needing environmental and/or historical reviews and approvals.

DCEO also implemented a new grantee certification control in FY09 for Governor's miscellaneous grants. When grantees complete the required DCEO Grant Survey, they must certify that the information provided and representations made in the survey are accurate and the individual signing is authorized to submit the document.

The audit report also recommends that DCEO determine if the grantee is a legitimate going concern before committing State funds. This suggestion appears reasonable but it is not uncommon for the Governor's Office or the General Assembly to direct DCEO to provide a grant to an entity that does not have the financial resources to undertake a project or program without the State's financial assistance. DCEO does assume the "but for" role in funding many economic development projects in that a project would not be financially viable but for the financial assistance provided by DCEO. The State's financial assistance, through DCEO, has helped many worthwhile entities that do not have the financial means successfully complete a project or continue to operate a program and provide services. DCEO issued the award to Loop Lab School in good faith that the entity would be able to operate the school given their twenty year history of providing educational services.

Some of the Governor's miscellaneous grants do seek other funding in addition to the grant funds provided by DCEO for their project. DCEO, in some instances, does require the grantee to provide documentation that they have secured the additional funding. However, DCEO does not currently require that these additional funds be included in the grant scope and budget for Governor's miscellaneous grants. DCEO will consider a new control to include the grantee-provided funding in the grantee's budget in those instances in which the additional funding is integral to achieving the requirements of the grant. If the grantee-provided funding is included in the grant budget, the grantee will be required to secure and spend those funds as a condition of receiving DCEO funds.

DCEO firmly maintains that it did follow its procedures and complied with internal controls for the processing of the Loop Lab School grant. DCEO only used the survey it sent to the Loop Lab School to develop the grant agreement and did not use the Governor's Office survey to develop the grant. More importantly, DCEO is uncertain why the auditors state that the Governor's Office survey process circumvents DCEO's controls. While DCEO did not use the Governor's Office survey information, it would be reasonable to assume that this would be consistent with the auditor's recommendation to gather cross-checking information from other State agencies.

Auditor Comment 4

DCEO officials reported that DCEO is the only entity that sends grant surveys to potential grantees. However, documentation showed that a survey supplied by DCEO to the former Governor's staff was provided to Loop Lab School fundraisers.

DCEO's Legal Office did approve the scope and the budget on September 11, 2006 which was done in the proper sequence before other approvals were obtained for the grant agreement. As noted in the report, DCEO did provide this documentation to the auditors at the exit conference. DCEO was under the impression that the documentation supporting the September 11, 2006 date was in the grant file in which the auditors reviewed during the audit.

Auditor Comment 5

As stated in the audit report, while DCEO provided some documentation to support its assertion, the documentation was not consistent with documentation obtained by auditors earlier in the audit. The documentation supplied by DCEO for legal approval was not dated by the attorney. Additionally, DCEO officials indicated that staff change the approval dates in the project database.

Recommendation Number 6: The Department of Commerce and Economic Opportunity should expeditiously complete the formal recovery process and get the appropriate orders issued so that the Attorney General can initiate the collection process and ensure recovery of any applicable State taxpayer funds.

DCEO Response: The Department agrees with this recommendation as the Department has already completed the formal recovery process. The recovery process resulted in a \$1 million judgment against Loop Lab and this was forwarded on May 29, 2009 from the Department to the Office of the Attorney General so they could begin collection proceedings.

GRANT FUNDS RECOVERY PROCESS

Any attempt to recover funds from a Grantee is governed by the Grant Funds Recovery Act, 30 ILCS 705 et al. DCEO invokes its authority under the Act after other measures fail to obtain a Grantee's full compliance with the terms and conditions of its Grant Agreement. Such measures include having DCEO Grant Monitoring staff contact the Grantee through correspondence and oral communications to tell the Grantee what deficiencies exist in their compliance with the Grant Agreement. Only after Monitoring staff is unable to obtain voluntary compliance and corrections of the deficiencies is the matter sent for Recovery Procedures under the Act.

The Grant Funds Recovery Act sets out a two step process for pursuing recovery of grant funds from a Grantee. The first step is to place the Grantee in the Informal Hearing stage. A letter is sent to the grantee informing them of their placement into the Grant Funds Recovery process and sets out the issues that need to be resolved. The Grantee may then ask for an informal hearing to discuss these issues. At the informal hearing are DCEO representatives and representatives of the Grantee. An attempt is made to resolve the Grantee's performance deficiencies through dialogue and discussion. Should this stage fail to result in the Grantee correcting the deficiencies of its performance the matter is taken to the next stage which is Formal Grant Recovery. It should be noted that the length of time a Grantee may stay in Informal Grant Recovery depends on the issues that need to be resolved and the cooperation received from the Grantee.

Once a matter is sent to Formal Grant Recovery the process used is, as its name implies, very formal. Pursuant to Section 8 of the Grant Funds Recovery Act a letter is sent to the Grantee setting out the specific failures of the Grantee in relation to the Grant Agreement. The Grantee has 35 days to request a formal hearing of the charges contained in the letter. Once the Grantee requests a formal hearing the matter is assigned to an Administrative Hearing Officer (AHO) who then adjudicates the matter. All proceedings before the AHO are governed by the Illinois Administrative Procedures Act (APA), 5 ILCS 100 et al. Under the APA the Grantee is entitled to the full protection of the law including all due process and discovery procedures. The conduct and the duration of the formal grant recovery procedure is determined by the AHO and the APA.

LOOP LAB SCHOOL

DCEO followed the standard Grant Funds Recovery procedures with regard to the Loop Lab School (hereinafter "Loop"). The first step was to inform Loop that it had failed to file its close out report regarding the use of the Grant Funds. This notice was sent in June 2007. The legal department of DCEO received a copy of this notice as part of normal procedure. Failing to file a timely close out report is initially viewed as a violation of a ministerial act that a grantee can easily cure. Over the summer and into the fall of 2007 DCEO staff maintained regular communication with Loop in an attempt to gain compliance from the school. It should be noted that as of the summer of 2007 the school had purchased the real estate it was authorized to purchase with the Grant Funds and was representing to DCEO that the school would open in September 2007. At this juncture there was no need to initiate any further recovery procedures against the school.

Based on new information DCEO obtained in March, 2008 Loop Lab School was sent a letter initiating Grant Funds Recovery Procedures under the Grant Funds Recovery Act. This consisted of sending Loop a letter informing it of the decision and giving Loop an opportunity, as mandated by state law, to ask for an informal hearing. The letter listed numerous deficiencies in Loop's performance including the fact that Loop had never reopened as a school. The failure to open and operate as a school was a significant violation of the Grant Agreement. Prior to sending the notice, DCEO monitoring staff made a site visit to Loop to gather information and confirm whether or not Loop had opened its doors. Loop responded by asking for the informal hearing with DCEO. The informal process then consisted of a series of meetings and phone conversations with Loop and its attorneys. By the summer of 2008 the parties were very close to resolving the dispute; however, Loop's attorney developed a serious illness requiring

hospitalization and a long recuperation period. This slowed down the process as Loop needed to obtain new counsel. Upon obtaining new counsel the parties were unable to resolve the matter and DCEO placed the matter into formal Grant Recovery.

Auditor Comment 6

*During a 5-month period (October 2007 to March 2008) DCEO had **no verbal or written communications** with Loop Lab School. While DCEO indicated it obtained **new information** in March 2008, its contact with the School **coincided** with the publishing of a news story on March 3, 2008 which questioned the former Governor's pledge to provide \$1 million to the Pilgrim Baptist Church. It was only on **the same day** as the news report that DCEO informed the School it was in violation of the grant agreement.*

The letter starting the Formal Grant Recovery process was sent to Loop on September 23, 2008. The letter set out numerous instances of Loop's failure to comply with material terms and conditions of the Grant Agreement. Loop had 35 days in which to request a formal hearing on the matter or to send DCEO a check for the full amount of the grant. Loop timely requested the formal hearing and the matter was assigned to an Administrative Hearing Officer.

At the initial status hearing before the Hearing Officer Loop appeared without an attorney. Loop indicated it was in discussions with an attorney to represent it in the hearing but that he was unable to appear at the hearing. The matter was continued for a few weeks and a second status hearing was held. Again Loop appeared without an attorney and indicated it had been unable to retain one. The Hearing Officer pointed out that as a corporation Illinois law dictated that Loop could only be represented by an attorney and gave them a short continuance to obtain an attorney. At the next status hearing Loop appeared with an attorney and the matter commenced to the discovery stage.

Shortly after the new attorney entered the matter DCEO became informed that Loop had entered into a contract to sell the condominium unit that was essentially Loop's sole asset. It is also the unit that was purchased with the Grant Funds awarded to the school. DCEO took immediate action to stop the sale. On February 19, 2009, the Administrative Hearing Officer entered an injunction preventing Loop from closing on the contract. This swift action by DCEO preserved the real estate for future collection by the State. Loop then changed attorneys once again in an attempt to delay the matter going to a formal evidentiary hearing. The administrative Hearing Officer granted the change in attorneys but kept the expedited hearing schedule requested by DCEO. On the day the matter was set for final hearing Loop consented to the entry of an order requiring Loop to repay to the State the sum of \$1 million. The order, pursuant to the Grant Funds Recovery Act, was signed by the Director of DCEO as a final appealable decision on May 29, 2009. The decision was immediately referred to the Illinois Attorney General for collection proceedings.

Conclusion

DCEO followed all of its normal procedures to bring the matter to a successful conclusion. The actions of DCEO through its Grants Fund Recovery system preserved and protected the State's ability to attempt to recover the grant funds from Loop. DCEO believes its actions were proper and at no time hampered the ability of the State to

recover the grant funds. The other liens that have been placed against the Loop property existed prior to any knowledge DCEO may have had that recovery should be attempted. Most if not all of the other lien claims on the property were filed against all of the units in the building at 318 W. Adams St. and no actions by DCEO could have prevented the claims being filed. DCEO used all of the legal methods and tools at its disposal to seek recovery of the Grant Funds. DCEO used those tools to successfully obtain a timely recovery order.

Auditor Comment 7

*DCEO contends that there is a **successful conclusion** to the recovery efforts. Given the minimal equity for Loop Lab School after any sale of the real estate, the limited amount available from the \$1 million grant may not be considered **successful recovery**.*

Recommendation Number 7: The Department of Commerce and Economic Opportunity should ensure that all documentation is in place prior to developing a scope of work section for grants directed by the Governor’s Office.

DCEO Response: The Department agrees with the recommendation.

It is necessary to clarify the DCEO processing of the grant to the Pilgrim Baptist Church. The processing of any grant agreement is tantamount to a dialogue with the potential grantee. In having the dialogue the preparation of documents for the grant involves making changes and revisions before the final documents are ready to be signed. DCEO does not sign and process any final grant agreements until all the necessary paperwork has been reviewed and approved by the various sections of DCEO responsible for issuing grants.

DCEO disagrees that its regular processes and controls were circumvented and ignored.

While the report is correct in stating that on March 3, 2008 a grant agreement was drafted and received various internal approvals it is incorrect in postulating that the approvals circumvented the normal processes. A draft grant agreement was created on March 3, 2008 to start the discussion with the grantee regarding the grant. It was never intended to be the final grant document. It was presented to the Grantee for their review with their professional advisors to determine if any changes were needed.

Auditor Comment 8

*As stated in the report, the former Governor’s Chief of Staff, on March 3, 2008, directed DCEO to “draft a grant agreement for the Church. We want it ready for execution today.” When asked at the exit conference on June 23, 2009, how many times the Governor’s Office had directed DCEO to process a grant in 1 day, DCEO officials stated the grant to the Pilgrim Baptist Church **was the only one**.*

*While DCEO contends that the March 3, 2008, document provided to the Church was a “draft” **grant agreement**, we did not find evidence to support that claim. Church officials provided **grant survey** information on scope and budget on March 5, 2008 – two days **after** DCEO provided the grant agreement. DCEO procedures dictate that a grant agreement is drafted **after, not before**, receipt of grant survey information.*

The actual events leading up to the signing of the final draft of the grant agreement shows that DCEO followed its normal internal processes to complete the grant. After the draft

agreement was prepared DCEO and the Church had many discussions and meetings to obtain all of the necessary information to complete the process. Meetings were held with the attorneys and architects for the Church that resulted in the scope of work for the grant agreement being revised to reflect the information obtained during the course of the discussions. Ultimately the grant agreement was executed on June 30, 2008 after and only when all of the internal processes and controls had been fulfilled and followed.

Recommendation Number 8: The Department of Commerce and Economic Opportunity should authorize disbursement of grant funds only after receiving documentation to ensure that State funds are being utilized for intended purposes.

DCEO Response: The Department agrees with this recommendation and will limit the advancement of funds for Governor's miscellaneous grants. DCEO recognizes that some entities and projects require start-up funding so DCEO will limit advanced funding to 25% of the grant amount for these grants unless an exception is warranted and adequately documented. In addition, DCEO will be implementing new documentation and reporting standards for FY10 grants as outlined in our cover letter. Governor's miscellaneous grants will require quarterly reports to be filed by grantees for both expenditures and project status. These required reports will allow DCEO to monitor the grantees' progress toward their grant defined goals and their due diligence in their fiscal management and recordkeeping. The balance of DCEO payments will be contingent upon both the grantees' compliance with submitting required reports and documentation and DCEO's review and approval of this information including but not limited to cost reporting.