

**STATE OF ILLINOIS**

**DEPARTMENT OF**  
**CENTRAL MANAGEMENT SERVICES**

**SPECIAL EXAMINATION – STATUS OF PRIOR FINDINGS**  
**ISSUED PURSUANT TO**  
**LEGISLATIVE AUDIT COMMISSION**  
**RESOLUTION NO. 134**

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
SPECIAL EXAMINATION

**TABLE OF CONTENTS**

	<u>PAGE</u>
Agency Officials .....	1
Independent Accountant's Report.....	2
Status of Prior Findings Summary .....	4
Overall Response .....	6
Prior Findings – Implemented .....	7
Prior Findings – Partially Implemented.....	11
Prior Findings – Not Implemented .....	18
Prior Findings – Pending .....	30
Appendix A – Legislative Audit Commission Resolution No. 134.....	32

**STATE OF ILLINOIS**  
**DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**  
**SPECIAL EXAMINATION**

**AGENCY OFFICIALS**

Director	Mr. Michael M. Rumman (Effective through June 1, 2005)
	Mr. Paul J. Campbell (Acting, effective June 2, 2005)
Assistant Director	Mr. Paul J. Campbell (Effective through June 1, 2005)
Assistant Director	Mr. N. Keith Chambers
Chief Operating Officer	Mr. Brian Chapman
Chief Fiscal Officer	Mr. Ronald Banks
Chief Administrative Officer / General Counsel	Mr. H. Edward Wynn (Effective through July 31, 2005)
General Counsel	Ms. Letitia Dominici (Acting, effective August 1, 2005)
Chief Internal Auditor (Illinois Office of Internal Audit)	Mr. John Cressman

**AGENCY OFFICE LOCATION**

Stratton Office Building  
401 South Spring Street  
Springfield, IL 62706



MEMBERS OF  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
ILLINOIS CPA SOCIETY

## INDEPENDENT ACCOUNTANT'S REPORT

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois, Department of Central Management Services' implementation of the 2004 recommendations as specified in Legislative Audit Commission Resolution No. 134. The management of the State of Illinois, Department of Central Management Services' is responsible for implementation of these recommendations. Our responsibility is to express an opinion on the State of Illinois, Department of Central Management Services' implementation of the 2004 recommendations based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the State of Illinois, Department of Central Management Services' implementation of the 2004 recommendations and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Implementation of three of the 2004 recommendations is pending and, as such, we were unable to express an opinion on the State of Illinois, Department of Central Management Services' implementation of these recommendations.

In our opinion, except for the effect of matters we might have discovered had we been able to examine implementation relating to the three recommendations discussed in the preceding paragraph, the State of Illinois, Department of Central Management Services' has implemented six of the 2004 recommendations, has partially implemented four of the 2004 recommendations, and has not implemented eleven of the 2004 recommendations. The status of each 2004 recommendation is described on pages 7 through 31 of this report.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and agency management, and is not intended to be and should not be used by anyone other than these specified parties.

*Sikich, Hardner & Co., LLP*

Springfield, Illinois  
September 16, 2005

**STATE OF ILLINOIS**  
**DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**  
**SPECIAL EXAMINATION**

**STATUS OF PRIOR FINDINGS SUMMARY**

Finding Description	Prior Finding Code	Implemented	Partially Implemented	Not Implemented	Pending	Page
Efficiency initiative payments	04-1	X				7
Lack of documentation in contract files	04-2			X		18
Use of contractor work in developing RFP specifications	04-3			X		20
Changes in award evaluation criteria not communicated to proposers	04-4			X		21
Extensive vendor revisions to proposal during best and final process	04-5			X		22
Failure to publish that contract was awarded to other than the lowest priced vendor	04-6	X				7
Failure to include subcontractor information in contracts	04-7	X				8
Not timely in executing contracts	04-8			X		23
Contract monitoring deficiencies	04-9			X		24
Methodology for calculating savings amounts to bill agencies for savings initiatives	04-10			X		26
Inadequate documentation to support the validation of savings	04-11		X			11
Follow up to Management Audit of the Department's administration of the State's Space Utilization Program	04-12			X		14
Weaknesses in internal control over financial reporting	04-13			X		30

**STATE OF ILLINOIS**  
**DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**  
**SPECIAL EXAMINATION**

**STATUS OF PRIOR FINDINGS SUMMARY**

Finding Description	Prior Finding Code	Implemented	Partially Implemented	Not Implemented	Pending	Page
Noncompliance with the Fiscal Control and Internal Auditing Act	04-14				X	30
Surplus Property management process weaknesses	04-15		X			16
Reports of reorganization not filed as required	04-16	X				8
Preparation of year-end Department financial statements not timely	04-17				X	31
Inadequate control over property and equipment	04-18			X		27
Motor vehicle accident reports not submitted timely	04-19	X				9
Travel Control Board not meeting or submitting reports as required	04-20		X			16
Late approval of payment of vouchers	04-21			X		28
Employees not removed from payroll during leave of absence	04-22	X				9
Time sheets not maintained in compliance with the State Officials and Employees Ethics Act	04-23			X		28
Travel Headquarters Reports (Form TA-2) not properly completed	04-24			X		29

Auditor Notes:

#1 Refer to the Compliance Examination of the Department of Central Management Services for the Two Years Ended June 30, 2004 for the complete text of the issues summarized above and on the following pages. This report can be obtained at [www.state.il.us/auditor/agencies.htm](http://www.state.il.us/auditor/agencies.htm).

#2 Responses to the status of prior findings were provided by Mr. Paul Campbell in a letter dated October 13, 2005



ILLINOIS

Rod R. Blagojevich, Governor

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Paul J. Campbell, Acting Director

## Overall Response

The Department agrees with the follow-up report and will redouble its efforts to improve its operations through implementation of the recommendations.

The Department continues to derive significant benefit from the audit process. While several of the recommendations have been implemented, we are dedicated to a process of continuous improvement and commit to fully and completely addressing each of the audit recommendations as quickly as possible.

**STATE OF ILLINOIS**  
**DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**  
**SPECIAL EXAMINATION**

**STATUS OF PRIOR FINDINGS  
IMPLEMENTED**

1. Finding: Efficiency initiative payments  
Finding Code No.: 04-1

Synopsis: During the prior period, the Department paid efficiency initiative billings from improper line item appropriations. During FY04, the Department paid eight billings totaling \$24.8 million for efficiency initiatives. The payments for these billings were not from the line item appropriations where the cost savings were anticipated to have occurred, as provided for in the State Finance Act. Rather, the Department made payments for the billings generally where it had flexibility in funding levels.

Additionally, the Department allowed the Governor's Office of Management and Budget to establish the amounts that were billed to agencies for efficiency initiatives in September 2003.

Status: Implemented

For FY05, the Department was billed \$2.1 million for the Legal Consolidation, Communication Manager Consolidation, and Procurement Efficiency initiatives. The Department paid these billings in August 2005 from line items that were related to the initiative being billed.

In March 2005, the Department sent agencies details on the procurement initiative projects for which they were billed along with the methodology for how the FY05 billings were calculated. On July 26, 2005, the Department sent additional documentation and explanation, based on agency requests, for the IT and Telecom savings billings sent out in May 2005.

2. Finding: Failure to publish that contract was awarded to other than the lowest priced vendor  
Finding Code No.: 04-6

Synopsis: During the prior period, the Department failed to provide notification, in the Illinois Procurement Bulletin, that contracts were awarded to other than the lowest priced vendor. In 4 of the 9 contracts reviewed (44 percent), the Department awarded the contract to a vendor that was not the lowest priced proposer and did not publish this in the Procurement Bulletin.

Status:      Implemented

During the current period, the procurement and award files for ten solicitations or contracts awarded in FY05, totaling a maximum award amount of approximately \$270 million, were selected for testing. During this review we noted the Department was in compliance with requirements to publish notification of contracts awarded to other than the lowest priced vendor.

3. Finding:                Failure to include subcontractor information in contracts  
Finding Code No.: 04-7

Synopsis:      During the prior period, the Department failed to ensure that subcontractor information required under the Procurement Code was included in contracts awarded by the Department. In 4 of the 9 contracts reviewed (44 percent), the Department failed to have information on subcontractors utilized by the selected vendor included in the contract. The Department estimated the value of these contracts to be approximately \$53 million.

Status:      Implemented

During the current period, the procurement and award files for ten solicitations or contracts awarded in FY05, totaling a maximum award amount of approximately \$270 million, were selected for testing. During this review we noted subcontractor information, if applicable, was included in the contract as required by the Procurement Code.

4. Finding:                Reports of reorganization not filed as required  
Finding Code No.: 04-16

Synopsis:      During the prior period, the Department did not submit reports as required by the Executive Reorganization Implementation Act (the Act). Section 11 of the Act (15 ILCS 15/11) requires “Every agency created or assigned new functions pursuant to a reorganization shall report to the General Assembly not later than 6 months after the reorganization takes effect and annually thereafter for 3 years. This report shall include data on the economies effected by the reorganization and an analysis of the effect of the reorganization on State government. The report shall also include the agency’s recommendations for further legislation relating to reorganization.”

Status:            Implemented

During the current period, the Department filed the first reports on the reorganizations with the General Assembly, which were due 6 months after the reorganizations took effect. The initial reports were filed as follows:

- Executive Order 2003-7 – May 3, 2005
- Executive Order 2003-10 (Legal) – May 3, 2005
- Executive Order 2003-10 (Internal Audit) – May 11, 2005
- Executive Order 2003-10 (Facilities Management) – May 13, 2005
- Executive Order 2004-2 – May 11, 2005

The first annual reports were filed June 22, 2005 for Executive Orders 2003-7 and 2003-10. The annual report for Executive Order 2004-2 is not due until October 1, 2005.

The second annual reports are due as follows:

- Executive Order 2003-7 – October 28, 2005
- Executive Order 2003-10 – November 30, 2005
- Executive Order 2004-2 – not due until October 1, 2006

5. Finding:            Motor vehicle accident reports not submitted timely  
Finding Code No.: 04-19

Synopsis:        During the prior period, the Department did not ensure motor vehicle accident reports were submitted timely by its employees.

Status:            Implemented

During the current period, we performed a review of Department records and noted that there were 20 accidents involving Department employees during the period of July 1, 2004 through June 30, 2005. All of these accident reports were submitted timely.

6. Finding:            Employees not removed from payroll during leave of absence  
Finding Code No.: 04-22

Synopsis:        During the prior period, we tested 27 Department employees on leave of absence, and noted that 4 employees had not been removed from the payroll system in a timely manner.

Status:      Implemented

During the current audit period, 25 employees taking a leave of absence were tested. All 25 employees tested were properly removed from the payroll system in a timely manner.

**STATE OF ILLINOIS**  
**DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**  
**SPECIAL EXAMINATION**

**STATUS OF PRIOR FINDINGS**  
**PARTIALLY IMPLEMENTED**

7. Finding: Inadequate documentation to support the validation of savings  
Finding Code No.: 04-11

Synopsis: During the prior period, the Department did not maintain adequate documentation to support the validation of many of the savings which the Department attributes to its various efficiency initiatives. Furthermore, savings goals stated in the Request for Proposals (RFP), vendor proposals, and/or contracts were not always realized or documented.

Status: Partially Implemented

The Department awarded over \$69 million during FY04 to outside vendors for contracts intended to achieve savings as part of the efficiency initiatives. In some cases, contracts were awarded based on the vendors' ability to show they could meet savings goals stated in the RFP, vendor proposal and/or contract. Where savings are a specific goal, the Department should ensure it has in place a valid and reliable system to track savings achieved by the vendors.

As of September 14, 2005, the Department had not yet completed its validation of FY04 projected savings. Also, while the Department was unable to provide the amount of estimated savings that were attributable to the work conducted by the specific efficiency initiative contractors, the Department is in the process of identifying, on the savings template for each of the savings projects going through its validation process, the contractor's role and duration of project work as well as the contractor's key deliverables towards the savings.

After the April 2005 release of our FY04 Compliance Examination of CMS, the Department established the Initiative Savings Validation Project. According to the Project Charter for the Initiative Savings Validation Project, the purpose of the Project was "to identify and validate State of Illinois savings resulting from actions and/or activities attributable to CMS' consolidation and savings initiatives beginning in FY03." While the Project was comprised primarily of Department staff, in June 2005, the Department entered into a contract with Deloitte and Touche to provide assistance in the validation efforts. This contract is currently valued at an estimated \$995,000. An Executive Advisory Council, comprised of CMS management and Deloitte and Touche and Governor's Office representatives, was also created to monitor the validation effort.

In its formal response to the FY04 Compliance Examination, the Department noted that it had “reduced State government costs by more than \$600 million since Fiscal Year 2003 . . .” In other communications, the Department noted that more than \$600 million had been saved during the two-year period, including more than \$300 million in procurement, \$250 million in information technology and telecommunications, and \$44 million in facilities management.

As of September 14, 2005, the Department had reduced its fiscal year 2004 – 2005 estimated savings to \$545 million, down from the \$621 million it reported when the Auditor General’s FY04 compliance examination report was released in April 2005. The following adjustments were made:

<b>CMS Savings Validation Status<sup>1</sup></b> <b>(unaudited)</b> <b>Fiscal Years 2004 – 2005</b> <b>(in millions)</b>	
April 2005 estimate by CMS of FY04-05 savings	\$ 621
+ Additional estimated savings identified since April 2005	\$ 85
- Reductions in or erroneous savings identified since April 2005	(\$161)
September 2005 estimate of FY04-05 savings	\$545
Note: <sup>1</sup> As of September 14, 2005, the validation process was not completed. Department documents note that these numbers are estimates based on current status.	
Source: OAG analysis from CMS documents	

As of September 14, 2005, Department documentation showed 137 individual projects that were subject to its validation efforts. Of those 137 projects:

- 44 (32%), totaling \$392 million were through the validation process and were ready for peer review (a process where staff, not involved in the validation of the specific initiative, review various aspects of the projects, including the savings templates and documentation for thoroughness, accuracy of support, and evidence);
- 32 (23%), totaling \$153 million were still being reviewed as part of the validation process; and
- 61 (45%) did not result in specific savings because the Department determined that: (1) some projects’ savings amounts had already been counted in other projects and the Department did not want to double count these amounts, (2) there was limited documentation available for some projects, along with limited resources to complete the validation effort, resulting in the Department not pursuing some projects in the final validation efforts, or (3) there

was no savings associated with the project. The 61 projects included: 41 Procurement Initiative projects, 16 IT and Telecommunications Initiative projects, and 4 Facility Management Initiative projects. Some of the projects where no cost savings were realized were associated with the work performed by efficiency contractors. For example, under the Procurement Initiative, McKinsey employees were project team members for the “Mental Health Error Correction” project and on the “Medicare Recovery – Benefits Disability Leave” project, both of which had \$2.5 million in estimated savings. However, after the Department’s validation process, these projects were determined to have no validated savings associated with them.

The Department is categorizing estimated savings into one of six cost savings categories:

- reduced baseline appropriation;
- reduction from budgeted spending;
- volume reductions;
- rate reductions;
- revenue increases (rebates, new revenue, fee increases, enhanced reimbursement); or
- cost avoidance.

Focusing on the Procurement Initiative savings, in January 2005, during our FY04 compliance examination, the Department reported \$108,249,175 in validated Procurement Initiative savings. As of September 14, 2005, Department validation reports show estimated FY04 savings for the Procurement Initiative had decreased to \$78,663,000. Furthermore, of the \$78,663,000, the Department was still in the process of validating \$66,970,000. Validation efforts were completed on the remaining \$11,693,000 and they were ready for the Department’s peer review process.

Department Response:

The Department agrees and will continue to improve its processes for calculating savings and billings. The Department has made significant progress in calculating billings and documenting savings from fiscal year 2004, the first year of this process. The Department has developed a more rigorous savings validation approach that consistently documents actual savings achieved through its efficiency initiatives. Through actual experience and documentation of methods and approach, billings for forecasted savings will continue to become more precise with less deviation from actual validated savings. The Department contracted with Deloitte to provide assistance in the validation efforts. Deloitte will be issuing a report with its analysis.

Capturing savings is a collaborative effort between agency program staff, CMS and vendors. We collect information in our savings validation templates regarding roles and deliverables for the vendors associated with our efficiency initiatives. The documentation collected by the savings validation effort and by program staff working directly with the vendors verifies their contribution and level of effort towards the savings goals. The Department agrees that if savings are delineated in the contract as a specific deliverable, they will be tracked against that vendor.

8. Finding: Follow up to Management Audit of the Department's administration of the State's Space Utilization Program  
Finding Code No.: 04-12

Synopsis: In February 2004, the Office of the Auditor General released a management audit of the Department's Administration of the State's Space Utilization Program. The audit contained nine recommendations to improve the performance and operation of the Department to effectively manage the State's real property. As part of the Department's Compliance Examination for the year ended June 30, 2004, we followed up on the status of the nine recommendations. As of September 2004, while the Department had addressed issues in the recommendations, we found that none of the nine recommendations had been fully implemented.

On December 29, 2003, the Department awarded a \$24.9 million contract to Illinois Property Asset Management (IPAM) for professional asset management services – which included activities to address the recommendations in the management audit. This contract was terminated on May 5, 2005.

Status: Partially Implemented

We reviewed Department actions towards full implementation of the nine recommendations up through August 24, 2005 and found that four of the nine recommendations (#4, 5, 6, 9) had been implemented. Status of the remaining five recommendations is detailed below:

Recommendation #1 (Agency Reporting of Real Property): While the Department revised the Annual Real Property Utilization Report (Form A) and took steps to require agencies to submit required information on the Form A – it has not resolved the discrepancy in the reporting date for that information. While in practice the Department holds agencies to the statutory reporting date of October 30<sup>th</sup> (30 ILCS 605/7.1), the Department's administrative rules still provide a contradictory reporting date of July 30<sup>th</sup> (44 Ill. Adm. Code 5000.720).

Recommendation #2 (Accuracy of the Master Record): The Department clarified reporting requirements for wetland and flood mitigation projects in an agency directive in August 2005. The Department has developed an accounting of land and buildings owned by the State. However, the master record needs additional verification through the Department's process of facility condition assessments for approximately 40 million square feet of State-owned space.

Recommendation #3 (Automation of the Master Record): The Department has automated the master record and it is maintained in a sequel server database at IPAM. However, as of August 2005, after the termination of the contract with IPAM, the Department does not have physical possession of the databases – they are still at IPAM.

Recommendation #7 (Use of Unoccupied Space in State-Owned Facilities): The Department, as of August 24, 2005, has not completed the facility condition assessments on State-owned facilities to be able to identify all excess space.

Recommendation #8 (Monitoring of Leased Space): The Department, as of August 24, 2005, has not performed a complete analysis of leased space and the potential for excess space in leased facilities.

Department Response:

The Department agrees and will continue its efforts to fully implement each of the recommendations from the February 2004 audit of the State's Space Utilization Program. The Department had outsourced much of the inventory and system development work to Illinois Property and Asset Management (IPAM) and has subsequently cancelled that contract. As a result, the Department is reevaluating its approach but commits to continue to make progress towards its goals.

Recommendation #1: The Department will enforce the administrative rules and require agencies to submit reports by July 30<sup>th</sup>.

Recommendation #2: The Department is developing a plan to complete the facility condition assessments for all State-owned space in order to verify the master record.

Recommendation #3: The Department is continuing its efforts to secure deliverables from IPAM, including the databases containing the master record.

Recommendation #7: The Department is developing a plan to complete the facility condition assessments for all State-owned space in order to identify all excess space.

Recommendation #8: The Department is completing its analysis of leased space and the potential for excess space in leased facilities.

9. Finding: Surplus Property management process weaknesses  
Finding Code No.: 04-15

Synopsis: During the prior period, the Departments' State Surplus Warehouse did not maintain an adequate inventory control system. The lack of an adequate inventory control system hindered the ability of the warehouse to offer equipment to State agencies. A comprehensive list of available items was not maintained or disseminated to agencies. However, agencies were permitted to send "want lists" and be notified of requested transferable equipment as it became available. Additionally, the lack of effective controls regarding the receipt and inventory of equipment increased the potential for theft of the State's surplused property. Compensation for sale of computer equipment was also found to be inadequate and the Department did not ensure computer equipment was adequately cleared of all data prior to being surplused.

Status: Partially Implemented

Based on testing performed during the current period, data on computers transferred to Surplus Property was found to have been properly removed. However, it was further noted that the Department's implementation of an adequate inventory control system has not been completed. The Department has taken steps to address this finding, such as establishing the Council on Inventory Control; although many conditions that led to the prior year finding still exist.

Department Response:

The Department agrees and continues to look for ways to improve controls over the receipt and tracking of inventory. To that end, it has created the Inter-agency Council on Inventory Control (Council). The Council is comprised of property control liaisons representing agencies, boards, commissions, and universities with a goal to develop, recommend and propose uniform requirements and, potentially, technology to be used by all State agencies. The Council continues to meet monthly and has conducted a survey of inventory control rules and practices in other states. The survey data is being used to determine legislative or rules changes that may be appropriate.

10. Finding: Travel Control Board not meeting or submitting reports as required  
Finding Code No.: 04-20

Synopsis: During the prior period, the Governor's Travel Control Board, chaired by the Director of the Department, did not meet quarterly as required. In addition, quarterly travel reimbursement claim reports were not submitted by the Board to the Legislative Audit Commission as required.

Status:      Partially Implemented

During the current period, meetings of the Governor's Travel Control Board were held on a quarterly basis. However, individuals present at the meetings may not have been properly appointed to serve. In addition, consent of the appointing official was not obtained in writing as required for an individual designated to serve in the absence of an appointed member. The Governor's Travel Control Board submitted quarterly travel reimbursement claim reports to the Legislative Audit Commission at least quarterly during the current period.

Department Response:      The Department agrees and will ensure that designees are properly appointed to serve and that the appointments are in writing.

**STATE OF ILLINOIS**  
**DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**  
**SPECIAL EXAMINATION**

**STATUS OF PRIOR FINDINGS**  
**NOT IMPLEMENTED**

In May and June 2005, the Department issued a series of Chief Procurement Officer (CPO) Notices designed to address many of the contract deficiencies noted in the prior examination. Additionally, training of State Procurement Officers was conducted in July 2005. Testing of the adequacy of the specific corrective action measures adopted could not be performed for FY05 procurements due to the timing of adoption and implementation of the CPO Notices. Testing will be performed in conjunction with the next examination of the Department for the one year ended June 30, 2006.

11. Finding: Lack of documentation in contract files  
Finding Code No.: 04-2

Synopsis: During the prior period, the procurement and award files for nine contracts awarded in FY04 related to the Department's major initiatives, totaling a maximum award amount of \$69 million, were selected for testing. While the Department's contract files contained summary scoring sheets for each procurement tested, 6 of 9 contract files (67 percent) did not contain the individual evaluators' scoring sheets. Further, some summary sheets did not identify who the evaluators were and some summary scoring sheets did not show a breakdown of the scoring by evaluation category. Lacking this detailed information, the accuracy of the summary sheet, and the integrity of the scoring process, could not be verified.

Additionally, 8 of the 9 FY04 contract files tested (89 percent) lacked evidence of a decision memorandum to the Director recommending the award of a contract to a specific vendor.

- Status: Not Implemented

During the current period, the procurement and award files for ten solicitations or contracts awarded in FY05, totaling a maximum award amount of approximately \$270 million, were selected for testing.

Six of the 10 tested contract files (60 percent) awarded in FY05 lacked documentation in the contract files in one or more areas. Concerns were raised about the availability and completeness of information provided to the auditors. Numerous documents expected to be retained centrally in contract files were missing upon initial review. Many of the requested documents were subsequently provided, however, the omission of these documents from the contract files demonstrates the Department's inability to provide sufficient support for procurement decisions in a timely and complete manner.

Specific documentation not contained in contract files included the following:

- No written recommendation or decision memorandum for a procurement outlining reasons for selecting the winning vendor.
- A written recommendation did not provide sufficient justification for selecting the winning vendor.
- A technical point evaluation was done collectively for all persons performing the proposal evaluation rather than individually by each person, as required by a document titled “Evaluation Procedures for Bids (IFB) and/or Proposals (RFP)” maintained on the State Purchasing Officer’s (SPO) web page.
- A contract was executed that included an hourly rate for the vendor different than the rate proposed, and the contract file lacked documentation regarding the change. In this instance the rate was lower than proposed; however, there was no documentation of a best and final offer process.
- For one solicitation only the successful vendor was deemed responsive. The contract file lacked documentation of the reasons all other vendors were deemed unresponsive.

In addition, the Department was unable to provide a procurement file for a sole source procurement awarded during FY05. Significant documents relating to the procurement process were not retained and the Department did not execute a contract. No services were provided to the Department under this procurement and no payments were made to the vendor.

Department Response:

The Department agrees and will continue its efforts to fully implement the recommendations. In May 2005, the Department issued Chief Procurement Officer (CPO) Notice #37 reinforcing existing guidelines that all appropriate documentation needs to be maintained in the file. The Department conducted further training for CMS and the State Purchasing Officers (SPOs) in May and July 2005. The Department made additional improvements to the existing Procurement Business Case and as of June 2005 requires the award justification to be added to ensure a complete record of the procurement activity. The Procurement Business Case (PBC) serves as a decision memo to capture procurement data, justification, vendor information and necessary approvals from inception to completion for procurements that meet the requirements for a PBC.

12. Finding: Use of contractor work in developing RFP specifications  
Finding Code No.: 04-3

Synopsis: During the prior period, the Department used vendors to develop specifications in Requests for Proposals (RFP) – including some vendors that eventually received awards for the procurement opportunities. In 67 percent (6 of 9) of the contracts reviewed, the winning vendor participated in the development of information for the RFP and/or was granted a waiver by the Department to propose on the procurement. Three of the six winning vendors had information attributed to them in the RFP.

Status: Not Implemented

During the current period, the procurement and award files for ten solicitations or contracts awarded in FY05, totaling a maximum award amount of approximately \$270 million, were selected for testing.

In 1 of the 10 FY05 contracts tested (10 percent), the Department used vendors to develop specifications in the RFP, including the vendor that eventually received the award. The winning vendor was granted a waiver by the Department to propose on the procurement. Prior to the issuance of the solicitation, this vendor provided extensive “pro bono” work to the Department. Certain information developed as a result of the pro bono work was provided to prospective proposers.

In another instance, the Department had contact with the winning vendor, outside the normal solicitation process. Two Department officials met with this vendor prior to the issuance of the RFP. No other vendors were contacted regarding the issuance of the RFP. This vendor was subsequently determined to be the only responsive bidder on this contract.

Department Response: The Department agrees and will continue its efforts to fully implement the recommendations. There is significant value to State procurement staff meeting with potential suppliers in order to develop a complete understanding of a particular industry or product set including industry trends, best practices, new innovations and costs; however, the Department understands that this value needs to be balanced with the necessity for a fair procurement process to all vendors.

In May 2005, the Department issued Chief Procurement Officer (CPO) Notice #38 establishing guidelines for using a vendor to develop specifications or to conduct a study or data collection effort. The Department conducted further training for CMS and the State Purchasing Officers (SPOs) in May and July 2005.

The Department issued a memo on June 30, 2005 to all SPOs providing further guidance on communicating with suppliers. Additional training was conducted with all SPOs to facilitate understanding and discuss any questions or issues.

The procedures, guidelines and training were implemented to ensure that when agencies utilize vendors' services that full transparency is provided.

13. Finding: Changes in award evaluation criteria not communicated to proposers  
Finding Code No.: 04-4

Synopsis: During the prior period, the Department evaluated vendor proposals using evaluation criteria that were not stated in the RFP. Changes in scoring methodology were not communicated to proposing vendors or reflected in an addendum to the RFPs. Additionally, in one of these instances, the Department awarded a contract to a vendor that had not received the highest scoring total based on evaluation criteria set out in the RFP.

Status: Not Implemented

During the current period, the procurement and award files for ten solicitations or contracts awarded in FY05, totaling a maximum award amount of approximately \$270 million, were selected for testing.

In one of the tested awards, a \$162 million contract for pharmaceuticals, the Department used an evaluation process that conflicted with the process specified in the RFP. After technically scoring the proposals and determining that 3 of the 4 vendors met the minimum responsiveness point scale, CMS failed to proceed to price evaluation as stated in the RFP. The evaluation committee instead determined that no vendor met all of the Mandatory Requirements from the RFP and sent all 4 vendors a revised document on the Mandatory Requirements from the RFP as a stated Best and Final Offer. Within this correspondence is no mention that the evaluation criteria had been changed from what was outlined in the RFP. After reviewing the second responses, the evaluation committee determined that only the winning vendor was evaluated as being able to meet the State's requirements. The evaluation committee, through a consultant, reviewed pricing submitted by all vendors, even though only the winning vendor was deemed able to meet all the requirements, and the pricing structure of the winning vendor was identified as being at the "upper end of the market".

Department Response: The Department agrees and will continue its efforts to fully implement the recommendations. The Department understands the importance of maintaining the proper documentation in the files to support procurement decisions. The Department continues to update procedures and conduct training to emphasize the importance of documentation in the procurement files.

Also, in May 2005, the Department issued Chief Procurement Officer (CPO) Notice #40 reinforcing that the evaluation criteria and sourcing methodology need to be accurately reflected in the Request for Proposal (RFP) and any change to the evaluation criteria requires an addendum to be published on the Illinois Procurement Bulletin.

14. Finding: Extensive vendor revisions to proposal during best and final process  
Finding Code No.: 04-5

Synopsis: During the prior period, the Department allowed a vendor to extensively revise its proposal during the best and final process after initial scoring evaluations were completed. Several items deleted by the vendor during the best and final process eventually were added back into the agreement, in the form of contract amendments. The amendments, potentially costing the State \$5.75 million, were entered into after the award of the contract.

Status: Not Implemented

During the current period, the procurement and award files for ten solicitations or contracts awarded in FY05, totaling a maximum award amount of approximately \$270 million, were selected for testing.

Of the 10 FY05 contracts tested, we noted the Department allowed a vendor to extensively revise its proposal during the best and final process. Of 4 vendors submitting proposals for performing various types of pressure washing services, the vendor awarded the contract was the only vendor determined to be responsive to the RFP. The original proposal submitted by the vendor quoted statewide rates. The best and final offer revised the rate structure based on regions. For many of the pressure washing services to be provided, the final pricing by region was double or triple the original statewide rate quoted in the winning vendors' initial proposal.

Department Response: The Department agrees and will continue its efforts to fully implement the recommendations. The Department understands the importance of maintaining the proper documentation in the files to support procurement decisions. The Department continues to update procedures and conduct training to emphasize the importance of documentation in the procurement files.

The Department also issued Chief Procurement Officer Notice #36 reinforcing that Best And Final Offer (BAFOs) requests need to clearly state which areas of the proposal the vendor is being asked to address and provide greater guidance on when and how BAFOs should be requested. The Department conducted further training for CMS and the State Purchasing Officers (SPOs) in May and July 2005. As of September 2005 all CMS BAFOs need the approval of the SPO.

15. Finding: Not timely in executing contracts  
Finding Code No.: 04-8

Synopsis: During the prior period, the Department was not timely in executing contracts with vendors for contracts awarded and was not timely in filing the contracts with the Office of the Comptroller. Additionally, the Department allowed vendors to initiate work on these projects without a written contract in place. In all 9 of the contracts reviewed (100 percent), the Department allowed vendors to initiate work on the project without a formal written agreement in place. These contracts were estimated by the Department to have a maximum contract value of \$69 million with an FY04 financial commitment of \$32 million.

Status: Not Implemented

During the current period, the procurement and award files for ten solicitations or contracts awarded in FY05, totaling a maximum award amount of approximately \$270 million, were selected for testing.

Of the 10 FY05 awards tested, only 8 resulted in contracts. Six of the 8 FY05 contracts tested (75 percent) were not filed timely. On average, the length of time between announcement of the award and the filing of a contract with the Comptroller, for the late filed contracts, was 125 days (with a range of 64 days to 190 days). Two of the contracts were not filed within 30 days of contract execution as required. In 1 of the contracts reviewed, the Department allowed the vendor to work on the project for approximately 6 months without a formal written agreement in place.

Department Response: The Department agrees and will continue its efforts to fully implement the recommendations. The six contracts not filed timely are largely due to the complex nature of the procurements and other factors such as outside reviews by the Procurement Policy Board and the Government Forecasting & Accountability Commission. The Department will continue to implement improvements to this process.

The Department issued late filing affidavits for the two contracts not filed within 30 days and for the one where the vendor started work prior to a formal written agreement. The Department continues to work on improving timely submission of contracts to decrease the need for late filing affidavits. Additional internal procedures have been implemented as of July 1, 2005, which requires the fiscal coordinator's review before a Procurement Business Case is approved.

16. Finding: Contract monitoring deficiencies  
Finding Code No.: 04-9

Synopsis: During the prior period, 7 of the 9 FY04 contracts selected for review allowed the vendor to be reimbursed for expenses. During FY04, the Department paid the seven contractors \$708,715 in reimbursable expenses. Expense reimbursements to 5 of the contractors totaling \$546,650 of the \$708,715 in expenses paid (77 percent) during FY04 were questioned due to lack of supporting documentation submitted by contractors and the Department's lack of adequate review.

Status: Not Implemented

During the current period, the procurement and award files for ten solicitations or contracts awarded in FY05, totaling a maximum award amount of approximately \$270 million, were selected for testing.

On June 10, 2005, the Department created interim procedures for review and approval of reimbursable vendor expenses. These interim procedures were codified in Fiscal Operations Policy Number 02.04.00 effective September 19, 2005.

During our current review, we noted the following items on two FY05 contracts tested:

- The vendor awarded the truck fleet management contract billed the Department a per-invoice fee in excess of the fee stipulated in the contract. In addition, the Department is not pre-authorizing all repair work as stipulated in the contract. Further, invoices for fleet repairs were processed, paid and charged to the current contract, prior to the execution of the current contract.
- For a legal services contract, the Department did not obtain documentation supporting claimed expenses on a timely basis, certain documentation received was not sufficient to support the expenses claimed, and certain parking costs did not relate directly to the project.

In April and May 2005, the Department requested that the Illinois Office of Internal Audits (IOIA) review the expenses paid to four of the contractors with FY04 questioned expenses – Illinois Property Asset Management, BearingPoint, Accenture, and Electronic Knowledge Interchange. The IOIA review was to be for both FY04 and FY05. The IOIA worked in conjunction with the Executive Office of the Inspector General on this review. This process, review by IOIA and subsequent follow up by the Department to recover any applicable funds, has not yet been completed.

We are continuing to review contracts from the FY04 audit and the results of our testing will be included in the FY05 compliance examination of the Department. Specifically, we will be reviewing contract monitoring deficiencies in the asset management contract which was terminated May 5, 2005. According to CMS officials and documentation provided to us by CMS fiscal personnel, the Department questions \$5.2 million in payments to the vendor. However, due to the intervening cancellation of this contract in May 2005, the Department has been unable to obtain necessary documentation from the vendor concerning these charges. Additionally, CMS documentation delineates \$7.4 million in “additional service plans” that were submitted by the vendor for work outside the contract with the vendor. Some of these additional service plans were developed prior to the execution of the formal agreement for the asset management services to be provided by this vendor.

Department Response:

The Department agrees and will continue its efforts to fully implement the recommendations. A revised procedure for review and approval of vendor expenses was implemented shortly after the issuance of the initial audit report. This interim procedure, which has been formalized through the issuance of Fiscal Operations Policy 02.04.00 effective September 19, 2005, requires the approval of the appropriate Deputy Director as well as the Agency Chief Financial Officer in order to verify that the expenses are warranted under the contract. This new Fiscal Operation Policy was discussed with the Fiscal Coordinators at the quarterly meeting on September 30, 2005.

In addition, the Department has implemented new standard contract Terms and Conditions that do not allow for reimbursement of any expense incurred by the vendor unless specifically negotiated by the vendor.

The Department is working with Internal Audit on their reviews of the expenses for Bearing Point, Accenture and EKI and will seek additional documentation from the vendor where deficient. In addition, the Department will take steps to obtain reimbursement for any items found to have been paid in error. With respect to the IPAM contract, the Department is in litigation with the vendor and will seek reimbursement for any inappropriate expenses through the legal process.

17. Finding: Methodology for calculating savings amounts to bill agencies for savings initiatives

Finding Code No.: 04-10

Synopsis: During the prior period, the Department failed to adequately determine the amount of savings it expected State agencies to realize when billing for savings initiatives. This resulted in a majority of State agencies being over billed – i.e., they were billed more for savings initiatives than Department documentation showed the agencies had realized in savings. During FY04, the Department billed State agencies \$137 million for efficiency initiatives for: procurement, information technology, vehicle fleet management, facilities management consolidation, internal audit consolidation, and legal research consolidation.

Status: Not Implemented

During FY05, the Department billed State agencies \$41 million for efficiency initiatives relating to procurement, information technology, communication manager consolidation, and legal research consolidation. The Department has collected only \$21 million of the amount billed (51 percent). The remaining balance was written off by the Department through the issuance of credits to 20 agencies totaling \$20 million. Department representatives stated the credits were issued for a variety of reasons which included agencies claiming there was a lack of supporting documentation for the savings and billing amounts, agencies disagreed with the savings or believed the savings would not be realized, or agencies were federally funded and the billings were unallowable expenses.

Not all agencies were billed for the procurement and information technology initiatives for some or all of the various categories of estimated savings. For instance, the Department of Corrections, Department of Human Services, Department of Children and Family Services, Department of Health and Family Services were billed for some information technology categories but not all categories determined by the Department to expect savings. The Department of Central Management Services, Historic Preservation Agency and the Illinois Student Assistance Commission were billed for procurement efficiency, but not for any of the information technology efficiency initiative. The Governor's Office was billed for both initiatives in FY04 but was not billed for either initiative in FY05.

The procurement efficiency initiative billings included a component for savings in various commodity categories. However, the Department failed to consider commodity quantities on hand in estimating FY05 purchases.

Department Response: The Department agrees and will continue to improve its processes for calculating savings and billings as we gain actual experience and data. The Department has made significant progress in calculating billings and documenting savings from fiscal year 2004, the first year of this process. In 2004, the initial savings calculations were largely based on diagnostic data collected through various methods and gauged against industry standards and best practices. Through actual experience and documentation of methods and approach, forecasted savings will continue to become more precise with less deviation from actual validated savings. The Department contracted with Deloitte to provide assistance in the validation efforts. Deloitte will be issuing a report with its analysis.

The Department has developed an improved savings validation approach that consistently documents actual savings achieved through its efficiency initiatives. In fiscal year 2005, the methodology for calculating the savings billings for agencies was greatly improved. Using actual experience from fiscal year 2004, the annualized savings were projected into FY2005, and the specific agency billings were based on actual data summarizing their historical usage patterns for purchases of goods and services through the Bureau of Strategic Sourcing and Procurement and the Bureau of Communications and Computer Services. The methodology and accuracy of the resulting bills was significantly improved over fiscal year 2004.

The Department will continue to work with stakeholders to improve its methodology and coordination around billings and accounts receivable credits.

18. Finding: Inadequate control over property and equipment  
Finding Code No.: 04-18

Synopsis: During the prior period, the Department did not provide adequate control over property and equipment. The physical inventory and location of equipment, equipment purchases, and equipment transfers and deletions were tested, and deficiencies were noted in each area.

Status: Not Implemented

During the current period, we tested 60 equipment expenditures, and noted that in 10 cases (17 percent) the equipment value was not recorded correctly in the property control records. While looking at existing property, 3 of 60 property items tested (5 percent) were found in locations other than where the property control records indicated, and 2 of 60 items tested (3 percent) could not be located.

Department Response: The Department agrees and has corrected the exceptions found by the auditors. The Department will continue to identify and implement policies and procedures to safeguard State property and equipment.

19. Finding: Late approval and payment of vouchers  
Finding Code No.: 04-21

Synopsis: During the prior period, the Department did not approve 17 of 60 invoice vouchers (28 percent) within 30 days of receipt and 15 of the 17 vouchers not approved timely (88 percent) were also not paid within 60 days of receipt.

Status: Not Implemented

During the current period, we tested 60 vouchers, and noted that 43 vouchers (72 percent) were not approved within 30 days of receipt, ranging from 1 to 89 days late. We also noted that 32 of the 43 vouchers (74 percent) were also not paid within 60 days of receipt, ranging from 2 to 60 days late.

Department Response: The Department agrees and fiscal staff will continue to process vendor invoices to the CMS Accounting Division in a timely fashion. Cash shortfalls in the State Garage Revolving Fund (SGRF) and the Facilities Management Revolving Fund (FMRF), however, have precluded the delivery of payment vouchers to the Comptroller until sufficient cash is in the funds. Revolving Funds are established to finance and account for intra-governmental services. Appropriation of resources of these funds is dependent upon intra-governmental service requirements and appropriations of other State agencies. Revolving Fund resources are provided by expenditures of State agencies financed by the fund.

We will continue to pursue dialogue with the Illinois Office of the Comptroller regarding changes to the Prompt Payment Rules to address the cash flow issues.

20. Finding: Time sheets not maintained in compliance with the State Officials and Employees Ethics Act  
Finding Code No.: 04-23

Synopsis: During the prior period, the Department did not maintain time sheets for its employees in compliance with the State Officials and Employees Ethics Act (Act). The Act (5 ILCS 430/5-5(c)) states, “The policies shall require State employees to periodically submit time sheets documenting the time spent each day on official State business to the nearest quarter hour.”

Based on testing performed, it was determined most of the Department's employees did not maintain time sheets in compliance with the Act. Employees' time is generally tracked using the Central Management Services payroll system, which is a "negative" timekeeping system whereby the employee is assumed to be working unless noted otherwise. No time sheets documenting the time spent each day on official State business to the nearest quarter hour were maintained for the majority of Department employees.

Status: Not Implemented

During the current period, the Department obtained an opinion from the Executive Ethics Commission that its revised timekeeping policy is consistent with the requirements of the Act. The policy stipulates, "...each employee will receive a timesheet for review on a periodic basis. Employees are to promptly review the timesheets to determine: (a) time spent on official State business, and (b) authorized leave, to the nearest quarter hour". However, the Department has not made any modifications to the methods used to track employee time. Forty-four of 50 employees tested (88 percent) did not maintain timesheets documenting the time spent each day on official State business to the nearest quarter hour.

Department Response:

The Department agrees. The Department is currently exploring potential modifications to the monthly employee certification that would provide more detail on time spent on official State business.

21. Finding: Travel Headquarters Reports (Form TA-2) not properly completed  
Finding Code No.: 04-24

Synopsis: During the prior period, the Department did not properly complete the TA-2 reports filed with the Legislative Audit Commission (LAC).

Status: Not Implemented

During the current period, we reviewed the TA-2 reports due to the LAC on January 15, 2005 and July 15, 2005. We noted that one employee, who was headquartered in Chicago, spent 59 percent of her working time in Springfield, during the period of July 1, 2004 through December 31, 2004, and was not listed on the TA-2 form filed January 15, 2005. This person was listed in an addendum filed late on July 20, 2005.

Department Response:

The Department agrees and will take all necessary steps to properly complete the TA-2 reports filed with the Legislative Audit Commission (LAC).

**STATE OF ILLINOIS**  
**DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**  
**SPECIAL EXAMINATION**

**STATUS OF PRIOR FINDINGS**  
**PENDING**

22. Finding: Weaknesses in internal control over financial reporting  
Finding Code No.: 04-13

Synopsis: During the prior period, the Department's year-end financial reporting, in accordance with generally accepted accounting principles (GAAP), to the Office of the State Comptroller, contained significant errors in the determination of year-end liabilities.

Status: Pending

Due to the timing of GAAP submissions to the Office of the Comptroller, the status of the prior year finding has yet to be determined. The finding will be addressed once the GAAP submissions to the Office of the Comptroller are complete and appropriate testing can be performed. The results of this testing will be reported in the Department's Compliance Examination for the period ended June 30, 2005.

23. Finding: Noncompliance with the Fiscal Control and Internal Auditing Act  
Finding Code No.: 04-14

Synopsis: During the prior period, the Department's Illinois Office of Internal Audit (IOIA) did not complete audits of all agencies' major systems of internal accounting and administrative control. Further, an effective process to identify new major computer systems or major modification of existing computer systems was not in place.

Status: Pending

Beginning in FY05, IOIA has adopted a Statewide risk-based approach in the development of its two-year internal audit plan. Additionally, IOIA has continued to enhance communications with other State agencies to identify new major computer systems or major modification of existing computer systems. IOIA is monitoring the status of reported projects and performing tests of certain systems. Compliance with the Fiscal Control and Internal Auditing Act cannot be fully assessed until this initial two-year period has lapsed and IOIA audit efforts can be appropriately tested.

24. Finding: Preparation of year-end Department financial statements not timely  
Finding Code No.: 04-17

Synopsis: During the prior period, the Department's financial statements were not prepared timely, impeding the audit process and potentially impacting the statewide financial statements prepared by the Office of the Comptroller.

Status: Pending

Due to the timing of GAAP submissions to the Office of the Comptroller, the status of the prior year finding has yet to be determined. The finding will be addressed once the GAAP submissions to the Office of the Comptroller are complete and appropriate testing can be performed. The results of this testing will be reported in the Department's Compliance Examination for the period ended June 30, 2005.

## APPENDIX A

### Legislative Audit Commission

RESOLUTION NO. 134

Presented by Senator Lauzen and Representative Mautino

WHEREAS, in April 2005, the Auditor General released a financial audit and compliance examination of the Department of Central Management Services;

WHEREAS, those reports presented a total of twenty-four findings identifying significant deficiencies;

WHEREAS, since the reports were released, the Department has accepted 23 of the 24 recommendations;

WHEREAS, follow-up is necessary to determine whether and to what extent the Auditor General's recommendations have been implemented; therefore, be it

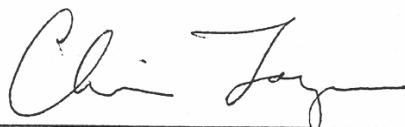
RESOLVED, BY THE LEGISLATIVE AUDIT COMMISSION that the Auditor General is directed to follow-up on its 2004 financial and compliance audit of the Department of Central Management Services; and be it further

RESOLVED, that the follow-up include, but need not be limited to, determining the status of the Department's implementation of the recommendations contained in the 2004 reports; and be it further

RESOLVED, that the Department of Central Management Services and any other entity or person that may have information relevant cooperate fully and promptly with the Auditor General's Office in the conduct of the follow-up; and be it further

RESOLVED, that the Auditor General commence this follow-up as soon as necessary and report his findings back to the Audit Commission by October 17, 2005, or as soon thereafter as possible, in accordance with the Illinois State Auditing Act.

Adopted this 23<sup>rd</sup> day of May, 2005.



Senator Chris Lauzen  
Co-chair



Representative Frank Mautino  
Co-chair