STATE OF ILLINOIS
DEPARTMENT OF
CENTRAL MANAGEMENT SERVICES
COMPLIANCE EXAMINATION

For the Year Ended June 30, 2006

Performed as Special Assistant Auditors for
The Auditor General, State of Illinois

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

COMPLIANCE EXAMINATION
For the Year Ended June 30, 2006

TABLE OF CONTENTS

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

AGENCY OFFICIALS

Director	Mr. Paul J. Campbell (Effective June 2, 2005)
Assistant Director	Ms. Maureen O'Donnell (Effective June 8, 2006)
Assistant Director	Mr. N. Keith Chambers (Effective through May 31, 2006)
	Ms. Shonda Weathers-Morrow (Effective June 19, 2006 through January 10, 2007)
Chief Operating Officer	Mr. Brian Chapman (Effective through April 2, 2006)
	Ms. Marcia Armstrong (Effective May 25, 2006)
Chief Fiscal Officer	Mr. Ronald Banks (Effective through December 9, 2005)
	Marcia Armstrong (Acting, effective December 12, 2005)
	Mr. Paul Romiti (Effective May 25, 2006)
Chief Administrative Officer / General Counsel	Mr. H. Edward Wynn (Effective through July 31, 2005)
General Counsel	Ms. Letitia Dominici (Acting, effective August 1, 2005)
	Ms. Debra Matlock (Effective February 14, 2006)
Chief Internal Auditor (Illinois Office of Internal Audit)	Mr. John Cressman (Effective through December 22, 2006)
	Ms. Carol Kraus (Acting, effective December 22, 2006)

AGENCY OFFICE LOCATION

Stratton Office Building
401 South Spring Street
Springfield, IL 62706

CMS ILLINOIS Rod R. Blagojevich, Governor
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
Maureen T. O'Donnell, Acting Director

MANAGEMENT ASSERTION LETTER

February 26, 2007

Sikich LLP
Certified Public Accountants
1000 Churchill Road
Springfield, IL 62702

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Department. We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Department's compliance with the following assertions during the year ended June 30, 2006. Based on this evaluation, we assert that during the year ended June 30, 2006, the Department has materially complied with the assertions below.

A. The Department has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The Department has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. The Department has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. The State revenues and receipts collected by the Department are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

715 Stratton Office Building, 401 South Spring Street, Springfield, IL 62706

E. The money or negotiable securities or similar assets handled by the Department on behalf of the State or held in trust by the Department have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

Department of Central Management Services

Maureen O'Donnell, Acting Director

Paul Romiti, Fiscal Officer

Debra Matlock, General Counsel

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

COMPLIANCE REPORT

SUMMARY

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

AUDITORS' REPORTS

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

Number of	This Report	Prior Report
Findings – *Government Auditing Standards*	1	1
Findings – State	17	21
Repeated Findings – State	10	17
Prior Recommendations Implemented or Not Repeated	12	7

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

SCHEDULE OF FINDINGS

Item Number	Page	Description
		FINDINGS *(GOVERNMENT AUDITING STANDARDS)*
06-1	13	Noncompliance with federal regulations and failure to timely recognize federal liability
		FINDINGS (STATE COMPLIANCE)
06-2	15	Lack of documentation in contract files
06-3	17	Changes in award evaluation criteria not communicated to proposers
06-4	19	Deficiency in assessment of proposal responsiveness

PRIOR FINDINGS NOT REPEATED – Continued

Item Number	Page	Description	Prior Finding Code
06-21	49	Not timely in executing contracts	05-6
06-22	49	Contract monitoring deficiencies	05-7
06-23	50	Significant changes in contract requirements	05-9
06-24	50	Failure to adequately monitor contract progress and receipt of deliverables	05-10
06-25	50	Methodology for calculating savings amounts to bill agencies for savings initiatives	05-12
06-26	50	Inadequate documentation to support validation of savings	05-13
06-27	51	Weaknesses in internal control over financial reporting	05-15
06-28	51	Preparation of year-end Department financial statements not timely	05-17
06-29	51	Travel Control Board member designees not properly appointed and travel exceptions not properly approved	05-19
06-30	51	Travel Headquarters Reports (Form TA-2) not properly completed	05-22

The findings from this examination will be reviewed during the fiscal year 2007 compliance examination of the Department.

A management audit was released June 2006 by the Office of the Auditor General on the Department of Central Management Services' Business Enterprise program. The findings from this examination will be reviewed during the fiscal year 2007 compliance examination of the Department.

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on April 30, 2007. Attending were:

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Maureen O'Donnell, Acting Director
Paul Romiti, Chief Fiscal Officer
Marcia Armstrong, Chief Operating Officer
Robert Schaaf, Deputy Director – Bureau of Property Management
Mike Smith, Deputy Director – Bureau of Strategic Sourcing and Procurement
David Boyd, Audit Liaison

OFFICE OF THE AUDITOR GENERAL

Kimberly Labonte, Audit Manager

SIKICH LLP

Gary Neubauer, Partner
Richard Taylor, Supervisor

Reponses to the recommendations were provided by Paul Romili on May 4, 2007.

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Illinois CPA Society

INDEPENDENT ACCOUNTANTS' REPORT ON STATE COMPLIANCE, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois, Department of Central Management Services' compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2006. The management of the State of Illinois, Department of Central Management Services is responsible for compliance with these requirements. Our responsibility is to express an opinion on the State of Illinois, Department of Central Management Services' compliance based on our examination.

A. The State of Illinois, Department of Central Management Services has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The State of Illinois, Department of Central Management Services has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. The State of Illinois, Department of Central Management Services has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. The State revenues and receipts collected by the State of Illinois, Department of Central Management Services are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

E. Money or negotiable securities or similar assets handled by the State of Illinois, Department of Central Management Services on behalf of the State or held in trust by the State of Illinois, Department of Central Management Services have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the State of Illinois, Department of Central Management Services' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the State of Illinois, Department of Central Management Services' compliance with specified requirements.

In our opinion, the State of Illinois, Department of Central Management Services complied, in all material respects, with the aforementioned requirements during the years ended June 30, 2006. However, the results of our procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State findings.

As required by the Audit Guide, immaterial findings relating to instances of noncompliance excluded from this report have been reported in a separate letter to your office.

Internal Control

The management of the State of Illinois, Department of Central Management Services is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations. In planning and performing our examination, we considered the State of Illinois, Department of Central Management Services' internal control over compliance with the aforementioned requirements in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General.

Our consideration of internal control over compliance with the aforementioned requirements would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to one or more of the aforementioned requirements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance that we consider to be material weaknesses. However, the results of our procedures disclosed other matters involving internal control which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State findings.

As required by the Audit Guide, immaterial findings relating to internal control deficiencies excluded from this report have been reported in a separate letter to your office.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Central Management Services as of and for the year ended June 30, 2006, which collectively comprise the State of Illinois, Department of Central Management Services' basic financial statements, and have issued our report thereon dated November 17, 2006. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the State of Illinois, Department of Central Management Services. The 2006 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2006 taken as a whole. We have also previously audited, in accordance with auditing standards generally accepted in the United States, the State of Illinois, Department of Central Management Services' financial statements for the years ended June 30, 2005 and 2004. In our reports dated January 18, 2006 and February 16, 2005, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. In our opinion, the 2005 and 2004 Supplementary Information for State Compliance Purposes, except for the portion marked "unaudited" is fairly stated in all material respects in relation to the basic financial statements for the years ended June 30, 2005 and 2004 taken as a whole.

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

Sikich LLP

Springfield, Illinois
February 26, 2007

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Central Management Services as of and for the year ended June 30, 2006, which collectively comprise the State of Illinois, Department of Central Management Services' basic financial statements and have issued our report thereon dated November 17, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Illinois, Department of Central Management Services' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Illinois, Department of Central Management Services' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as item 06-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 06-1 to be a material weakness.

In addition, we noted certain deficiencies in the design or operation of internal control over financial reporting which do not meet the criteria for reporting herein and which are reported as State compliance findings in the schedule of findings. We also noted certain immaterial instances of internal control deficiencies, which we have reported to management of the State of Illinois, Department of Central Management Services in a separate letter dated February 26, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Department of Central Management Services' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item 06-1.

We noted certain matters which are reported as State compliance findings in the schedule of findings. We also noted certain other matters which we have reported to management of the State of Illinois, Department of Central Management Services in a separate letter dated February 26, 2007.

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

Sikich LLP

Springfield, Illinois
November 17, 2006

06-1 **FINDING:** (Noncompliance with federal regulations and failure to timely recognize federal liability)

The Department did not comply with the requirements of OMB Circular A-87, incurred a liability to the federal government for overcharges in two internal service funds for fiscal years 2004 and 2005, and did not recognize the liability until a federal audit was initiated subsequent to fiscal year 2006.

The Department's internal service funds receive revenue from charges for services provided to various federal grants of the State. OMB Circular A-87 (circular), *Cost Principles for State, Local and Indian Tribal Governments*, Attachment C, Section G establishes policies governing central service activities such as those provided by the Department's internal service funds. Section G.2 of the circular allows internal service funds to maintain reasonable working capital reserves, up to 60 days cash expenses, for normal operating purposes.

However, two internal service funds administered by the Department maintained fund balances in excess of the allowable working capital reserve. Consequently, the Department believes that it is probable that a payback representing the federal share of excess fund balances will be required from the Statistical Services Revolving Fund (SSRF) and the Communications Revolving Fund (CRF). It is estimated that the SSRF liability for fiscal years 2004 and 2005 is approximately $6.136 million and the CRF liability for fiscal years 2004 and 2005 is approximately $6.920 million. The Department has indicated any potential liability for fiscal year 2006 is indeterminable at this time.

Furthermore, the circular stipulates "A comparison of the revenue generated by each billed service (including total revenues whether or not billed or collected) to the actual allowable cost of the service will be made at least annually, and an adjustment will be made for the difference between the revenue and the allowable costs. These adjustments will be made through one of the following methods: (a) a cash refund to the Federal Government for the Federal share of the adjustment, (b) credits to the amounts charged to the individual programs, (c) adjustments to future billing rates, or (d) adjustment to allocated central service costs." The Department has failed to perform the annual comparison and make adjustments as required by the Circular. This current situation was brought to the Department's attention by federal auditors.

Department officials stated the non-inclusion of the potential liability on the financial statements was due to past practice, and ongoing negotiations with the Federal Department of HHS on the potential payback.

Failure to perform the annual comparison required by the circular has resulted in lack of recognition of a liability to the federal government for significant excess working capital balances in two internal service funds. In addition, this liability was not reported in the Department's financial statements on a timely basis, but subsequently, the financial statements have been adjusted for this liability upon recommendation of the auditors. (Finding Code No. 06-1)

RECOMMENDATION:

We recommend the Department comply with the provisions of OMB Circular A-87 by performing an annual comparison of revenue generated by each billed service to the actual allowable cost of the service and make an adjustment for the difference using an acceptable method. In addition, the financial statements should reflect the effect of this determination.

DEPARTMENT RESPONSE:

The Department concurs with the overall recommendation to adjust for overbalances on a more timely basis, and to recognize potential payback liabilities on its financial statements. The Department did provide a disclosure to such effect on the FY06 statements. The Department also notes the following: The Department does perform an annual reconciliation as required by Circular OMB A-87, and does seek to adjust overcharges on a continuing basis through rate adjustments and credits.

06-2 FINDING: (Lack of documentation in contract files)

The Department of Central Management Services (Department) contract files lacked basic information, such as best and final offers and written determinations for contract award, to adequately document the evaluation and selection process. Documentation of the process used and decisions made in the evaluation and scoring of proposals is a critical control component to ensure a fair and open procurement process.

During the current period, the procurement and award files for ten solicitations or contracts awarded in fiscal year 2006, totaling a maximum award amount of approximately $151 million, were selected for testing. Some documents expected to be centrally located in the procurement file were missing upon initial review. Many of the requested documents were subsequently provided; however, the initial 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.

Five of the ten tested files (50 percent) awarded in fiscal year 2006 lacked documentation in the contract files in one or more areas.

Specific documentation not contained in contract files included the following:

- One of ten (10%) did not have written recommendation or decision memorandum for a procurement outlining reasons for selecting the winning vendor.
- One of ten (10%) did not have documentation supporting the pricing evaluation component of the procurement
- Four of ten (40%) did not have documentation of reference checks
- Two of five (40%) did not have best and final offer documentation
- One of four (25%) did not have documentation of the protest letters and responses

The Illinois Administrative Code requires for contracts that "Each written determination shall be filed in the solicitation or contract file to which it applies, shall be retained as part of such file for so long as the file is required to be maintained, and, except as otherwise provided by statute or rule, shall be open to public inspection." (44 Ill. Adm. Code 1.7025(e))

Chief Procurement Offices (CPO) Notice #37 states that the Procurement Code, the Standard Procurement Rules and good business practices require that significant procurement and contracting activities be documented, and that the documentation needs to be clear, comprehensive and orderly.

Department officials have represented these deficiencies were the result of unclear or inadequate guidelines established for the procurement process and lack of training for procurement officers.

The Department should maintain documentation in the contract files in accordance with the Procurement Code, the standard procurement rules as set forth in the Administrative Code, and good business practices. (Finding Code No. 06-2, 05-1, 04-2)

RECOMMENDATION:

We recommend the Department maintain procurement files that contain all relevant information to the decision making process.

DEPARTMENT RESPONSE:

The Department concurs and is continuing to make improvements. In May 2005 the Department issued Chief Procurement Officer (CPO) Notice #37 requiring all appropriate documentation to be maintained in the file. The Department conducted training for CMS and the State Purchasing Officers in May and July 2005. The Department improved the Procurement Business Case (PBC) and as of June 2005 requires the award justification to be added to ensure a complete record of the procurement activity. The 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. On September 1, 2005 the Department issued an internal procurement memo to CMS staff establishing additional written procedures and additional controls. The Department continues training and enforcement of policies and procedures with CMS staff and SPOs through regular monthly meetings.

06-3 **<u>FINDING</u>:** (Changes in award evaluation criteria not communicated to proposers)

The Department used evaluation criteria to evaluate vendor proposals that were not stated in the Request for Proposals (RFP). Specifics of the scoring methodology and weighting of pricing alternatives were not included in the original RFP, and in some cases, not communicated to proposing vendors or reflected in any addendums.

The Illinois Administrative Code states that proposals shall be evaluated only on the basis of evaluation factors set forth in the RFP (44 Ill. Adm. Code 1.2035 (h)(2) and 44 Ill. Adm. Code 1.2015 (f)2)). For professional and artistic contracts, price will not be evaluated until ranking of all proposals and identification of the most qualified vendors.

During the current period, the procurement and award files for ten solicitations or contracts awarded in fiscal year 2006, totaling a maximum award amount of approximately $151 million, were selected for testing.

- In 1 of 10 procurements evaluated (10 percent), a $27 million master contract for leasing and purchasing of personal computers and laptops, the Department used an evaluation process that was not consistent with the process specified in the RFP. The pricing formula used to evaluate the proposal was not reflected in the original specifications or in an addendum to the Request for Proposal. The Department specifically failed to indicate what percent of the scoring would be based on leasing versus purchasing, which was an essential element of the proposal.

- In 1 of 10 procurements evaluated (10 percent), a contract for federal revenue maximization services, we noted that the original request for proposal failed to specify how proposals would be evaluated if a vendor proposed on all components of work, an individual component of the work or multiple but not all components of the work. The original solicitation did not clearly identify how a proposal for multiple components would be evaluated. Additionally, the Request for Proposal did not include technical scoring values or scoring weights. This information was subsequently provided to the prospective proposers through addendums. Good business practices would include these essential RFP elements and address them in the initial solicitation in order to eliminate any impact or adverse effect on the vendor's proposals or bidding perspectives.

Department officials have represented these deficiencies occurred prior to the establishment of formalized written procedures and training.

Failure to notify vendors of changes in evaluation criteria not only violates administrative rule, it increases the likelihood that vendors and the public will not view the contract award process as being conducted in a fair and open manner. (Finding Code No. 06-3, 05-4, 04-4)

RECOMMENDATION:

We recommend that the Department follow evaluation criteria stated in Requests for Proposals when evaluating and awarding State contracts. Additionally, the Department should implement procedures to more thoroughly establish evaluation criteria prior to issuance of the original procurement request to minimize the need to change the evaluation criteria through subsequent addendum so that all vendors are assured of a fair and open contracting process.

DEPARTMENT RESPONSE:

The Department concurs and has implemented procedures to strengthen this control subject to the prior audit findings. The exceptions noted in the testing were selected from a period prior to the Department formalizing written policies to address these concerns. The following policies have been implemented:

- In May 2005 the Department issued Chief Procurement Officer (CPO) Notice #40 enforcing 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 is published as an addendum on the Illinois Procurement Bulletin.

- On September 1, 2005 the Department issued an internal procurement memo to CMS staff establishing additional written procedures and additional controls.

- The Department continues training and enforcement of policies and procedures with CMS staff and SPOs through regular monthly meetings.

06-4 FINDING: (Deficiency in assessment of proposal responsiveness)

The Department applied inconsistent criteria when determining the responsiveness of vendors resulting in the improper exclusion of a responsive bidder.

During the current period, the procurement and award files for ten solicitations or contracts awarded in fiscal year 2006, totaling a maximum award amount of approximately $151 million, were selected for testing. In one of the ten (10%) we noted the Department had improperly excluded a responsive bidder from future lease negotiations.

The Department reviewed bid proposals submitted by three bidders for office space to be leased in Chicago and extended an invitation to submit a “best and final proposal” to two of the bidders. The Department concluded the omitted vendor’s proposal was not “viable” based on certain cost provisions and the fact that the proposal would require temporary office space to be secured until the permanent space could be made available. However, per review of the proposal packages and the Department’s Bid Proposal Review memo dated September 9, 2005, we noted the original proposal of one of the bidders invited to submit a “best and final proposal” also would require temporary office space to be secured. The original proposal of the other bidder invited to submit a “best and final proposal” was determined to be the highest cost proposal of the three. Furthermore, in an internal Department memorandum dated September 28, 2005 Department officials stated “Each package had proper site control, but none of them could meet the requirements as identified in our Request for Proposal (RFP) due to the parking requirements, build-out, and time period requirements. It was determined then that we would request Best and Final Proposals from two of the three bidders…” The Illinois Procurement Code (30 ILCS 500/40-20(d)) states “On the basis of the information supplied and discussions, if any, a State purchasing officer shall make a written determination identifying the responses that meet the minimum criteria set forth in the request for information. Negotiations shall be entered into with all qualified respondents for the purpose of securing a lease that is in the best interest of the State.”

Based on the information in the bid packages and the Department’s own evaluation of the process, none of the bidders submitted responsive bids. As time was of the essence in securing office space, the decision to enter into negotiations with only two of the three bidders did not apply evaluation criteria consistently, resulting in the improper exclusion of one of the bidders.

Department officials have represented that the vendor was only willing to submit a proposal with a cap on the dollars per square foot for tenant improvements; however, this was not documented in the procurement file and the Department cost analysis considered additional costs that would potentially be incurred in excess of the improvement allowance.

Failure to comply with Procurement Code requirements relating to the lease of office space for State agencies could result in additional cost to the State. (Finding Code No. 06-4, 05-5, 04-5)

RECOMMENDATION:

We recommend the Department comply with the Procurement Code in all matters relating to the lease of office space.

DEPARTMENT RESPONSE:

Though Best and Final negotiations are not typically conducted with vendors who do not meet pricing requirements, we concur that the process and decision making should have been better documented. The Department notes that the vendor's bid contained an unacceptable method of pricing. The vendor was unwilling to modify the pricing proposal, so the bid was deemed unresponsive. Therefore, only the two vendors that were responsive for the pricing component were included in the Best and Final negotiations.

06-5 **<u>FINDING</u>:** (Inadequate controls regarding master contract development and usage)

The Department does not have an adequate process in place to assess the State's needs for master contracts and to develop and monitor the usage of master contracts.

In 1 of 4 contracts awarded in 2005 reviewed in the current year (25 percent), a master contract to provide VSAT (Very Small Aperture Terminal) data transport services, the State determined there was a need to provide satellite services across the State for schools in remote areas as well as for Illinois State Police mobile units. The State believed these alternative data transport services would be much more cost effective than existing services, along with providing transportable solutions that could be temporarily setup in remote locations.

The request for proposal estimated the contract amount at $3,800,000 over three years; however, actual usage by one agency was just over $20,000 during the first year (fiscal year 2006). A total of $114,421 was expended for VSAT satellite services in fiscal year 2006, but Department personnel indicated approximately $94,000 of the total was for mobile installation of the VSAT units in support of the Hurricane Katrina effort. The Department noted this payment was not made off the VSAT master contract; however, the vendor agreed to extend the master contract pricing to the emergency equipment/service order.

This master contract has not been utilized to the extent originally estimated. Furthermore, because the VSAT program has not been deployed as a statewide initiative, the master contract requirements regarding reporting, milestones, and deliverables have not been monitored.

Significant resources were dedicated in procuring the master contract for VSAT services and negotiating a final contract. The Department's process for developing specifications for master contracts to be used by State agencies in awarding separate contracts to eligible vendors was not adequate to assess the State's needs. Further, we noted the Department does not currently have a system to monitor the usage of State master contracts once they are awarded. The unique number of each master contract awarded by the Department is not retained as a tracking mechanism as the master contract is adopted and used by each agency.

Good internal controls and contract management practices require procurements to be initiated based upon adequate research and documentation of established need and such procurements be adequately monitored.

Failure to adequately assess the State's needs in developing specifications for master contracts may impair the procurement process. Inaccurate representation of the scope of the procurement may alter the pool of prospective bidders, thus denying the State and the individual agencies access to qualified vendors. Inadequate assessment can also cause State resources, specifically those dedicated in procuring and negotiating master contracts, to be wasted. Further, the Department lacks a system to effectively monitor usage of master contracts. The current system does not facilitate reporting of an estimated usage amount vs. actual. Consequently, if a contract is being over or under utilized, there is not a system to monitor these results. Since one purpose of a master contract is to provide advantageous pricing to all State agencies, underutilization of a master contract may mean the agencies are not accessing planned savings.

Department officials stated the nature of some master contracts, particularly those for new concepts not previously procured, and those relying on significant participation from non-state agencies, makes it difficult to accurately predict usage. In the case of the particular contract in this finding, the goal was to have a master contract available in case of a catastrophic event, using best estimates of usage under such conditions. (Finding Code No. 06-5, 05-8)

RECOMMENDATION:

We recommend that the Department develop a process to more effectively assess the needs of State agencies when developing master contract procurement specifications. Further, the Department should establish guidelines or a system to ensure multiple agency utilization of master contracts provides adequate vendor performance in relation to anticipated needs, especially for awards made through the proposal process.

DEPARTMENT RESPONSE:

We will continue to improve our assessment of the needs of State agencies when developing master contracts, on a case by case basis, since each master contract has unique criteria and circumstances. While the Department agrees that it lacks a comprehensive system to gather accurate projected usage of specific supplies and services, especially from local governments, it does not feel the methods used are inadequate. Although research is conducted and projections are made, usage of master contracts, especially for new concepts, does not always meet the targeted spending. Further complicating projections for master contract usage is the potential participation of local governments and intended use for unpredictable events (e.g. disaster preparedness, etc.) Projecting usage from entities for which CMS has no control over budget decisions or spending is difficult at best. Due to this unpredictability, CMS believes that devoting additional resources to estimating master contract usage is not always cost beneficial. The purpose of the master contract is to have the good or service available should user entities have the need and/or decide to use their budgeted dollars on that need.

The one out of 4 master contracts highlighted in the audit as overstating usage estimates had a unique set of circumstances. CMS surveyed agencies interested in using the VSAT technology, as all agencies and first responders recognize the value and necessity of satellite communications as a critical failsafe component of emergency response, disaster preparedness, and overall homeland security. To that end, the state’s VSAT capabilities are being integrated into the statewide interoperable communications plan, and they are already a functioning component of Unified Area Command deployment. The contract dollar amount was a total estimated as a worst-case scenario so that the state would not fall short during an event, forcing us to “overspend” the contract during a life-safety and emergency response. Fortunately, no disasters have occurred of a magnitude that would require VSAT technology; however, the state must be prepared. Given the proven disaster response and homeland security potential of VSAT communications, it was important to estimate the possible demands that could be placed upon it during a major catastrophic event.

06-6 <u>FINDING</u>: (Not timely in filing contracts with the Comptroller)

The Department was not timely in filing contracts in excess of $10,000 with the Comptroller.

During the current period, 42 contracts awarded in fiscal year 2006, totaling a maximum award amount of approximately $158 million, were selected for testing.

Of the 42 contracts tested, 14 (33%) totaling $87 million were filed 22 to 99 days after the execution of the contract. The Department submitted late filing affidavits for the nine contracts that were filed more than 30 days late as required.

The Illinois Procurement Code (30 ILCS 500/20-80 (b)) dictates "Whenever…a contract liability…exceeding $10,000 is incurred by any State agency, a copy of the contract…shall be filed with the Comptroller within 15 days thereafter."

Department officials stated the volumes of contract and amendment activities delay the filings.

Failure to file contracts in excess of $10,000 in a timely fashion with the Office of the Comptroller is a violation of State statute. (Finding Code No. 06-6)

<u>RECOMMENDATION</u>:

We recommend that the Department take the necessary steps to ensure contracts are timely filed with the State Comptroller within 15 days after the execution of the agreement.

<u>DEPARTMENT RESPONSE</u>:

The Department concurs with the recommendation. However, it should also be noted that the Illinois Procurement Code (30 ILCS 500/20-80 (c)) anticipates that some contracts will not be filed timely, and provides the affidavit mechanism as a compensating control. All affidavits related to the nine contracts were properly executed and filed.

06-7 <u>FINDING</u>: (Ineffective property management)

The Department has not established a property management function to effectively manage occupancy costs and revenues.

Responsibility for managing the majority of State owned and leased buildings was transferred to the Department through Executive Order 2003-10, which consolidated the Facilities Management function. This Executive Order, which was effective May 31, 2003, stipulated the consolidation of the facilities management function to be implemented as of July 1, 2004. The Department is currently responsible for managing 706 State owned or leased properties.

The Department's Bureau of Property Management has primary responsibility for coordinating Department activities involving State property. Beginning in fiscal year 2005, most transactions, including charges to or transfers from user agencies for space occupancy and payment of property costs such as lease payments, building maintenance, utilities and security were accounted for in the Facilities Management Revolving Fund (FMRF)

<u>Lack of Timely Funding or Billing</u>

In fiscal year 2005, the Department initiated the development of a process to account for the costs of properties by agency. The process included development of a cost allocation methodology and Billing Allocation System (BAS) that was intended to establish a mechanism to capture costs by property, including allocable overhead costs, and generate billings to user agencies.

As part of the process development that began during fiscal year 2005, the Department contracted with a consultant to design a cost allocation methodology that would determine costs by agency and property for purposes of establishing billings to the agencies for the management of their buildings and properties. The cost allocation methodology uses prior fiscal year spending data to estimate upcoming fiscal year costs resulting in a rate model that established a cost per square foot plus a depreciation factor for each property. The BAS was developed and functional on December 8, 2004, however, it was not until April 8, 2005 that the Department completed its new rate model and did its first billing using these rates. This billing included a reconciliation of estimated allocable costs to amounts previously charged to user agencies. As of December 7, 2005, the Department had not completed the calculation of the new rates for fiscal year 2006. Furthermore, as of January 30, 2006, agencies had not been billed using new 2006 rates. Delays in updating the cost allocation model and billing agencies have created difficulties in monitoring user agency occupancy costs which had a negative impact in the development of fiscal year 2006 budgets and forecasting for fiscal year 2007.

Untimely transfer of funds to FMRF and delays in billing for federally reimbursable occupancy costs created a cash flow problem within the FMRF that carried over into fiscal year 2006. Bills for the month of July 2005 were not sent until September 2005 causing the Department to transfer 100% of its own rent charges for the entire fiscal year during July and August 2005 to help alleviate cash flow problems. In addition, certain FMRF payroll costs were paid from other funds (see finding number 06-12). Also, properties and buildings owned by the Department of Natural Resources, the Department of Transportation, and the Illinois State Police were transferred to FMRF for fiscal year 2006. As of January 30, 2006 no bills had been sent to these agencies for their approximately 150 leases; this delay further increased the cash flow problems of FMRF. Department officials have represented that the BAS had to be modified for fiscal year 2006 and a contract with the facilities management consultant was terminated in May 2005 causing staff shortages that delayed the rate development for 2006.

Delayed Vendor Payments and Consolidation Issues

Payments to vendors for monthly lease obligations, utilities and other occupancy related costs were not made timely. Issues noted included:

- The Department received numerous calls of complaints from vendors regarding late payment of invoices. Department officials have represented these complaints were primarily the result of the untimely billing and transfer of funds and a lack of trained accounting personnel.
- The Department did not conduct a true up of fiscal year 2005 billings to amounts paid until fiscal year 2007. Thus current rates could not be adjusted to reflect the true costs of the facilities.
- The Department transferred headcount and related payroll costs from facility management to the Professional Services Fund totaling $2.189 million and the Efficiency Initiatives Revolving Fund totaling $2.220 million due to cash flow shortages from untimely billing (see finding number 06-12).
- The Department lacks an effective accounting system to manage its property costs and leases by location. As such, they cannot properly manage, control, or analyze its facility costs on an ongoing basis, identify costs overruns, identify variances from expected amounts and other costs to actively manage its costs by location.
- The Department received eviction notices due to late payment. Department officials have represented they believe some eviction notices were unwarranted based on the terms of the lease agreements and prompt action was taken to address situations as they occurred.
- The Department received disconnection notifications from utility companies. Department officials have represented some disconnection notices resulted from the utility companies not treating the service as governmental, legacy agencies failed to notify the utility companies of a change in address for billing purposes and legacy agencies carried forward unpaid balances usually made up of cumulative late fees.

Renewal of Leases not Actively Managed

The Department is not actively managing its leased space or occupancy, nor bidding and renewing, or consolidating its existing leases resulting in a substantial number of leases that have not been timely renewed or terminated. Department records indicate that as of December 8, 2005, 293 of the 596 (49%) leases were in holdover status. As of October

2006 there were still 230 leases in holdover status. Leases in holdover status represent leases for which the contractual term of the lease has expired but the State continues to occupy the building and pay on a month-to-month basis under the previous terms of the lease. Many of these leases have been in this status for over 5 years. The Department has not assessed effective utilization of the space and has not negotiated terms that may be more favorable to the State. Furthermore, lack of a formal, written agreement has exposed the State to litigation in one situation involving a holdover lease and the State is involved in another suit involving termination of a lease as follows:

- The Department terminated holdover tenancy on behalf of the Department of Employment Security and the State is being sued for breach of contract. The claimant is seeking $616,599 restitution.
- The Department terminated the lease of a warehouse on behalf of the Department of Public Aid (now the Department of Healthcare and Family Services) and the State is being sued for breach of contract. The claimant is seeking $2,698,114 restitution.

In addition to the holdover lease issue, we noted numerous issues regarding the handling of three leases in a Chicago property. The leases were entered into in January 2002, at which time the Department was aware of the building owner's potential plans to convert the property from its office space use. Specifically, we noted the following:

- One of the three leases had a termination date of July 31, 2006, but on October 17, 2005 the Department agreed to accelerate lease termination to March 31, 2006 and stipulated the landlord had the right to relocate the agency within the building during the period between the amended agreement and termination. The Department was to receive a two-month rent abatement for one of the leases however, they paid rent for a portion of the abatement period.
- One of the three leases had a termination date of October 31, 2006, but on October 17, 2005 the Department agreed to accelerate lease termination to May 31, 2006 and stipulated the landlord had the right to relocate the agency within the building during the period between the amended agreement and termination. The Department received no rent abatement or other consideration for the costs associated with relocating agency personnel.
- Pursuant to the October 17, 2005 agreement, the Department was to pay back rent to the landlord before December 31, 2005. The warrants for this payment were released prior to the agreement on October 11, 2005.
- The third lease was a five year lease with an October 18, 2005 termination date. The Department did not secure permanent space for the affected agency on a timely basis, resulting in a temporary relocation. This agency moved into a permanent location on May 19, 2006 but the lease was not approved until June 7, 2006.

The Department has indicated that the above problems were the result of failure to make rental payments on a timely basis causing the Department to be in breach of the contractual lease agreement. Actions taken by the Department were concessions to minimize the negative impact that could result from more strict enforcement of the breach of contract provisions of the agreement.

The prior examination report noted that the Department billings for occupancy costs were inaccurate. While the billings during fiscal year 2006 were late, as noted above, the billings tested were determined to have been accurate and in accordance with the billing methodology.

Failure to address the issues created by the consolidation of the facilities management function has resulted in the Department's inability to effectively manage occupancy costs and revenues by property and agency. Lack of an effective accounting and financial reporting system diminishes the Department's ability to control costs, assess the needs of State agencies, negotiate favorable lease terms and effectively budget. (Finding Code No. 06-7, 05-11)

RECOMMENDATION:

We recommend that the Department implement a system to effectively carry out its facilities management responsibilities as follows:

- The Department should fully implement a cost allocation methodology and billing system to facilitate timely billing to user agencies and timely transfer or collection of charges.
- The Department should obtain necessary information to enable preparation of complete, accurate and timely billings to user agencies.
- The Department should establish an effective fiscal function to ensure vendor payments are made timely.
- The Department should complete a property utilization assessment to address space needs and enable the Department to eliminate the significant number of leases in holdover status.
- The Department should implement a financial reporting system to effectively account for and analyze occupancy costs by property and agency.
- The Department should determine if repayment for the abated period was received. If not, the Department should seek to recover the payment.

DEPARTMENT RESPONSE:

The Department concurs, and notes that it has implemented most of the recommendations during FY06:

♦ The Department has implemented a cost allocation methodology that has been reviewed and approved by the U.S. Department of Health and Human Services. This methodology has been used to develop all Facilities Management Revolving Fund rates.

♦ The Department performs an annual reconciliation as required by Circular OMB A-87, and adjusts for under/over charges on a continuing basis through rate adjustments. The true ups for each year have been built into new rate structures.

- Beginning in FY06, CMS billed agencies through the Facilities Management Revolving Fund, based on rates developed primarily from self-reported budget data housed at each agency. These established rates are reconciled to actual expenditures annually and will continue to be refined each year as baseline data for property management expenditures improve.

- The Department has implemented the Tenancy Rate Management System (TeRMS) to maintain rate and occupancy information by building for monthly billing purposes. In addition, procedures have been implemented to update the information in TeRMS as additions, moves, changes, and/or terminations occur. Cash flow resulting from timely monthly billing of agencies and timely payments by agencies is the primary factor in the FMRF's ability to pay vendors more timely. The Department has employed procedures to maintain rate and occupancy information in TeRMS necessary for the timely monthly billing of agencies. When sufficient cash flow into the FMRF is available, the FMRF Fiscal Office has procedures necessary to process vendor payments in a timely manner. The Department is current with vendor payments.

- The Department has developed an Internet Billing System (IBiS) to facilitate Facilities Management Revolving Fund billings, and has implemented procedures to present monthly IBiS billings to agencies on a timely basis. In addition, agencies are instructed to make payments to the Facilities Management Revolving Fund on a timely basis. Facility Management IBiS billings are now current. The Department is in the process of building a comprehensive rate information database system. Information of actual billings and actual costs will be downloaded to the database on a regular basis to perform comparative analysis against the rate based billings. Material variances can be corrected during the year. All other variances will be adjusted in the year-end reconciliation process.

- The Capital Development Board has issued a contract for Facility Condition Assessment of State owned facilities. Work has already commenced on this project, and will focus on the assessment of non-university state-owned property. Included in the scope of this contract is a determination of excess and underutilized space at each assessed facility. In addition, the Department is working diligently to address the holdover leases and is reporting its progress to the Procurement Policy Board.

- The Department is seeking repayment of the rebate.

06-8 **<u>FINDING</u>:** (Follow up to management audit of the Department's administration of the State's Space Utilization Program)

In February 2004, the Office of the Auditor General released a management audit of the Department of Central Management Services' 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. At the conclusion of the Department's compliance examination for the year ended June 30, 2004, auditors had found that none of the nine recommendations had been fully implemented. At the conclusion of the Department's compliance examination for the year ended June 30, 2005, auditors had found that four of the nine recommendations had been fully implemented. At the conclusion of this compliance examination (for the year ended June 30, 2006), auditors determined that one of the five remaining recommendations was implemented and four are still only partially implemented.

The Department awarded a $24.9 million three-year contract for professional asset management services to Illinois Property Asset Management (IPAM) on December 29, 2003. In the Department response to the management audit it indicated that many of the activities to address the recommendations would be performed by IPAM. An IPAM representative stated at a Legislative Audit Commission meeting in March 2004 that IPAM would make substantial progress by the end of fiscal year 2004 on all nine recommendations in the management audit. In May 2005, the Department cancelled the IPAM contract. Below is a summary of the recommendations that have not been implemented.

The following four recommendations have been partially implemented by the Department:

- **Accuracy of the Master Record (Recommendation #2):** *The Department should conduct a statewide inventory of real property to develop an accurate accounting of land and buildings owned by the State. To accomplish this task, the Department should consider sending the agencies all the information contained in the master record for properties owned by the agencies so that applicable additions and deletions can be reported. Additionally, the Department should clarify whether wetland and flood mitigation land holdings should be reported per the provisions of the State Property Control Act and if so, provide sufficient guidance to applicable agencies holding those types of property.* 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.

- **Automation of the Master Record (Recommendation #3):** *The Department should once again look into the possibility of automating the master record of State-owned real property with a system that is capable of producing management reports to allow the State to effectively manage land and building assets.* The Department has automated the master record and it is maintained in a database with the vendor. However, since termination of the contract, the Department does not have physical possession of the databases – they are still with the vendor.

- **Use of Unoccupied Space in State-Owned Facilities (Recommendation #7):** *The Department should conduct a detailed examination of all real property owned or controlled by the State and determine what property is excess. For property identified as excess, the Department should ensure it is efficiently utilized or take the steps necessary to declare the space as surplus and follow laws and regulations established regarding the disposal of surplus property. Additionally, the Department should: study the unoccupied space at all State-owned facilities, including the Department of Human Services (DHS) facilities, and determine whether it is cost beneficial to move State agencies that lease office space in the same areas into this unoccupied space; and, ensure that the State should receive adequate revenue for the space rented at these DHS facilities.* The Department has not completed the facility condition assessments on State-owned facilities to be able to identify all excess space.

- **Monitoring of Leased Space (Recommendation #8):** *The Department should take proactive steps in monitoring leased space and seek to identify any efficiencies (i.e., combining leases to eliminate some costs) that would result in savings to the State.* The Department has not performed a complete analysis of leased space and the potential for excess space in leased facilities.

The following recommendation has been implemented by the Department:

- **Agency Reporting of Real Property to CMS (Recommendation #1):** *The Department should take the steps to require agencies to submit the required information on State-owned real property on the Annual Real Property Utilization Reports. Additionally, the Department should consider revising the Form A to include additional information requirements to assist the Department in identifying excess and surplus real property. These revisions may include requiring: agencies to submit a Form A for each building or property owned for individual determinations of excess, surplus or utilized for agency function; agencies to list the occupancy level percentage (if applicable) for each building owned; agencies to list any leases of their real property to other entities; agency head to certify future use for any portion of property that is unused and how that use would be cost effective for the State; and, agencies to make a distinction as to whether the property contains any buildings or not. The Department should also determine the appropriate reporting date for submitting the Annual Real Property Utilization Report and request the necessary change to either State law or the Administrative Code.* The Department amended the administrative rules (44 Ill. Adm. Code 5000.720) to reflect the reporting date of October 30 which now agrees with the statutory reporting date (30 ILCS 605/7.1).

It is important that the Department continue to implement the recommendations from the management audit to further improve its operations and performance. (Finding Code No. 06-8, 05-14, 04-12)

RECOMMENDATION:

We recommend the Department of Central Management Services continue to fully implement the remaining four management audit recommendations contained in the February 2004 Space Utilization Management Audit that were partially implemented.

DEPARTMENT RESPONSE:

The Department concurs with the recommendations and continues to implement them. A contract for Facility Condition Assessments has been awarded by GOMB and the Capital Development Board to assess the remaining properties that were not assessed in the previous vendor's contract. Included in the scope of this contract is determination of excess or underutilized space in State owned buildings. In addition, the Department staff performs site visits to CMS managed buildings, owned or leased, to determine if there is excess space that is not being utilized and is working with agencies to restack locations where underutilized space is found. The Department performs reviews of leased spaces and has consolidated leases when possible.

06-9 <u>FINDING</u>: (Surplus property management process weaknesses)

The Department's Division of Property Management State Surplus Warehouse has not implemented an adequate inventory control system.

A paper listing of surplused property submitted by agencies with the delivery of items to the warehouse was the only record of surplused inventory. The lack of an adequate inventory control system impedes compliance with the Illinois Administrative Code (44 Ill. Adm. Code Part 5010), and reduces the ability of Surplus Warehouse personnel and agencies to locate equipment for potential transfer. This results in a risk that agencies would purchase new equipment when comparable equipment could have been obtained from Surplus.

One method of disposal under the Illinois Administrative Code (44 Ill. Adm. Code 5010.610) is to offer the equipment for the use of any State agency. The lack of an adequate inventory control system hindered the ability of Surplus 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 (44 Ill. Adm. Code 5010.640).

The lack of effective controls regarding the receipt and inventory of equipment increases the potential for theft of the State's surplused property. Property would arrive at the Surplus Warehouse, often in large volumes, and Surplus personnel would do a spot check, comparing inventory listed on the delivery form with the inventory delivered, and then sign the form indicating property was received. This process potentially provides signed evidence that missing/stolen items were received at the Surplus Warehouse, even though the items may never have been received. However, we did not note any such activity.

Department personnel have represented the weaknesses in the inventory control system are the result of insufficient resources, utilization of practices that are not representative of the best practices used by other states and inventory control rules that may not meet the needs of the State. (Finding Code No. 06-9, 05-16, 04-15)

<u>RECOMMENDATION</u>:

We recommend the State's Surplus Warehouse implement an effective inventory control system. An effective inventory control system would improve controls over the receipt and tracking of inventory, reduce the potential for theft, and enable Surplus to better serve the needs of State agencies.

DEPARTMENT RESPONSE:

The Department concurs with the recommendation, and has progressively worked to address this situation through the following actions:

- In 2005, the Department created the Inter-Agency Council on Property Control to review current property control rules and propose recommended changes. Comprised of various property experts from agencies, boards and commissions, the Council finalized its report in 2006 and submitted proposed rule changes to JCAR. A hearing is pending.

- During FY06, the Department began pursuing purchase of an interim surplus inventory management system compatible with the multiple systems currently maintained by agencies, boards, commissions, universities and constitutional office-holders.

- During FY07 the Department awarded a master contract for removal/disposal and recycling of electronic equipment. As part of this contract, the state's vendor will maintain a comprehensive web-based, database for all surplussed electronic assets processed under this agreement. Such system will provide real-time asset management, providing necessary management reports and accountability. The system will provide for electronic transfer of assets back into state service, and/or offer "buy now" features for electronics to be sold to local governments, etc.

06-10 <u>FINDING</u>: (Inadequate control over property and equipment)

The Department has not provided adequate control over property and equipment. We tested the physical inventory and location of equipment, equipment purchases, and equipment transfers and deletions, and noted deficiencies in each area as described below.

<u>Physical Inventory and Location of Equipment</u>

During our testing of the physical inventory and location of equipment we selected a sample of 60 items noting the following weaknesses in internal controls:

- Modular panels and a scanner valued at $16,888 were located at a site other than the location listed on the property control records.
- A color laser printer and a metal cabinet were not recorded in the property control records.
- A color scanner valued at $33,200 was incorrectly tagged. The scanner was verified with the serial number.
- Modular panels valued at $190,336 did not have property tags and could not be verified as those listed in the property records.

The State Property Control Act (30 ILCS 605/4) requires the Department be accountable for the supervision, control and inventory of all property under its jurisdiction and control. In addition, good internal control procedures require the proper tracking of property and equipment. The Department has procedures to track the movement of equipment throughout the Department, but these procedures were not followed in all cases.

Department management stated that many of the property control issues noted above were a result of errors or misunderstanding on the part of property control location supervisors. They further stated the Department has established policies and procedures related to property control, but it is the responsibility of each property control location supervisor to ensure property control records are accurate and complete.

<u>Equipment Purchases</u>

During our testing of 25 equipment purchases we noted the following:

- An air conditioner valued at $1,519 was not recorded in the property control records.

The Property Management rules as set forth at 44 Ill. Adm. Code 5010.230 require the Department to record in the permanent property records, among other items, the purchase price of the item and the location code.

Department representatives stated the errors occurred due to insufficient staffing and human errors.

Annual Certification of Inventory
During our testing we noted annual certification of inventory was performed inadequately. We specifically noted the following:

- The same procedures are not followed at every location.
- Property not found at the location identified in the property control records was not listed as a discrepancy.
- Property found at a location but not listed for that location was not certified.
- Certification and Discrepancy sheets were not filled out correctly.
- A complete inventory listing did not always accompany the certification.
- The list of property control liaisons was not accurate.

As stated in 30 ILCS 605/6.04, annually, and upon at least 30 days notice, the administrator may require each responsible officer to make, or cause to be made, an actual physical inventory check of all items of property under his jurisdiction and control and said inventory shall be certified to the administrator with a full accounting of all errors or exceptions reported therein.

Department personnel have represented the deficiencies in the Annual Certification of Inventory are the result of insufficient resources and lack of organization caused by the significant consolidations the Department has undergone.

If the Annual Certification of Inventory is not performed correctly and accurately, then there is no way to verify the accuracy of the property control records. Inaccurate property control records can lead to a misstatement of assets on the financial statements as well as create the potential for theft.

Equipment Transfers and Deletions
During our testing of transfers and deletions of property and equipment we noted the following:

- 14 items with an original cost totaling $1,675,595 did not have all information required on supporting documentation.
- 13 items with an original cost totaling $225,285 had no supporting documentation.

The Illinois Administrative Code (44 Ill. Adm. Code 5010.310) establishes the rules for proper recording of transfers and deletions, including information and documentation required to be maintained in agency files. Department representatives stated the errors occurred due to lack of staff knowledgeable of the property requirements.

Failure to maintain accurate property control records increases the potential for theft or misappropriation of State assets. In addition, property improperly included on the Department's inventory may result in inaccurate fixed assets reports and misstated financial information.

During the prior period, we noted that $2.6 million in information technology equipment was technologically obsolete for use by State agencies. All of the equipment was either placed in production or disposed of by the end of fiscal year 2006.

During the prior period, we also noted that the Department did not perform a timely certification of its inventory. During the current period we noted that the Department performed a timely certification of its inventory. (Finding Code No. 06-10, 05-18, 04-18, 02-1)

RECOMMENDATION:

We recommend the Department:

- Implement adequate controls and procedures to ensure property and equipment is properly safeguarded and records are complete and accurate.
- Properly complete and maintain supporting documentation for deletions and transfers.
- Coordinate the Annual Certification of Inventory more effectively.

DEPARTMENT RESPONSE:

The Department concurs with the recommendations and is working to administer improved documentation controls over equipment moves and deletions. It is important to note that the testing did not discover missing or unaccounted for equipment, but primarily inaccurate tags and/or location information.

06-11 FINDING: (Accounts receivable deficiencies)

Deficiencies were noted in the Department's processing, recording and collection of receivables.

During our testing we noted the following:

1. The Department is not applying payments received to vendor accounts in their Accounts Receivable Posting System (ARPS) for certain internal service funds on a timely basis.

   ARPS is used by the Department to account for balances owed to it by other State agencies. It reflects billings for services provided by the internal service funds, including the Facilities Management Revolving Fund and the Communications Revolving Fund, and the related payments received from the agencies. As payments are received, ARPS should be updated timely to reflect the application of payments to outstanding invoices by specific agency. However, at the end of fiscal year 2006 the Department had received a total of $16,373,021 in the Facilities Management Revolving Fund and $2,026,995 in the Communications Revolving Fund that had not been applied against the corresponding agency account in ARPS. For GAAP reporting purposes the Department maintains an ancillary report that assigns the ARPS unapplied payments to specific agency balances but not to outstanding invoices. Failure to apply the payments against outstanding invoices impairs the Department's ability to identify billing errors or disagreements on a timely basis.

   Department officials stated payments received by other agencies are not always documented to indicate a specific invoice making the application to specific accounts difficult.

2. Amounts deemed uncollectible from other State agencies, component units and the federal government increased significantly from fiscal year 2005 to fiscal year 2006. During fiscal year 2006 the Department requested permission to write-off receivables totaling $512,650, the majority of which was owed by other State agencies, compared to only $75,730 written off in fiscal year 2005. Amounts owed by other State agencies should be collectible in their entirety.

   Department officials stated that statewide budget cuts in fiscal years 2004 and 2005 and the consolidations into the Department have resulted in other State agencies' inability to pay the internal service funds.

3. In the GAAP reporting to the Office of the Comptroller, the Department reports net accounts receivable relating only to the current fiscal year without regard to outstanding balances relating to prior fiscal years that remain uncollected. As such, the financial statements reflect an improper timing in the recognition of income between fiscal years. Over a three year period the effect of the improper timing is immaterial to the Department's financial statements; however, at any given fiscal year end the effect of the timing misstatements could be significant.

Department officials stated the increased receivables are due to dramatically increased billings to state agencies as a result of the consolidations, compounded by agency budget shortfalls. Financial statement treatment of receivables is based on past practice and historical experience with uncollectible accounts.

Currently, the Department performs a calculation of the average of the five preceding years remaining outstanding accounts receivable divided by total annual billings and applies this average to the current fiscal year billings with the result reported as the allowance for uncollectible accounts receivable. We believe this calculation is representative of an estimate of the future aging of the current year receivable balance rather than an estimate of the portion of outstanding receivables considered potentially uncollectible. As noted in item 2 above, we believe all amounts owed by other State agencies should be collected in their entirety, thus eliminating the need to report an allowance for uncollectible accounts. Given the Department's past practice of failing to collect all amounts owed, the calculation of the allowance should be more representative of the past write-offs.

Good business practices require the Department to collect and process agency payments in a timely manner, properly report receivables in the financial statements and utilize an acceptable methodology for estimated uncollectible receivable balances. Failure to process receipts timely does not facilitate the early detection and correction of errors while performing monthly receipt reconciliations. (Finding Code No. 06-11)

RECOMMENDATION:

We recommend the Department take the necessary steps and implement policies to allow for more timely processing of vendor payments and apply them to appropriate accounts within their accounts receivable system. Further, we recommend the Department enhance collection efforts to ensure all amounts owed by other State agencies are collected timely and in full and that only amounts owed by outside entities that are potentially uncollectible be considered in determining an allowance for uncollectible accounts. We also recommend the financial statements reflect the entire amount owed to the Department at fiscal year end.

DEPARTMENT RESPONSE:

The Department concurs with the recommendations but notes that it has limited influence over the budgets or payment cycles of other agencies. To the extent practicable, the Department seeks to collect past due amounts, and properly estimate allowances for doubtful accounts based on its collections experience.

06-12 <u>FINDING</u>: (Improper transfer of personnel and certification of payroll)

The Department circumvented the appropriation process and violated the State Finance Act when it temporarily transferred personnel from the Facilities Management Revolving Fund (FMRF) to the Efficiency Initiatives Revolving Fund (EIRF) and the Professional Services Fund (PSF).

The FMRF is an internal service fund intended to finance its operations through charges to user agencies. The Department did not bill user agencies on a timely basis in fiscal year 2006 resulting in a cash shortfall to meet its operating costs. In order to pay outstanding vendor bills and meet payroll obligations, the Department transferred employees performing facilities management functions to other funds that had the ability to absorb the payroll obligations of the FMRF.

For three pay periods during fiscal year 2006, approximately 300 employees performing facilities management duties were temporarily transferred to the EIRF. Total payroll and related costs of $2,219,596 were paid by the EIRF.

Additionally, for three pay periods during fiscal year 2006, approximately 300 employees performing facilities management duties were temporarily transferred to the PSF. Total payroll and related costs of $2,188,941 were paid by the PSF.

Public Act 094-0015 established the appropriation authority for the expenditure of funds from the FMRF for the purpose of paying costs associated with the Bureau of Property Management. This appropriation bill further established appropriation authority for the Department to expend funds from the EIRF and the PSF for the purpose of paying costs associated with the Bureau of Administrative Operations. The appropriation bill does not contemplate one bureau paying for employees performing duties to be financed with appropriations established for another bureau.

The State Finance Act (30 ILCS 105/9.03) states that "the certification on every State payroll voucher shall be as follows: 'I certify that the employees named, their respective indicated positions and service times, and appropriation to be charged,…are true, complete, correct and according to the provisions of law; that such employees are involved in decision making…concerning the objectives, functions, goals, and policies of the organizational unit for which the appropriation was made; that the results of the work performed by these employees and that substantially all of their working time is directly related to the objectives, functions, goals, and policies of the organizational unit for which the appropriation is made…'". To the extent that moneys appropriated by the General Assembly from EIRF and PSF for costs associated with the Bureau of Administrative Operations but those appropriations were instead used to support the Bureau of Property Management, the certifications signed by Department officials for the EIRF and PSF were in violation of the State Finance Act.

Department officials stated they believed they had statutory authority to pay for facilities related consolidation expenses out of EIRF and for facilities management services out of PSF; however, all headcount and related payroll costs appropriated from FMRF were transferred in each case to EIRF and PSF, respectively.

The transfer of personnel and payroll costs circumvents the appropriation process and violates the State Finance Act by overriding the controls established by the General Assembly. (Finding Code No. 06-12)

RECOMMENDATION:

We recommend the Department bill Facilities Management Revolving Fund charges to user agencies on a timely basis to avoid cash shortfalls within the fund. We further recommend the Department establish adequate controls to ensure compliance with the appropriation process and with the statute regarding payroll certification.

DEPARTMENT RESPONSE:

The Department does not concur. The Department has statutory authority to expend both PSF and EIRF funds in support of Facilities Management services pursuant to 20 ILCS 405/405-293; 30 ILCS 105/6p-5; and 30 ILCS 105/8.16c. The Department further believes that its payroll certification was accurate. The organizational unit for which the appropriations were made is a central unit within the Department servicing all other units, administering multiple appropriations supporting multiple programs.

AUDITOR'S COMMENT:

The appropriation bill authorized over $46 million from the Facilities Management Revolving Fund (FMRF) for personal services costs of the Bureau of Property Management in FY06. Because of problems noted by the auditors in billing and collecting State agencies for facilities management services, the FMRF had a severe funding shortfall (see Finding 06-7). Consequently, Bureau of Property Management payroll costs that were intended to be paid from FMRF, and that were appropriated from FMRF, were instead administratively shifted to appropriations made for the Bureau of Administrative Operations from the Professional Services Fund (PSF) and Efficiency Initiatives Revolving Fund (EIRF). While use of the PSF and EIRF for this purpose is permitted under the statutory provisions creating these funds, we continue to recommend that appropriations made by the General Assembly for one Bureau not be used for costs associated with operations of another Bureau absent the use of established methods designed to alter or amend appropriation authority.

06-13 FINDING: (Late approval and payment of vouchers)

The Department did not process invoice vouchers in a timely manner as required by the Illinois Administrative Code.

During our testing of 60 vouchers, we noted 9 (15%) vouchers were not approved in a timely manner. Those not approved within 30 days of physical receipt were approved from 2 to 224 days late. We also noted that 14 (23%) of the 60 vouchers were not paid within 60 days of receipt. During fiscal year 2006 the Department made interest payments for late payment of vouchers totaling $277,822.

The Illinois Administrative Code (74 Ill. Adm. Code 900.70) requires an Agency to review a bill and either deny the bill in whole or in part, ask for more information necessary to review the bill or approve the bill in whole or in part, within 30 days of physical receipt of the bill. For those bills not approved timely, interest shall be due if the date of payment is not within 60 days after the receipt of the bill.

Department personnel stated the exceptions were due to delays in processing due to the lack of fiscal staff and insufficient cash flows in certain revolving funds.

This violation could lead to the assessment of late charges or penalties to the State. The Prompt Payment Act states that interest begins accruing on the 61st day after receipt of a proper bill, and interest is calculated at 1% per month. Agencies are required to pay interest amounting to $50 or more. Interest amounting to $5 but less than $50 must be requested by the vendor. The Department appears to have paid interest in accordance with the Act. (Finding Code No. 06-13, 05-20, 04-21)

RECOMMENDATION:

We recommend the Department enforce procedures requiring the approval or disapproval of vouchers within 30 days of receipt and comply with the payment of vouchers within 60 days of physical receipt, as required by the Illinois Administrative Code.

DEPARTMENT RESPONSE:

The Department concurs with the recommendation. In almost all cases the late payments are the result of insufficient cash balances. To the extent that cash balances dip below a sufficient working balance, the Department must delay some payments.

06-14 **FINDING:** (Time sheets not maintained in compliance with the State Officials and Employees Ethics Act)

The Department is not maintaining time sheets for its employees in compliance with the State Officials and Employees Ethics Act (Act).

The Act requires the Department to adopt personnel policies consistent with the 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."

We noted that only 75 out of 1,745 average Department employees maintained time sheets in compliance with the Act. Most 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 are maintained for the majority of Department employees. The employees documenting time to the nearest quarter hour were only upper management employees including the Director, General Counsel, and employees in other positions that involve either principal administrative responsibilities for the determination of policy or principal administrative responsibility for the way in which policies are carried out.

The Department revised its policies regarding time reporting to ensure the policies were consistent with the Act. However, the Department did not modify the timekeeping system to accommodate the additional detail necessary to comply. Department management stated they are considering modifications to the existing timekeeping system.

By not maintaining appropriate time sheets for its employees, the Department is not in compliance with the Act. (Finding Code No. 06-14, 05-21, 04-23)

RECOMMENDATION:

We recommend the Department establish an appropriate mechanism that will enable all employees to maintain time sheets in compliance with the Act.

DEPARTMENT RESPONSE:

The Department concurs with the recommendation. The ongoing Shared Services initiative will be focusing on a statewide time keeping solution.

06-15 <u>FINDING</u>: (Inadequate controls over access to SAMS)

The Department did not timely restrict access to the Comptroller's Statewide Accounting and Management System (SAMS) by employees who terminated their employment or whose job no longer required access to SAMS.

During fiscal year 2006 the Department had 15 employees who had been granted access to SAMS. Of these 15 employees, four terminated their employment or moved into a job that did not require access to SAMS. The Department failed to terminate access to SAMS on a timely basis for all four (100%) of the employees. These employees had access to SAMS for entry, update or approval status for between 7 to 16 months after leaving their positions.

Per the State Comptroller Act (15 ILCS 405/7), "the Comptroller shall keep accounts with respect to each State agency which shall accurately reflect the receiving, expending or contracting for the receipt or expenditure of money or other assets on behalf of the State and shall keep accounts of all amounts which may be paid into or out of the State treasury…" The Comptroller's Office uses SAMS to carryout its prescribed duties. Access to SAMS allows the user to have a direct effect on the financial reporting of the Department. Without proper controls over access to SAMS, unauthorized transactions may occur.

Timely removal of access to SAMS for employees upon their termination or completion of duties requiring access would prevent unauthorized transactions. (Finding Code No. 06-15)

<u>RECOMMENDATION</u>:

We recommend the Department restrict or remove access to SAMS for employees whose duties no longer require the access on a timely basis.

<u>DEPARTMENT RESPONSE</u>:

The Department concurs with the recommendation and has implemented procedures within our Accounting Division during FY07 to better control access to this system.

06-16 **FINDING:** (Noncompliance with the Fiscal Control and Internal Auditing Act)

The Department's Illinois Office of Internal Audit (IOIA) did not complete audits of all major systems of internal accounting and administrative control as required.

The Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/2003) requires the internal auditing program include audits of major systems of internal accounting and administrative control be conducted on a periodic basis so that all major systems are reviewed at least once every two years. For the two year audit period ending June 30, 2006, the IOIA planned to conduct 196 audits but only completed 46 audits (23%) with an additional 24 audits (12%) in progress.

Executive Order 2003-10 consolidated the internal audit functions of the agencies and boards under the jurisdiction of the Governor within the IOIA. To achieve cost savings and enhance the internal audit process, the IOIA adopted a risk-based audit model intended to focus audit effort on those processes and functions within the State that were deemed to have increased or higher risk. An internal audit plan was developed in response to the assessment of risk with the objective of complying with the requirements of the Act. This plan called for the IOIA to conduct audits of various functions in specific agencies and to conduct audits of certain processes across multiple agencies.

Department officials stated they did not comply with the requirements of the Act because the risk-based model was new, there was an ineffective allocation of internal audit resources and considerable time was spent on administrative matters.

Incomplete auditing of all major internal control systems increases the risk that significant internal control weaknesses will exist and errors and irregularities may go undetected. (Finding Code No. 06-16)

RECOMMENDATION:

We recommended the Department comply with the Fiscal Control and Internal Auditing Act by ensuring that audits of all major systems of internal accounting and administrative control be conducted at least once every two years and that independent reviews of major new computer systems and major modifications to those computer systems are performed.

DEPARTMENT RESPONSE:

The Department concurs, and will effectively allocate resources to ensure compliance with the Fiscal Control and Internal Auditing Act.

06-17 FINDING: (Inadequate monitoring of interagency agreements)

The Department's process to monitor interagency agreements was inadequate.

During our examination of four interagency agreements between the Department and the Governor's Office of Management and Budget the following deficiencies were noted:

- 4 of 4 (100%) interagency agreements tested were not signed by all necessary parties before the effective date. The agreements were signed 127 – 385 days late.

- 1 of 4 (25%) interagency agreements tested pertaining to legal services did not include supporting documentation detailing the methodology used for determining the percent allocation to be paid by the Department for billing of shared services.

- 4 of 4 (100%) interagency agreements tested had services invoiced prior to the effective date of the agreement totaling $387,488.

- 1 of 4 (25%) interagency agreements pertaining to legal services had the same expense paid twice totaling $10,986.

SAMS 15.20.30 states contracts must be executed prior to commencement of services. Interagency agreements are binding contracts between State agencies. Further, prudent business practices require the approval of agreements prior to the effective date and proper documentation supporting the billing and payment of services.

Department officials stated interagency agreements are not required to be signed prior to their effective dates. However, they submitted required late filing affidavits regarding the dates of performance and execution with the Office of the Comptroller.

The Department enters into multiple agreements with other State agencies and other units of government. The purpose of the agreements is to assist the Department in fulfilling its mandated mission. In order to assess whether the agreement is reasonable, appropriate, and sufficiently documents the responsibilities of the appropriate parties, the agreement needs to be approved prior to the effective date, include proper documentation supporting the percent allocation used for billings, and include proper support for payments to vendors. (Finding Code No. 06-17)

RECOMMENDATION:

We recommend that the Department ensure all interagency agreements are approved by an authorized signer prior to the effective date of the agreement. Additionally, the Department should take the necessary steps to increase monitoring of the billings and expenses submitted by the contractors and request refunds in instances where the Department determines that the contractor was overpaid. Further, the Department should require all interagency agreements include methodology supporting the percent allocations used for billing of shared services.

<u>DEPARTMENT RESPONSE</u>:

The Department concurs with the overall recommendations, noting however that all affidavits regarding these contracts were properly executed and filed, and all Comptroller rules were met. The Department has also received a refund for the duplicate payment.

06-18 FINDING: (Failure to develop rules or policies describing the State employees' group insurance program)

The Department has not developed rules or policies describing the State employees' group insurance program as requested by the Joint Committee on Administrative Rules (JCAR).

The Illinois Administrative Procedure Act (5 ILCS 100) requires that any State agency policy affecting anyone outside that agency be expressed through rules adopted under the Act. Further, various provisions of the State Employees Group Insurance Act of 1971 (5 ILCS 375) require the Department to prescribe rules and regulations as necessary to give full effect to the purposes of the Act.

JCAR indicated in a letter dated May 11, 2006 to the Department that JCAR has had informal discussions with the Department over at least the last three years, and the Department acknowledged a lack of rules for the program. Furthermore, the Department has indicated to JCAR on more than one occasion, that rules for this program were being drafted and that a submission of them would be forthcoming. However, as of March 13, 2007, the Department has not completed or submitted rules to JCAR for their consideration. Department officials have represented that the rules have not been completed due to their complex nature.

The Department is in noncompliance with the Acts. Failure to develop rules or policies describing the State employees' group insurance program increases the likelihood that other State agencies will be in noncompliance with the program. (Finding Code No. 06-18)

RECOMMENDATION:

We recommend the Department develop the necessary rules affecting the State employees' group insurance program in accordance with the Illinois Administrative Procedure Act and the request by JCAR.

DEPARTMENT RESPONSE:

The Department has written rules established for 5 of the 6 programs under the Group Insurance Act. Specifically, rules exist for the Local Government program, the Teachers' Retirement Insurance Program, the College Insurance Program, the Flexible Spending (MCAP and DCAP) programs and the Commuter Savings Program. Staff is currently updating the TRIP, CIP and LGHP programs. Both the Flexible Spending rules and the Commuter Savings rules have been updated within the past 18 months.

The Department concurs that there are no rules established for the Group Health Program. Draft rules were completed and forwarded to JCAR for review in the fall of 2006. Due to the ever-changing landscape of the program, it is extremely difficult to complete the necessary administrative rules. The Bureau of Benefits continues to work to develop the rules associated with the Group Insurance Act.

PRIOR FINDINGS NOT REPEATED
(STATE COMPLIANCE)

06-19 FINDING **(**Lack of adequate controls over the opening of sealed vendor pricing during the Request for Proposal Process)

In the prior year, the Department's contract files lacked documentation and a system for the witnessing and recording of vendor pricing, and best and final offer pricing, when using the Request for Proposal process.

In the current period, the Department made improvements in controls over the opening of sealed vendor pricing. (Finding Code No. 05-2)

06-20 <u>FINDING</u> (Use of contractor work in developing RFP specifications)

In the prior year, the Department used a vendor to develop specifications in a Request for Proposal (RFP) – including a vendor that eventually received the award for the procurement opportunity.

The Department issued CPO Notice #38 on May 11, 2005 to clarify vendor assistance in developing specifications and/or developing opportunities for improvement. During the current period, we did not note any instances where a vendor was used to develop specifications in a RFP after the issuance of CPO Notice #38. (Finding Code No. 05-3)

06-21 <u>FINDING</u> (Not timely in executing contracts)

In the prior year, the Department was not timely in executing contracts with vendors for contracts awarded. Additionally, the Department allowed vendors to initiate work on the projects without a written contract in place.

During the current period, we did not note any instances where contracts were not executed with vendors prior to the awarding of the contract. Further, we did not note any instances where vendors were allowed to initiate work without a written contract. (Finding Code No. 05-6)

06-22 <u>FINDING</u> (Contract monitoring deficiencies)

In the prior year the Department's process to monitor vendor expenses was inadequate.

In the current period, the Department improved its process over monitoring vendor expenses. (Finding Code No. 05-7)

06-23 FINDING (Significant changes in contract requirements)

In the prior year, the Department entered into sizeable contracts and filed the contracts with the Comptroller as open-ended time and materials contracts with estimated contract obligation amounts. The Department did not execute and file contract amendments for significant changes to the scope or to increase the estimated contract obligation amounts.

In the current period, we did not note any instances where open ended or estimated contracts were executed. (Finding Code No. 05-9)

06-24 FINDING (Failure to adequately monitor contract progress and receipt of deliverables)

In the prior year, the Department's process to monitor the completion of tasks and receipt of deliverables was not adequate. The Department did not have a method to track the completion of tasks, receipt of deliverables, or document approved changes to contract terms.

In the current period, we did not note any deficiencies in the monitoring process for the completion of tasks and the receipt of deliverables. (Finding Code No. 05-10)

06-25 FINDING (Methodology for calculating savings amounts to bill agencies for savings initiatives)

In the prior year, 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 the current period, the Department did not bill State agencies for efficiency initiatives. (Finding Code No. 05-12)

06-26 FINDING (Inadequate documentation to support validation of savings)

In the prior year, the Department had not completed its validation of fiscal year 2004 projected savings.

In the current period, the Department issued "*State of Illinois Savings Validation Results*". (Finding Code No. 05-13)

06-27 **FINDING** (Weaknesses in internal control over financial reporting)

In the prior engagement, 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 certain year-end health care benefit liabilities.

The responsibility for reporting year-end health care benefit liabilities has been transferred to the Department of Healthcare and Family Services. As such, the Department's financial statements did not contain any health care benefit or IBNR liabilities. (Finding Code No. 05-15)

06-28 **FINDING** (Preparation of year-end Department financial statements not timely)

The Department's financial statements for the year ended June 30, 2005 were not prepared on a timely basis.

During the current period, the financial statements were prepared timely. (Finding Code No. 05-17)

06-29 **FINDING** (Travel Control Board member designees not properly appointed and travel exceptions not properly approved)

During the prior engagement, the members of the Governor's Travel Control Board (Board) did not obtain proper approval to send a designee to official Board meetings. In addition, travel exceptions were not approved by the Board Chairman as required.

During the current period, we noted that Travel Control Board members were properly appointed by obtaining the designation letters. We also noted that the travel exceptions were properly approved. (Finding Code No. 05-19)

06-30 **FINDING** (Travel Headquarters Reports (Form TA-2) not properly completed)

During the prior engagement, the Department did not ensure that all Travel Headquarters Reports (Form TA-2) filed with the Legislative Audit Commission (LAC) were accurately and timely completed.

During the current period, we noted the Department was properly completing the required Travel Headquarters Report (Form TA-2). (Finding Code No. 05-22)

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

SUMMARY

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:

  Schedule of Appropriations, Expenditures and Lapsed Balances
  Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
  Schedule of Changes in State Property
  Comparative Schedule of Cash Receipts
  Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller
  Analysis of Significant Variations in Expenditures
  Analysis of Significant Variations in Receipts
  Analysis of Significant Lapse Period Spending
  Analysis of Accounts Receivable

- Analysis of Operations:

  Agency Functions and Planning Program
  Average Number of Employees
  Hurricane Katrina Assistance (Unaudited)
  Memorandum of Understanding (Unaudited)
  Emergency Purchases
  Service Efforts and Accomplishments (Unaudited)

The auditors' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, except for that portion marked "not examined," on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 1

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES BY FUND
APPROPRIATIONS FOR FISCAL YEAR 2006
FOURTEEN MONTHS ENDED AUGUST 31, 2006

	Appropriations (Net after Transfers)	Expenditures Through June 30, 2006	Lapse Period Expenditures July 1 to August 31, 2006	Total Expenditures	Balances Lapsed
APPROPRIATED FUNDS					
Shared Funds:					
General Revenue - 001	$ 96,964,400	$ 87,954,443	$ 6,706,526	$ 94,660,969	$ 2,303,431
Nonshared Funds:					
State Project Fund- 302	3,000,000	1,500	-	1,500	2,998,500
State Garage Revolving - 303	36,992,000	30,866,000	4,021,879	34,887,879	2,104,121
Statistical Services Revolving - 304	177,373,900	113,342,809	11,774,552	125,117,361	52,256,539
Paper and Printing Revolving - 308	2,581,600	806,497	52,762	859,259	1,722,341
Communications Revolving - 312	171,345,900	87,459,712	13,560,832	101,020,544	70,325,356
Facilities Management Revolving - 314	335,996,700	162,240,236	17,368,817	179,609,053	156,387,647
Efficiency Initiatives Revolving - 315	8,482,100	5,748,904	1,890,258	7,639,162	842,938
Professional Services - 317	15,531,200	11,188,685	696,637	11,885,322	3,645,878
Workers' Compensation Revolving - 332	101,485,600	93,842,636	1,909,569	95,752,205	5,733,395
Minority and Female Business Enterprise - 352	50,000	-	4,850	4,850	45,150
Group Insurance Premium - 457	78,904,000	67,178,823	11,701,273	78,880,096	23,904
State Employees' Deferred Compensation Plan - 755	1,698,300	1,165,057	36,898	1,201,955	496,345
State Surplus Property Revolving - 903	2,581,800	1,775,082	188,558	1,963,640	618,160
Health Insurance Reserve - 907	18,875,200	9,399,450	1,076,692	10,476,142	8,399,058
Total appropriated funds	$ 1,051,862,700	672,969,834	70,990,103	743,959,937	$ 307,902,763
NON-APPROPRIATED FUNDS					
Flexible Spending Account - 202		17,325,168	537,648	17,862,816	N/A
State Employees' Deferred Compensation Plan - 755		155,935,466	725,464	156,660,930	N/A
Total non-appropriated funds		173,260,634	1,263,112	174,523,746	
TOTAL		$ 846,230,468	$ 72,253,215	$ 918,483,683	

Note 1 - Appropriated amounts were authorized by Public Act 94-0015, House Amendment to Bill 3905 3/1/2006
Note 2 - The expenditure amounts are taken directly from the records of the State Comptroller and were reconciled with Department records.
Note 3 - This schedule excludes salaries paid to the Department's Director and two Assistant Directors. Such salaries are paid from a separate appropriation with expenditures aggregating $206,300 recorded in the records of the State Comptroller.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 2

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES
AND LAPSED BALANCES
APPROPRIATED FUNDS

	Fiscal Year		
	2006	2005	2004
	P.A. 94-0015	P.A. 93-0681 and P.A. 93-0842	P.A. 93-0091
General Revenue - 001			
Appropriations (net after transfers)	$ 96,964,400	$ 984,461,562	$ 1,052,497,596
Expenditures:			
Personal services	10,350,967	12,307,321	26,912,116
Employee retirement paid by employer	15,540	9,800	-
Contribution to SERS	783,814	1,945,835	3,085,158
Contribution to social security	744,656	900,797	1,736,014
Group insurance	36,185,716	933,640,533	942,224,255
Contractual services	18,158,423	771,626	16,000,450
Travel	91,504	101,257	336,394
Commodities	37,389	44,147	221,600
Printing	25,916	41,947	69,647
Equipment	16,385	23,238	113,517
Electronic data processing	140,168	189,060	394,904
Telecommunications	180,996	208,107	453,551
Operation of automotive equipment	7,381	10,834	92,574
Worker's compensation claims	-	3,299,084	15,738,100
Automobile liability claims	1,518,224	1,600,200	1,707,538
Payment of employee wage claims	826,485	869,548	953,884
Civil law suits - claims	1,284,611	1,210,950	1,255,437
Surplus real property	189,365	-	209,667
Employee suggestion board program	1,393	3,541	1,120
Upward mobility program	3,871,846	4,965,304	5,111,126
State board of ethics	-	-	60
Veterans job program	258,564	229,571	232,370
Vito Marzullo intern program	659,694	731,072	684,673
Nurses tuition	57,614	62,746	55,516
Procurement policy board	-	8,575	180,483
Governor's commission on status of women in Illinois	132,200	2,540	105,591
Compensation review board	24,995	-	25,072
Education Technology - operating and admin costs	19,097,123	19,958,949	-
Executive Order 2003-10 consolidation transfers	-	-	26,941,334
Total expenditures	94,660,969	983,136,582	1,044,842,151
Lapsed balances	$ 2,303,431	$ 1,324,980	$ 7,655,445

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 2

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES
AND LAPSED BALANCES
APPROPRIATED FUNDS

	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2004
	P.A. 94-0015	P.A. 93-0681 and P.A. 93-0842	P.A. 93-0091
Road - 011			
Appropriations (net after transfers)	$ -	$ 121,296,825	$ 105,632,600
Expenditures:			
Group insurance	-	120,827,468	98,752,836
Worker's compensation claims	-	469,357	4,767,112
Total expenditures	-	121,296,825	103,519,948
Lapsed balances	$ -	$ -	$ 2,112,652
Local Government Health Insurance Reserve - 193			
Appropriations (net after transfers)	$ -	$ 116,157,600	$ 137,374,300
Expenditures:			
Ordinary and contingent expenditures			
Personal services	-	436,336	433,953
Employee retirement paid by employer	-	7,266	-
Contribution to SERS	-	70,283	66,566
Contribution to social security	-	31,823	31,620
Group insurance	-	127,129	106,470
Contractual services	-	72,178	65,109
Travel	-	6,474	4,109
Commodities	-	733	3,475
Printing	-	2,875	3,039
Electronic data processing	-	16,166	14,459
Telecommunications services	-	2,602	2,076
Operation of automotive equipment	-	4,310	2,487
Local government contributions	-	69,148,322	68,631,058
Total expenditures	-	69,926,497	69,364,421
Lapsed balances	$ -	$ 46,231,103	$ 68,009,879
State Project Fund - 302			
Appropriations (net after transfers)	$ 3,000,000	$ -	$ -
Expenditures:			
Ordinary and contingent expenditures			
Strategic Marketing Team Services	1,500	-	-
Total expenditures	1,500	-	-
Lapsed balances	$ 2,998,500	$ -	$ -

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES
AND LAPSED BALANCES
APPROPRIATED FUNDS

	Fiscal Year		
	2006	2005	2004
	P.A. 94-0015	P.A. 93-0681 and P.A. 93-0842	P.A. 93-0091
State Garage Revolving - 303			
Appropriations (net after transfers)	$ 36,992,000	$ 35,717,594	$ 44,346,500
Expenditures:			
Ordinary and contingent expenditures			
Personal services	7,711,287	8,478,151	8,833,372
Employee retirement paid by employer	60,494	200,827	-
Contribution to SERS	605,734	1,368,314	1,464,975
Contribution to social security	570,128	627,347	653,370
Group insurance	2,389,435	2,443,795	2,066,600
Contractual services	830,360	271,173	818,192
Travel	7,106	6,007	3,824
Commodities	79,362	74,499	72,755
Printing	14,660	16,731	12,628
Equipment	242,926	315,170	610,041
Electronic data processing	756,273	905,934	878,938
Telecommunications services	53,747	62,802	72,073
Operation of automotive equipment	21,566,318	18,857,889	17,487,592
Refunds	49	1,380	228
Total expenditures	34,887,879	33,630,019	32,974,588
Lapsed balances	$ 2,104,121	$ 2,087,575	$ 11,371,912
Statistical Services Revolving - 304			
Appropriations (net after transfers)	$ 177,373,900	$ 134,491,071	$ 141,805,992
Expenditures:			
Ordinary and contingent expenditures			
Personal services	38,710,490	22,391,272	14,801,081
Employee retirement paid by employer	231,999	233,174	-
Contribution to SERS	3,020,602	3,424,860	2,296,905
Contribution to social security	2,899,612	1,691,497	1,113,987
Group insurance	8,357,694	3,667,849	2,386,744
Contractual services	3,382,923	1,478,158	2,238,759
Travel	236,813	137,101	71,503
Commodities	71,069	58,594	57,907
Printing	55,093	76,670	67,104
Equipment	260,329	16,116	38,908
Electronic data processing	66,095,219	48,864,263	39,167,845
Telecommunications services	1,761,107	2,888,970	2,596,260
Lump sum	-	999,832	-
Operation of automotive equipment	34,411	6,096	5,355
Refunds	-	1,360,571	10,033
Total expenditures	125,117,361	87,295,023	64,852,391
Lapsed balances	$ 52,256,539	$ 47,196,048	$ 76,953,601

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 2

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES
AND LAPSED BALANCES
APPROPRIATED FUNDS

	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2004
	P.A. 94-0015	P.A. 93-0681 and P.A. 93-0842	P.A. 93-0091
Paper and Printing Revolving - 308			
Appropriations (net after transfers)	$ 2,581,600	$ 2,588,400	$ 2,685,500
Expenditures:			
Ordinary and contingent expenditures			
Personal services	118,476	159,423	175,241
Employee retirement paid by employer	745	2,322	-
Contribution to SERS	9,234	25,681	28,354
Contribution to social security	8,758	11,882	12,995
Group insurance	38,469	37,470	37,918
Contractual services	93,498	75,448	94,893
Travel	-	255	305
Commodities	674	1,342	1,520
Printing	-	47	-
Electronic data processing	26,546	12,083	52,047
Telecommunications services	1,557	1,912	1,719
Refunds	65	-	-
Printing and distribution of wall certificates	561,237	914,173	889,727
Total expenditures	859,259	1,242,038	1,294,719
Lapsed balances	$ 1,722,341	$ 1,346,362	$ 1,390,781
Communications Revolving - 312			
Appropriations (net after transfers)	$ 171,345,900	$ 159,592,753	$ 179,870,900
Expenditures:			
Ordinary and contingent expenditures			
Personal services	9,943,715	9,166,289	6,326,930
Employee retirement paid by employer	39,738	111,475	-
Contribution to SERS	775,281	1,461,305	981,794
Contribution to social security	746,398	701,331	491,621
Group insurance	2,214,507	1,655,461	1,204,384
Contractual services	3,361,013	2,239,945	3,601,159
Travel	209,727	159,548	64,914
Commodities	92,780	47,703	35,551
Printing	38,311	16,711	25,160
Equipment	52,707	260,125	124,516
Electronic data processing	2,268,219	2,468,153	3,218,831
Telecommunications services	80,066,689	98,792,966	92,130,265
Operation of automotive equipment	102,469	106,711	88,137
Executive Order 2004-02 PIO (1600)	35,630	3,882	-
Executive Order 2004-02 PIO (1900)	-	337,916	-
Executive Order 2004-02 PIO (1920)	-	23,773	-
Refunds	1,073,360	3,676	160,942
Total expenditures	101,020,544	117,556,970	108,454,204
Lapsed balances	$ 70,325,356	$ 42,035,783	$ 71,416,696

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 2

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES
AND LAPSED BALANCES
APPROPRIATED FUNDS

	Fiscal Year		
	2006	2005	2004
	P.A. 94-0015	P.A. 93-0681 and P.A. 93-0842	P.A. 93-0091
Facilities Management Revolving - 314			
Appropriations (net after transfers)	$ 335,996,700	$ 143,988,130	$ 200,000
Expenditures:			
Personal services	13,174,840	11,167,999	-
Employee retirement paid by employer	127,003	19,498	-
Contribution to SERS	1,027,769	1,754,748	-
Contribution to social security	970,019	809,738	-
Group insurance	3,183,460	539,686	-
Contractual services	160,089,326	119,595,355	-
Travel	56,576	34,779	-
Commodities	434,593	195,368	-
Printing	8,497	11,915	-
Equipment	27,518	10,407	-
Electronic data processing	-	40,534	-
Telecommunications services	219,684	286,739	-
Operation of automotive equipment	78,715	30,700	-
FMRF-1900-000	211,053	5,087,730	-
Lump sum-operations (1910)	-	609,462	-
Fac. Mgmt. awards and grants	-	2,024,507	-
Operation and management of state facilities	-	-	146,240
Total expenditures	179,609,053	142,219,165	146,240
Lapsed balances	$ 156,387,647	$ 1,768,965	$ 53,760
Efficiency Initiatives Revolving - 315*			
Appropriations (net after transfers)	$ 8,482,100	$ 64,700,000	$ 63,200,000
Expenditures:			
Efficiency initiatives	7,639,162	19,371,286	37,350,560
Total expenditures	7,639,162	19,371,286	37,350,560
Lapsed balances	$ 842,938	$ 45,328,714	$ 25,849,440
Senior Citizens & Disabled Persons Program - 316			
Appropriations (net after transfers)	$ -	$ 350,000	$ -
Expenditures:			
Expenses of admin. for prescription drug program	-	45,528	-
Total expenditures	-	45,528	-
Lapsed balances	$ -	$ 304,472	$ -

*New fund in fiscal year 2004

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 2

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES
AND LAPSED BALANCES
APPROPRIATED FUNDS

	Fiscal Year		
	2006	2005	2004
	P.A. 94-0015	P.A. 93-0681 and P.A. 93-0842	P.A. 93-0091
Professional Services - 317**			
Appropriations (net after transfers)	$ 15,531,200	$ 13,710,170	$ -
Expenditures:			
Personal services	5,485,718	5,214,262	-
Employee retirement paid by employer	10,043	6,993	-
Contribution to SERS	431,017	833,429	-
Contribution to social security	405,998	383,115	-
Group insurance	1,300,856	1,031,629	-
Contractual services	1,560,989	804,302	-
Travel	87,137	87,382	-
Commodities	4,173	8,228	-
Printing	6,942	9,350	-
Equipment	14,999	11,875	-
Electronic data processing	79,560	126,462	-
Telecommunications services	59,453	68,581	-
Info tech consolidation (1910)	-	10,862	-
Internal audit consolidation	2,438,437	468,582	-
Total expenditures	11,885,322	9,065,052	-
Lapsed balances	$ 3,645,878	$ 4,645,118	$ -
Workers' Compensation Revolving - 332			
Appropriations (net after transfers)	$ 101,485,600	$ 76,789,576	$ 650,000
Expenditures:			
Personal services	1,364,207	1,218,292	-
Employee Retirement paid by employer	3,715	-	-
Contribution to SERS	106,375	189,975	-
Contribution to social security	101,675	90,078	-
Group insurance	330,388	27,690	-
Contractual services	29,895	13,315	-
Travel	12,066	15,572	-
Commodities	6,237	9,351	-
Printing	2,663	-	-
Electronic data processing	10,016	4,993	-
Telecommunications services	18,367	21,306	-
Group insurance - lump sum (1900)	-	182,890	-
Injured employees award etc. (4420)	93,571,734	66,254,367	-
Admin. expenses and payment of temporary disability	194,867	52,739	283,225
Total expenditures	95,752,205	68,080,568	283,225
Lapsed balances	$ 5,733,395	$ 8,709,008	$ 366,775

** New fund in fiscal year 2005

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 2

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES
AND LAPSED BALANCES
APPROPRIATED FUNDS

	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2004
	P.A. 94-0015	P.A. 93-0681 and P.A. 93-0842	P.A. 93-0091
Minority and Female Business Enterprise - 352			
Appropriations (net after transfers)	$ 50,000	$ 50,000	$ 50,000
Expenditures:			
Expenses for the Business Enterprise Fund	4,850	-	-
Total expenditures	4,850	-	-
Lapsed balances	$ 45,150	$ 50,000	$ 50,000
Group Insurance Premium - 457			
Appropriations (net after transfers)	$ 78,904,000	$ 77,721,000	$ 76,495,900
Expenditures:			
Group insurance	78,597,856	69,042,942	65,191,319
Cost containment program	282,240	282,240	282,240
Total expenditures	78,880,096	69,325,182	65,473,559
Lapsed balances	$ 23,904	$ 8,395,818	$ 11,022,341
Wireless Service Emergency - 612			
Appropriations (net after transfers)	$ -	$ -	$ 44,800,000
Expenditures:			
Administration	-	-	34,013,721
Total expenditures	-	-	34,013,721
Lapsed balances	$ -	$ -	$ 10,786,279
Wireless Carrier Reimbursement - 613			
Appropriations (net after transfers)	$ -	$ -	$ 35,400,000
Expenditures:			
Administration	-	-	32,443,855
Total expenditures	-	-	32,443,855
Lapsed balances	$ -	$ -	$ 2,956,145
State Employees' Deferred Compensation Plan - 755			
Appropriations (net after transfers)	$ 1,698,300	$ 1,662,471	$ 1,856,900
Expenditures:			
Administration	1,201,955	1,088,604	1,252,766
Total expenditures	1,201,955	1,088,604	1,252,766
Lapsed balances	$ 496,345	$ 573,867	$ 604,134

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 2

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES
AND LAPSED BALANCES
APPROPRIATED FUNDS

	Fiscal Year		
	2006	2005	2004
	P.A. 94-0015	P.A. 93-0681 and P.A. 93-0842	P.A. 93-0091
State Surplus Property Revolving - 903			
Appropriations (net after transfers)	$ 2,581,800	$ 2,537,763	$ 2,782,500
Expenditures:			
Ordinary and contingent expenditures			
Personal services	984,739	908,196	932,438
Employee retirement paid by employer	4,320	11,998	-
Contribution to SERS	76,743	146,292	140,752
Contribution to social security	70,805	66,229	67,307
Group insurance	254,252	225,182	190,831
Contractual services	267,408	249,286	600,565
Travel	10,070	17,350	17,801
Commodities	6,962	9,974	7,922
Printing	1,489	3,247	3,009
Equipment	17,244	145,351	172,088
Electronic data processing	-	44,273	62,647
Telecommunications services	16,460	16,002	24,777
Record processing/I-Cycle program	142,808	107,147	107,892
Operation of automotive equipment	109,716	108,268	105,883
Refunds	624	70	50
Total expenditures	1,963,640	2,058,865	2,433,962
Lapsed balances	$ 618,160	$ 478,898	$ 348,538
Health Insurance Reserve - 907			
Appropriations (net after transfers)	$ 18,875,200	$ 1,642,264,858	$ 1,533,290,746
Expenditures:			
Personal services	83,461	208,160	-
Employee retirement paid by employer	379	93	-
Contribution to SERS	6,504	33,563	-
Contribution to social security	6,205	15,186	-
Group insurance	-	9,497	-
Contractual services	15,000	6,850	-
Travel	-	5,674	-
Commodities	-	142	-
Printing	-	45	-
Telecommunications services	227	3,953	-
Cost containment	155,722	158,900	155,722
Health care coverage	10,208,644	1,522,537,701	1,431,409,295
Total expenditures	10,476,142	1,522,979,764	1,431,565,017
Lapsed balances	$ 8,399,058	$ 119,285,094	$ 101,725,729

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES
AND LAPSED BALANCES
APPROPRIATED FUNDS

	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2004
	P.A. 94-0015	P.A. 93-0681 and P.A. 93-0842	P.A. 93-0091
Special Events Revolving - 989			
Appropriations (net after transfers)	$ -	$ -	$ 200,000
Expenditures:			
Lease/rental of CMS buildings	-	-	23,779
Total expenditures	-	-	23,779
Lapsed balances	$ -	$ -	$ 176,221
Grand Total, All Appropriated funds			
Appropriations (net after transfers)	$ 1,051,862,700	$ 3,578,079,773	$ 3,423,139,434
Total expenditures	743,959,937	3,248,317,968	3,030,289,106
Total lapsed balances	$ 307,902,763	$ 329,761,805	$ 392,850,328
State Officers' Payroll			
Appropriations (through Comptroller's Office)	$ 326,500	$ 326,500	$ 326,500
Expenditures:			
For the Director	42,415	111,156	120,900
For two Assistance Directors	163,885	205,600	176,685
Total expenditures	206,300	316,756	297,585
Lapsed balances	$ 120,200	$ 9,744	$ 28,915

Schedule 3

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
SCHEDULE OF CHANGES IN STATE PROPERTY
For Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

	Balance June 30, 2005	Additions	Deletions	Reclassifications	Balance June 30, 2006
General Fixed Asset Account Group					
Land and land improvements	$ 42	$ 369	$ (369)	$ -	$ 42
Building and building improvements	4,640	16,125	(16,125)	-	4,640
Equipment	2,869	7	(69)	-	2,807
Total General Fixed Asset Account Group	7,551	16,501	(16,563)	-	7,489
State Garage Revolving Fund - 303					
Equipment	4,550	292	(358)	-	4,484
Total State Garage Revolving Fund - 303	4,550	292	(358)	-	4,484
Statistical Services Revolving Fund - 304					
Equipment	52,974	4,134	(11,591)	-	45,517
Total Statistical Services Revolving Fund - 304	52,974	4,134	(11,591)	-	45,517
Paper and Printing Revolving Fund - 308					
Equipment	15	-	-	-	15
Total Paper and Printing Revolving Fund - 308	15	-	-	-	15
Communications Revolving Fund - 312					
Equipment	100,793	9,793	(13,541)	-	97,045
Total Communications Revolving Fund - 312	100,793	9,793	(13,541)	-	97,045
Facilities Management Revolving Fund - 314					
Land and land improvements	36,689	-	-	-	36,689
Site improvements	3,865	24	-	-	3,889
Buildings and building improvements	401,655	519	-	(50,202)	351,972
Leases: Buildings and building improvements	-	-	-	50,202	50,202
Equipment	504	47	10	-	561
Works of Art	974	-	-	-	974
Total Management Revolving Fund - 314	443,687	590	10	-	444,287
TOTAL PROPERTY AND EQUIPMENT, AT COST	$ 609,570	$ 31,310	$ (42,043)	$ -	$ 598,837

(1) This schedule was prepared by the Department on the cash basis of accounting and, therefore, does not include lapse period purchases.

(2) This schedule has been reconciled to the financial statements.

(3) Additions include transfers from other agencies as a result of consolidations and are not purchases.

(4) Reclassifications presented to properly classify state property.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 4

COMPARATIVE SCHEDULE OF CASH RECEIPTS
For Fiscal Years Ended June 30, 2006, 2005, and 2004

	2006	2005	2004
SHARED FUNDS			
General Revenue - 001			
Rents from State of Illinois buildings in Chicago, farmland, and other property	$ -	$ 302,370	$ 736,110
Miscellaneous	46,791	29,660	103,363
Repay State-upward mobility	67,615	62,495	34,898
Sale of land and structures	4,200,000	4,629,250	81,000
Prior year refunds	22,084	32,353	76,638
Private organizations or individuals	-	17,059	2,701
Other	-	1,860	1,615
Total - Fund 001	$ 4,336,490	$ 5,075,047	$ 1,036,325
Road - 011			
Prior year refunds	$ 503	$ 561	$ 6,175
NONSHARED FUNDS			
Local Government Health Insurance Reserve - 193			
Contributions	$ 67,071,747	$ 68,056,354	$ 72,842,522
Interest	345,398	228,237	130,779
Total - Fund 193	$ 67,417,145	$ 68,284,591	$ 72,973,301
Flexible Spending Account - 202			
Payroll deductions	$ 17,625,649	$ 16,982,362	$ 14,220,122
State Police Vehicle - 246			
State property sales	$ 24,950	$ 15,400	$ 95,400
CMS State Projects - 302*			
Sponsorship/Advert Revenue	$ 1,500	$ -	$ -
State Garage Revolving - 303			
Charges to user agencies	$ 36,449,265	$ 32,676,553	$ 35,759,307
Statistical Services Revolving - 304			
Charges to user agencies	$ 123,308,544	$ 74,127,248	$ 85,712,081
Paper and Printing Revolving - 308			
Charges to user agencies	$ 1,059,628	$ 994,071	$ 1,263,465
Communications Revolving - 312			
Charges to user agencies	$ 104,446,113	$ 112,553,413	$ 124,559,377
Facilities Management Revolving - 314			
Rental income	$ 171,664,491	$ 459,543	$ 183,121
Efficiency Initiatives Revolving - 315			
Other Illinois state agencies	$ 18,559,713	$ 21,795,170	$ 109,978,596

*New fund in fiscal year 2006

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 4

COMPARATIVE SCHEDULE OF CASH RECEIPTS
For Fiscal Years Ended June 30, 2006, 2005, and 2004

	2006	2005	2004
Senior Citizen and Disabled Persons Program - 316			
Senior citizens / Prescription drug discount fees	$ 16,805	$ 99,195	$ 218,873
Professional Services - 317**			
Other Illinois state agencies	$ 118,027	$ -	$ -
Prior year refunds	7,273	-	-
Total - Fund 317	$ 125,300	$ -	$ -
Workers' Compensation Revolving - 332			
Receipts due to subrogation of workers' compensation claims	$ 1,390,778	$ 861,726	$ 564,955
Minority and Female Business Enterprise - 352			
License fees or registration	$ 75	$ 775	$ 825
Group Insurance Premium - 457			
Direct payments of insurance premiums by employees	$ 568,602	$ 461,462	$ 378,952
Optional life deductions	45,273,828	39,587,293	39,453,509
Pharmacy recoveries	1,918,366	2,169,838	1,390,431
Employer reimbursement for basic life coverage	7,076,472	6,455,932	4,884,188
Transfers in from other funds	20,000,000	24,000,000	19,314,200
Interest	344,487	226,057	93,671
Prior year refund	216	35	-
Total - Fund 457	$ 75,181,971	$ 72,900,617	$ 65,514,951
Community College Health Insurance Security - 577			
Transfers in from other funds	$ 3,630,017	$ 2,996,308	$ 3,101,100
Member contributions	582,958	421,168	297,669
Total - Fund 577	$ 4,212,975	$ 3,417,476	$ 3,398,769
Wireless Service Emergency - 612			
Surcharges	$ -	$ 2,229,454	$ 30,841,832
Wireless Carrier Reimbursement - 613			
Surcharges	$ -	$ 1,114,727	$ 15,420,916
State Employees' Deferred Compensation Plan - 755			
Benefits receipts	$ 4,460,330	$ 4,525,970	$ 2,448,970
Annual asset charge and investment exchange	1,371,914	1,059,873	16,456
Investments and other income	160,759	82,284	54,811
Payroll deductions	152,043,593	142,359,077	133,609,415
Other	3,550	800	1,089
Total - Fund 755	$ 158,040,146	$ 148,028,004	$ 136,130,741
State Surplus Property Revolving - 903			
Sales of surplus property	$ 1,954,289	$ 2,194,719	$ 3,235,401

**New fund in fiscal year 2005

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

COMPARATIVE SCHEDULE OF CASH RECEIPTS
For Fiscal Years Ended June 30, 2006, 2005, and 2004

	2006	2005	2004
Health Insurance Reserve - 907			
Reimbursement of insurance premiums from federal trusts, other funds, and employers	$ 132,368,714	$ 110,911,634	$ 97,491,380
Direct payments of insurance premiums by employees	10,544,624	8,684,248	8,368,362
Refunds from insurance carriers	17,305,176	15,501,949	12,771,332
Optional health deductions	196,989,351	188,213,288	184,874,341
Health facilities	169,835,329	154,942,360	117,220,528
Interest	-	1,181,927	688,939
Transfers in from other funds	16,196,728	1,079,224,882	974,275,236
Prior year refund	509	164	4,000
Total - Fund 907	$ 543,240,431	$ 1,558,660,452	$ 1,395,694,118
Special Events Revolving - 989			
Rental income	$ 6,915	$ 38,750	$ 63,275
GRAND TOTAL, ALL FUNDS	$ 1,329,063,676	$ 2,122,509,854	$ 2,096,871,926

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 5

RECONCILIATION SCHEDULE OF CASH RECEIPTS TO DEPOSITS
REMITTED TO THE STATE COMPTROLLER
For Fiscal Year Ended June 30, 2006

	Shared Funds		Nonshared Funds					
	General Revenue 001	Road 011	Local Government Health Insurance Reserve 193	Flexible Spending Account 202	State Police Vehicle 246 (1)	CMS State Projects 302 (2)	State Garage Revolving 303	Statistical Services Revolving 304
2006								
Cash receipts per Department records	$ 4,336,490	$ 503	$ 67,417,145	$ 17,625,649	$ 24,950	$ 1,500	$ 36,449,265	$ 123,308,544
Add:								
Deposits in transit at beginning of period	3,788	-	252,143	-	-	-	-	-
Miscellaneous	-	-	-	280	-	-	-	1,178
IOC holds from GRF (current year)	-	-	-	-	-	-	87,154	8,301
Refunds	273	-	-	-	-	-	-	-
Deduct:								
Interest income	-	-	-	-	-	-	-	-
Deposits in transit at end of period	10,067	-	597,541	26,708	-	-	59,745	1,090,167
Miscellaneous/Adjustments	-	-	-	-	-	-	-	374
IOC holds from GRF (prior year)	-	-	-	-	-	-	9,643	209
Deposits into the State Treasury	$ 4,330,484	$ 503	$ 67,071,747	$ 17,599,221	$ 24,950	$ 1,500	$ 36,467,031	$ 122,227,273

(1) The State Police Vehicle Fund is the reporting responsibility of the Illinois State Police.
(2) The CMS State Projects Fund was established in fiscal year 2006.

Schedule 5

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

RECONCILIATION SCHEDULE OF CASH RECEIPTS TO DEPOSITS
REMITTED TO THE STATE COMPTROLLER
For Fiscal Year Ended June 30, 2006

	Nonshared Funds							
	Paper and Printing Revolving 308	Communications Revolving 312	Facilities Management Revolving 314	Efficiency Initiatives Revolving 315	Senior Citizen and Disabled Persons Program 316	Professional Services 317	Workers' Compensation Revolving 332	Minority and Female Business Enterprise 352
2006								
Cash receipts per Department records	$ 1,059,628	$ 104,446,113	$ 171,664,491	$ 18,559,713	$ 16,805	$ 125,300	$ 1,390,778	$ 75
Add:								
Deposits in transit at beginning of period	-	550,671	6,370	-	-	-	657	25
Miscellaneous	-	119	16,259	-	-	-	1,349	-
IOC holds from GRF (current year)	1,636	98,849	20,690	-	-	-	-	-
Refunds	-	-	-	-	-	-	-	-
Deduct:								
Interest income	-	-	-	-	-	-	-	-
Deposits in transit at end of period	11,012	833,824	2,240,380	-	-	-	-	-
Miscellaneous/Adjustments	-	-	-	-	-	-	-	-
IOC holds from GRF (prior year)	2,372	70,637	-	43,321	-	-	-	-
Deposits into the State Treasury	$ 1,047,880	$ 104,191,291	$ 169,467,430	$ 18,516,392	$ 16,805	$ 125,300	$ 1,392,784	$ 100

(1) The State Police Vehicle Fund is the reporting responsibility of the Illinois State Police.
(2) The CMS State Projects Fund was established in fiscal year 2006.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

RECONCILIATION SCHEDULE OF CASH RECEIPTS TO DEPOSITS
REMITTED TO THE STATE COMPTROLLER
For Fiscal Year Ended June 30, 2006

	Nonshared Funds						
	Group Insurance Premium 457	Community College Health Insurance Security 577	State Employees' Deferred Compensation Plan 755	State Surplus Property Revolving 903	Health Insurance Reserve 907	Special Events Revolving 989	TOTAL
2006							
Cash receipts per Department records	$ 75,181,971	$ 4,212,975	$ 158,040,146	$ 1,954,289	$ 543,240,431	$ 6,915	$ 1,329,063,676
Add:							
Deposits in transit at beginning of period	-	34,374	-	76,018	-	-	924,046
Miscellaneous	187	-	-	-	-	-	19,372
IOC holds from GRF (current year)	-	-	-	-	-	-	216,630
Refunds	-	-	-	-	-	-	273
Deduct:							
Interest income	344,487	-	148,975	-	-	-	493,462
Deposits in transit at end of period	134,386	-	40,986	2,010	1,383,649	-	6,430,475
Miscellaneous/Adjustments	-	-	-	-	-	-	374
IOC holds from GRF (prior year)	-	-	-	-	-	-	126,182
Deposits into the State Treasury	$ 74,703,285	$ 4,247,349	$ 157,850,185	$ 2,028,297	$ 541,856,782	$ 6,915	$ 1,323,173,504

(1) The State Police Vehicle Fund is the reporting responsibility of the Illinois State Police.
(2) The CMS State Projects Fund was established in fiscal year 2006.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES

For the Year Ended June 30, 2006

The State of Illinois, Department of Central Management Services' (Department) explanations for significant fluctuations in expenditures greater than $100,000 and 15% between fiscal years 2005 and 2006 as presented in the "Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances – Appropriated Funds" (Schedule 2) are detailed below.

General Revenue – 001

The General Revenue Fund experienced a decrease in expenditures of $888,475,613 (90%).

A $1,956,354 (16%) decrease in personal services is attributable to personnel transfers from the General Revenue Fund to other funds. In fiscal year 2006, the payments for personal services for the Bureau of Property Management were made primarily from the Facilities Management Fund (314). The remainder of the decrease is the result of attrition.

Contractual services increased $17,386,797 (2,253%) as the result of the creation of a new line (1236) in fiscal year 2006 for payment to the Facilities Management Revolving Fund (314). The new line was established to handle the cost allocation of rent and services due to the consolidation of facilities pursuant to Executive Order #2003-10.

Contribution to social security decreased $156,141 (17%) as a result of the completion of the consolidations in fiscal year 2005 shifting the payments from the General Revenue Fund (001) to the Facilities Management Fund (314). In fiscal year 2006, the payments for social security for the Bureau of Property Management were made primarily from fund 314. The remainder of the decrease is a result of attrition.

A decrease of $1,162,021 (60%) in contribution to SERS is a result of the decrease in the contribution percentage from fiscal year 2005 to 2006.

Group insurance decreased $897,454,817 (96%) as a result of administration and relating appropriation authority for fiscal year 2006 being transferred to the Department of Healthcare and Family Services

Upward Mobility program decreased $1,093,458 (22%) as a result of payments for this program being transferred to the Department of Healthcare and Family Services.

Workers' Compensation claims decreased $3,299,084 (100%) as a result of the completion of the consolidation of the worker's compensation program. Payments were shifted from the General Revenue Fund to the Worker's Compensation Revolving fund (332) decreasing the General Revenue Fund payments. In fiscal year 2006, the payments for awards and grants for the workers' compensation claims were made entirely from fund 332.

Road – 011

Total expenditures for the Road Fund decreased $121,296,825 (100%).

The appropriation authority for fiscal year 2006 was transferred to the Department of Healthcare and Family Services.

Local Government Health Insurance Reserve – 193

Total expenditures for the Local Health Insurance Reserve Fund decreased $69,926,497 (100%).

The appropriation authority for fiscal year 2006 was transferred to the Department of Healthcare and Family Services.

State Garage Revolving – 303

Total expenditures for the State Garage Revolving Fund increased $1,257,860 (4%).

Employee retirement paid by employer decreased $140,333 (70%) due to the State of Illinois no longer funding the State Employees Retirement Fund. The state employees are responsible for the funding of their retirement through payroll deduction.

Contribution to SERS decreased $762,580 (56%) in fiscal year 2006. The decline in employees results in the decrease in contributions to retirement.

Statistical Services Revolving – 304

Total expenditures increased $37,822,338 (43%) for the Statistical Services Revolving Fund. The expenditures include a Facilities Management prepay, quarterly payments for software licensing, and computer maintenance contracts.

Paper and Printing Revolving – 308

Total expenditures decreased $382,779 (31%) for the Paper and Printing Revolving Fund. Operations of the fund are being phased out due to a reduction of use by other State agencies that purchase their products directly off master contracts.

Communications Revolving – 312

The total expenditures for the Communications Revolving Fund decreased $16,536,426 (14%). The decrease in spending occurred primarily in telecommunications services. The Agency negotiated lower rates from vendors resulting in a decrease of $6.5 million. Additionally, they eliminated or reduced the use of outside contractors and consultants decreasing expenditures by $16.1 million. Small increases in other areas offset the remaining decrease in expenditures.

Facilities Management Revolving – 314

The total expenditures for the Facilities Management Revolving Fund increased $37,389,888 (26%) due to the facilities management consolidation into CMS pursuant to Executive Order 2003-10.

Efficiency Initiatives Revolving – 315

The total expenditures for the Efficiency Initiatives Revolving Fund decreased by $11,732,124 (61%). The decrease is attributable to fewer payments in the current fiscal year for the initiatives covering expenses for auditing and management services than were made in the two previous fiscal years. Additionally, payments for computer software were shifted entirely to fund 304 due to the completion of the IT consolidation in fiscal year 2005.

Professional Services – 317

Total expenditures increased for the Professional Services Fund by $2,820,270 (31%). Payroll and related costs totaling $2,188,943 were deferred from the Facilities Management Revolving Fund to the Professional Services due to cash flow problems. An increase in legal fees totaling $168,176 resulted from the completion of consolidation under Executive Order 2003-10.

Workers' Compensation Revolving – 332

Total expenditures increased for the Workers' Compensation Revolving Fund by $27,671,637 (41%). These increases are the result of the completion of the consolidation of the workers' compensation program into CMS pursuant to 20 ILCS 405/405-411 in fiscal year 2006. Additionally, all payments of awards and grants were made from this fund compared to last year in which the expenditures were paid out of the General Revenue Fund (001).

State Surplus Property Revolving – 903

Expenditures decreased $95,225 (5%) for the State Surplus Property Revolving Fund. The decrease is a result of transfers made to the General Revenue Fund (001) pursuant to the amendment of the article 80-5, section 8.44, subsection (a), 30 ILCS 108/8.44 were reversed due to cash flow problems. There were less monies coming from auctions and sales of scrap metals due to less inventory available for sale.

Health Insurance Reserve – 907

Total expenditures in the Health Insurance Reserve Fund decreased $1,512,503,622 (99%).

The administration and relating appropriation authority for fiscal year 2006 was transferred to the Department of Healthcare and Family Services.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS

For the Year Ended June 30, 2006

The State of Illinois, Department of Central Management Services' (Department) explanations for significant fluctuations in receipts greater than $100,000 and 15% between fiscal years 2005 and 2006 as presented in the "Comparative Schedule of Cash Receipts" (Schedule 4) are detailed below:

General Revenue – 001

Rents from the State of Illinois buildings in Chicago, farmland, and other property decreased $302,370 (100%). These income items were transferred to the Facilities Management Revolving Fund (314) as a result of the facilities management consolidation pursuant to Executive Order 2003-10. See related increase in fund 314 rental revenue.

Local Government Health Insurance Reserve – 193

The increase in fiscal year 2006 interest income of $117,161 (51%) is directly related to the increase of the monthly earnings rate.

Statistical Services Revolving – 304

Charges to user agencies increased $49,181,296 (66%). This increase in revenue was due to agencies making payments to the Statistical Services Revolving Fund (SSRF) for IT consolidation. The transfers for the IT consolidation were made to SSRF in fiscal year 2005 to cover agency expenditures for the IT consolidation. Agencies were billed for expenses in fiscal year 2006.

Facilities Management Revolving – 314

Rental income increased $171,204,948 (37,255%). Receipts for miscellaneous rental income were shifted to the Facilities Management Revolving Fund (314) from the General Revenue Fund (001) and other State agencies as a result of the facilities management consolidation pursuant to Executive Order 2003-10.

Efficiency Initiatives Revolving – 315

A decrease in cash receipts in this fund of $3,235,457 (15%) is due to no initiatives billings in fiscal year 2006. All receipts collected during the fiscal year were for amounts billed during the previous fiscal year.

Initiative	Fiscal Year 2005 Billings (in thousands)	Fiscal Year 2006 Billings (in thousands)
Legal	$ .5	$ -
Communication Managers	1.2	-
Internal Audit	-	-
Facilities Management	-	-
Information Technology	26.9	-
Procurement	5.4	-
Vehicle Fleet	-	-
	$ 34.0	$ -

Professional Services – 317

Charges to other Illinois State agencies increased $118,027 (100%) in fiscal year 2006. The increase was a result of a one time special project billed in fiscal year 2005 and collected in fiscal year 2006.

Workers' Compensation Revolving – 332

Receipts within this fund represent recoveries from third parties for the subrogation of workers' compensation claims. During fiscal year 2006 the $529,052 (61%) increase is a result of the completion of the consolidation of the workers' compensation program into CMS pursuant to Executive Order 2003-10. Workers' compensation subrogation receipts related to all of the consolidated agencies that were deposited into Fund 332 during fiscal year 2006.

Group Insurance Premium – 457

Direct payments of insurance premiums by employees increased $107,140 (23%) during fiscal year 2006. The increase is a result of the application of the Retaliatory Tax by the Illinois Department of Insurance. Amounts designed to account for the increased premium payments to the life insurance carrier and to recoup the payment of the retroactive tax to the life insurance carrier were included in the rates charged to the participants in the State's Life Insurance Program. The application of these additional amounts in conjunction with the natural growth of employee salaries which drive the volume of insurance purchased and therefore the premiums paid, are the contribution factors in the increase in the revenues associated with employee premiums and optional life premium.

Transfers in from other funds decreased $4,000,000 (17%). The decrease is due to the fact that the amount of General Revenue Funds that is required to be transferred into the Group Insurance Premium Fund is a function of the total revenue required by the program to account for all premium liabilities and any program related administrative expenditures less the amount of reimbursement revenue from non-GRF payrolls and participant contributions received into the fund. With the introduction of the retaliatory tax, both reimbursement revenues and participant contributions increased significantly, resulting in a diminished need for General Revenue Funds.

Interest increased $118,430 (52%) based on higher interest paid by the Comptroller based on Comptroller's average interest rate.

Community College Health Insurance Security – 577

Transfers in from other funds increased $633,709 (21%). The General Revenue Fund transfers are based upon 0.5% of the projected salaries of active community college employees as certified by the Board of Directors of SURS. As a result of the salaries of active employees increasing year after year, the appropriation also increases. Additionally, statute directs 1/12 of each year's appropriation to be transferred into the fund each month. In June of 2005, the transfer request was processed by SURS on such a late date that the Comptroller deposited the funds into the 577 fund in July.

Member contributions increased $161,790 (38%). The increase is due to the increasing cost of providing health, dental, and vision benefits to participants in the program, which then cause the revenue generated by member contributions to increase. The increase in revenue is also due to increased enrollment in the program.

State Employees' Deferred Compensation Plan – 755

Annual asset charge and investment exchange receipts increased $312,041 (29%). In January 2005, the asset fee was reinstated after the fee holiday in fiscal years 2003 and 2004 and was collected for half of the year. The asset charges were collected the entire fiscal year 2006.

Health Insurance Reserve – 907

Reimbursements of insurance premiums from federal trusts, other funds, and employers increased $21,457,080 (19%) during fiscal year 2006. This increase is a result of the weighted average reimbursement rates charged to non-exempt funds increased by approximately 5.8% from fiscal year 2005 to fiscal year 2006. Other adjustments to the reporting of headcount by universities and agencies and the timing of payments received at the Comptroller accounted for the remaining increase. Due to the change a more accurate amount due from agencies and universities was reported creating an increase in revenues.

Direct payments of insurance premiums by employees increased $1,860,676 (21%) from fiscal year 2005 to fiscal year 2006. This increase is a result of increases in the overall cost of coverage compounded by the increase in the number of employees in a non-payroll status and also the timing of receipts at the Comptroller's office. Non-payroll employees (excluding those in the initial time period of a layoff status) are required to pay a premium to the fund based upon the entire cost of the benefit chosen by that participant.

Interest decreased $1,181,947 (100%) from fiscal year 2005 to fiscal year 2006. Primary responsibility for the Group Insurance program has been transferred to the Department of Healthcare and Family Services and all interest earned on these funds if reported by DHFS.

Transfers in from other funds decreased $1,063,028,154 (98%) during fiscal year 2006. The decrease is a result of the appropriation to the Group Insurance program from the General Revenue Fund was transferred partially to Department of Healthcare and Family Services (DHFS). The revenue received by Department of Central Management Services in fiscal year 2006 represents the fiscal year 2006 DCMS General Revenue Fund appropriation less the 2% reserve. The Road Fund appropriation was transferred to DHFS in total in fiscal year 2006.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING

For the Year Ended June 30, 2006

The State of Illinois, Department of Central Management Services' (Department) explanations for significant lapse period spending greater than $100,000 and 15% as presented in the "Schedule of Appropriations, Expenditures and Lapsed Balances By Fund" (Schedule 1) for fiscal year 2006 are detailed below.

Efficiency Initiatives Revolving – 315

Approximately 25% of total expenditures in the Efficiency Initiatives Revolving Fund were paid during the lapse period during fiscal year 2006. This increase is the result of the creation of a new detail object code (1236) in fiscal year 2006 for payment of the Facilities Management Revolving Fund for the cost allocation of rent and services due to the consolidation of facilities pursuant to Executive Order 2003-10. In fiscal year 2006, the Facilities Management Revolving Fund moved from a Billing Allocation System to a true revolving fund billing system (IBIS) and rates were not established until April. This, coupled with delays in the allocation of costs to the CMS bureaus, resulted in payments being delayed until lapse period.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 6

ANALYSIS OF ACCOUNTS RECEIVABLE
For Fiscal Year Ended 2006
(Expressed in Thousands)

	General Revenue 001	State Garage Revolving 303	Communications Revolving 312	Facilities Management Revolving 314	Professional Services Revolving 317	Workers' Compensation Revolving 332	Group Insurance Premium 457	Community College Health Insurance Security 577	State Employees' Deferred Compensation Plan 755	State Surplus Property Revolving 903
Accounts receivable - State governmental entities	$ -	$ 23	$ 614	$ -	$ -	$ -	$ -	$ -	$ -	$ 23
Accounts receivable - other	470	6	239	27	18	27	28	484	1,157	78
Total accounts receivable	470	29	853	27	18	27	28	484	1,157	101
Allowance for doubtful accounts	19	-	-		-	-	-	-	-	-
Net accounts receivable	$ 451	$ 29	$ 853	$ 27	$ 18	$ 27	$ 28	$ 484	$ 1,157	$ 101

The information in this schedule has been reconciled to the receivable reports submitted to the State Comptroller.

The Department assesses collectibility through comparison of the receivable balance outstanding to the total billings. The Department utilizes the Comptroller's offset system for non-State agency receivables.

AGENCY FUNCTIONS AND PLANNING PROGRAM

For the Year Ended June 30, 2006

Introduction

The Department of Central Management Services (Department) provides a wide variety of centralized services to other State and local government agencies. As an agency that provides services to other units of government, the Department is in a unique position to ensure that tax resources are expended in a responsible and effective manner.

Paul J. Campbell served as acting Director of Central Management Services through March 29, 2006 and is currently Director effective March 30, 2006.

On July 1, 2004, the Department reorganized into eight major bureaus:

- Benefits
- Communication and Computer Services
- Information Services
- Business Enterprise Program
- Personnel
- Property Management
- Strategic Sourcing and Procurement
- Administrative Operations

The current organizational structure of the Department was developed to provide streamlined management, improved accountability and improved efficiency in the delivery of service to other agencies. The Department is responsible for the coordination of data processing and data communications; providing personnel, procurement, vehicles, and property management services; management of State employee benefit plans; centralized accounting for revolving and trust funds under its control; and administration of the State's Business Enterprises program for Minorities, Females and Persons with Disabilities.

Agency Planning Program

The Department integrates strategic planning with the measurement of plan implementation to better focus and evaluate its programs. For the year ended June 30, 2006, the Department's Director authorized the Department's Office of Finance and Management to be the liaison to the Governor's Office of Management and Budget to facilitate the strategic planning process. The performance management process requires the quarterly reporting of agency performance information. This process results in an agency-wide strategic plan that outlines the proprieties, initiatives and objectives of each of the eight Bureaus.

The Department submits this strategic plan annually to the Governor's Office of Management and Budget (GOMB). In addition to the strategic priorities and the initiatives and objectives included to support these priorities, the Department also provides its key performance metrics related to its strategic priorities. On a quarterly basis, the Department submits a quarterly performance measure report to the Governor's Office of Management and Budget providing progress toward goals, performance metric data and budget information.

Reports are submitted through GOMB's on-line system.

The Department's bureaus are responsible for developing metrics that measure inputs, outputs, customer services and efficiency in conjunction with benchmark data. At the completion of each fiscal year, the Department submits Service Efforts and Accomplishments (SEA) information on six programs to the Comptroller's Public Accountability Project. These programs are Employee Benefits and Risk Management, Business Enterprise Program, Communications and Computer Services, Property Management, Personnel and Procurement. The information includes a narrative, program mission, goals and input, output and performance data.

Auditor's Assessment of Planning Program

Based on our review, we noted the plans contained specific written goals and objectives that could help the Department comply with its mission "to provide quality, cost-efficient services to support Illinois government operations through responsive and professional leadership". We conclude the Department's planning function is effective in developing and achieving goals and objectives that help the Department comply with its mission.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

AVERAGE NUMBER OF EMPL0YEES

For the Fiscal Years Ended June 30, 2006, 2005, and 2004

The following information was prepared from the State of Illinois Department of Central Management Services (Department) records and represents the average full-time equivalent number of employees by bureau during the fiscal years ended June 30:

	2006	2005*	2004
Administrative Operations	223	169	152
Communications and Computer Services	760	552	330
Personnel	121	129	132
Benefits	93	103	114
Support Services	-	-	226
Strategic Sourcing & Procurement	210	226	-
Property Management	243	252	138
Information Services	73	67	51
Business Enterprise Programs for Minorities, Females and Persons with Disabilities	6	6	6
Internal Security and Investigation	-	-	31
Total	1,729	1,504	1,180

* 2005 has been revised to only include an average full-time equivalent

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

HURRICANE KATRINA ASSISTANCE

For the Year Ended June 30, 2006
(Unaudited)

The Department of Central Management Services (CMS) provided assistance for Hurricane Katrina. The assistance included personnel and technology. Fifty CMS employees and sixty-two employees from other agencies traveled to Louisiana on September 10, 2006 and assisted for a period of approximately eleven days. These employees were assigned to three separate command centers in Louisiana. Five other CMS employees coordinated efforts locally.

CMS requested a reimbursement for payroll costs from the Illinois Emergency Management Agency totaling $118,240. This reimbursement encompassed only the time worked during normal State hours excluding overtime. Overtime hours and fringe benefits totaled $74,595 and were based on hours worked over normal State hours excluding travel unless an employee's contract specifically had a provision for travel.

Other non-payroll related costs incurred totaled $253,491. This includes $136,593 paid directly by CMS and $116,897 incurred by CMS but paid directly by IEMA.

Costs for worker's compensation and health costs have been incurred and are still on-going.

CMS has received $120,014 reimbursements from IEMA as of June 30, 2006.

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STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

MEMORANDUM OF UNDERSTANDING

For the Fiscal Year Ended June 30, 2006
(Unaudited)

During fiscal year 2006, the Department entered into the following memorandum of understanding.

Parties	Description
Illinois Department of Transportation	Pursuant to Public Act 89-001 and 89-0022, and subsequent acts related thereto, payment of auto liability and indemnification claims which involve drivers who are employed by the Department of Transportation, the Illinois State Police, and the Office of the Secretary of State.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

EMERGENCY PURCHASES

For Fiscal Year Ended June 30, 2006

Description			
BCCS	$	2,092,990	*
BCCS/IS		49,500	
Telecommunications		765,900	*
Property Management		528,062	*
Strategic Sourcing and Procurement		442,400	
Bureau of Strategic Sourcing		700,000	*
TOTAL APPROXIMATE COST	$	4,578,852	

*Includes affidavits with estimate amounts

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

SERVICE EFFORTS AND ACCOMPLISHMENTS

For the Fiscal Years Ended June 30, 2006 and 2005
(Unaudited)

(Dollars in Thousands)

	FY2005		FY2006	
Program	**Expenditures**	**Headcount**	**Expenditures**	**Headcount**
Communications and Computer Services	$ 225,874.4	756.0	$ 232,432.3	758.0
Employee Benefits and Risk Management	2,792,435.3	102.0	225,187.2	93.0
Property Management	148,769.5	307.0	207,725.3	315.0
Procurement	39,271.3	218.0	40,632.8	209.0
Other/Non Programs	20,884.2	165.0	17,778.0	143.0
Personnel	13,249.0	122.0	12,621.1	131.0
Media Services	4,993.7	40.0	5,023.6	55.0
Mail and Messenger Services	2,384.2	21.0	2,137.8	18.0
Business Enterprise Program	456.4	6.0	420.3	6.0
Agency Totals	**$ 3,248,318.0**	**$ 1,737.0**	**$ 743,958.4**	**$ 1,728.0**

The mission of the Illinois Department of Central Management Services (CMS) is to free Illinois State agencies and governmental entities from certain administrative responsibilities so they can focus their energies and resources on accomplishing their core missions. CMS works with state agencies and members of the Illinois General Assembly to deliver critical services to Illinois taxpayers. By bringing private-sector discipline to its public-sector mission, CMS leads the cost-effective administration of functions including purchasing, real estate, information technology, telecommunications, internal audit and outside legal services for the state's executive agencies, personnel and benefits for employees and retirees, and the employee and vendor diversity programs. Through the use of sound business principles, CMS has transformed how the business of Illinois government is conducted, reduced waste, and maximized the value of taxpayer dollars. This report details six of the department's key programs.

The Business Enterprise Program certifies businesses that are owned and operated by minorities, women, and persons with disabilities, and assists in certifying businesses in order to bid for state contracts. In a move to increase access for diverse firms, last year CMS began requiring that businesses bidding on select large contracts subcontract with diverse firms. As a result, an additional $5+ million of State business is being awarded to diverse firms. The first of these contracts, for office supplies, was awarded in January 2006 and is expected to generate $3 million for diverse firms through the life of the three-year contract.

Communications and Computer Services manages the planning and delivery of statewide information technology and telecommunications services. It operates central computing facilities, maintains common computer applications and manages the Illinois Century Network, which provides broadband network connectivity to educational institutions and state government. With the successful completion of Project Hercules, the State migrated its data traffic relating to highway safety, revenues, law enforcement and other critical services from a leased, frame-relay system to its own upgraded communications network.

Employee Benefits administers group insurance programs, a deferred compensation program, and flexible spending programs for state employees. The division of Risk Management administers the workers' compensation, motor vehicle liability, insurance procurement and representation, and indemnification programs. Effective July 1, 2005, health care purchasing was consolidated under the Department of Healthcare and Family Services. CMS maintained the administrative and member facing functions while DHFS assumed the responsibilities of claim payment, contract administration and vendor facing functions. Effective September 1, 2004, the Workers' Compensation operations of the Departments of Human Services, Corrections, Transportation, and Illinois State Police were consolidated into the Department of Central Management Services.

Personnel administers the state personnel code, manages the state personnel program, and recruits and qualifies prospective employees. In addition, CMS administers the Upward Mobility Program, Veterans' Outreach Program and Diversity Enrichment Program, Back Wage Claims, Governor's Internship Program, and oversees agency day-care services. Labor Relations represents the State of Illinois at arbitration hearings, at collective bargaining negotiations and before the Illinois Labor Relations Board.

Property Management manages and maintains state owned properties, oversees the lease or purchase of needed space, coordinates the disposition of surplus real and personal property, administers state and federal surplus property programs, coordinates recycling programs and administers special events.

Strategic Sourcing and Procurement is focused on reducing the cost of state government while alleviating the burdens Illinois businesses have faced in doing business with the state. Through a center-led approach to procurement and standardizing the procurement process for commodities and services across state agencies, this program has reduced the total cost of the provision of these services, increased productivity, and made it easier for the private sector to do business with the state.

Communications and Computer Services

Mission Statement: The Communications and Computer Services Program is mandated by State statute and is committed to procuring and providing state-of-the-art, reliable, cost-effective, high quality telecommunications and computer services to state agencies, boards, commissions, constitutional offices, educational entities and participating units of local and county government. To that end, the program maintains optimum accountability, professionalism, and efficiency in the management and delivery of those services.

Program Goals:
Objectives:

1. Provide appropriate technological infrastructure, tools, services, and resources to meet user needs.
   [a] Maintain data processing and communications infrastructure availability of 99.0% or greater.
   [b] Develop and achieve timeliness and performance standards in each major service area.
2. Collaborate with agencies to implement technology standards.
   [a] Identify functional areas where the adoption of program standards would be beneficial.
3. Promote opportunities for state employees to become aware of how technology may improve their jobs.
   [a] Develop classes, seminars and presentations to promote technology awareness among employees in non-technical positions.
4. Prepare technology assessments for each CMS program.
   [a] Aid and support CMS Bureaus in their program assessments.
5. Establish benchmarks, measures and service expectations.
   [a] Meet with internal and external stakeholders about targets/expectations, and will report on service targets/expectations.
   [b] Attend conferences to better understand benchmark options; request benchmarks from professional associations or secure benchmarks from professional association journal articles or web sites.
6. Manage resources and services efficiently to minimize costs.
   [a] Ensure that the state only pays reasonable prices for goods and services that it needs and for which it is responsible.
   [b] Ensure that the rates state government pays and the prices CMS charges for services are appropriate.
7. Improve the communication level and quality of information on programs and services provided and accomplishments achieved by CMS.
   [a] Hold periodic meetings with agency stakeholders regarding available program service offerings.
8. Fortify training options in state government.
   [a] Provide quality technical training opportunities for state employees.

Funds: General Revenue Fund, Statistical Services Revolving Fund, Communications Revolving Fund	**Statutory Authority: 20 ILCS 405/405-20, 405/405-270**

	Fiscal Year 2004 Actual	Fiscal Year 2005 Actual	Fiscal Year 2006 Target /Projected	Fiscal Year 2006 Actual	Fiscal Year 2007 Target /Projected
Input Indicators					
● Total expenditures – all sources (in thousands)	$267,588.6	$225,874.4	$347,499.4	$232,432.3	$337,261.6
● Total expenditures – state appropriated funds (in thousands)	$267,588.6	$225,874.4	$347,499.4	$232,432.3	$337,261.6
● Average monthly full-time equivalents [(a)]	357.0	756.0	874.0	758.0	880.0

Output Indicators					
• Number of network data circuits managed	4,876	N/A	N/A	7,900	8,700
• Telecommunications Voice Orders (TSRs)	8,810	7,741	N/A	6,200	6,500
• Megabytes of Direct Access Storage Device (DASD) billed/month	11,854,359	12,232,515	N/A	11,766,000	12,942,000
Outcome Indicators					
• Percent mainframe transactions completed within 1 second	98.15%	N/A	N/A	97.78%	98%
• Percent mainframe system availability	99.09%	N/A	N/A	99.9%	99%
External Benchmarks					
• Mainframe application availability (per Gartner Group Research)	98%	98%	N/A	98%	99.2%
• Mainframe transactions completed within 2 seconds (per Gartner Group Research)	96.3%	96.3%	N/A	99.8%	99.8%
Efficiency/Cost-Effectiveness					
• Cost per megabyte of mainframe storage (in dollars)	$ 0.04	$ 0.03	N/A	$ 0.04	$ 0.04

Footnotes

a The Statewide IT consolidation initiative was not completed in FY06. Anticipate to gain additional headcount upon completion of the initiative in FY07.

Employee Benefits & Risk Management

Mission Statement: To administer high-quality benefit programs that contribute positively to the health, well-being and prosperity of statutorily-specified groups of Illinois government employees, retirees and their families; and to minimize the State of Illinois exposure to risk.

Program Goals:
Objectives:

1. Administer and provide member facing functions to support employee benefit programs that promote and maintain individual well-being.
   - [a] Offer health, dental and vision benefits for all enrollees each year.
   - [b] Increase enrollment in the Flexible Spending Accounts.
2. Promote and maintain a safe and secure work environment.
   - [a] Provide prompt and equitable services to state employees who have work-related injuries and facilitate their return to work as safely and quickly as possible.
   - [b] Coordinate Workers' Compensation Programs administered by the Departments of Human Services, Corrections, Transportation, Illinois State Police, and Central Management Services.
3. Establish benchmarks, measures and service expectations.
   - [a] Resolve disputes between members and carriers within 30 days of notification.
   - [b] Conduct audits of all agencies to determine that correct reimbursement payments have been made by agencies, boards, commissions, offices and universities.
   - [c] Increase total dollars deferred each year.
   - [d] Effectively and efficiently process payments for bills related to medical treatment, rehabilitation services, temporary disability income payments, and settlements for permanent impairments within ninety days of service.
4. Manage resources and services efficiently to minimize costs and maximize value.
5. Improve the communication level and quality of information on programs and services provided and accomplishments achieved by CMS.
   - [a] Educate eligible enrollees regarding all benefit programs available through issuing educational materials prior to the annual benefits choice period.
6. Provide appropriate technological infrastructure, tools, services, and resources to meet user needs.

Funds: General Revenue Fund, Illinois Prescription Drug Discount Program Fund, Workers' Compensation Revolving Fund, Group Insurance Premium Fund, State Employees Deferred Compensation Plan Fund, Health Insurance Reserve Fund	Statutory Authority: 5 ILCS 375 et seq. 20 ILCS 405

	Fiscal Year 2004 Actual	Fiscal Year 2005 Actual	Fiscal Year 2006 Target /Projected	Fiscal Year 2006 Actual	Fiscal Year 2007 Target /Projected
Input Indicators					
● Total expenditures – all sources (in thousands) [(b)]	$2,895,891.7	$ 2,792,435.3	$ 136,209.6	$ 225,187.2	$ 249,156.2
● Total expenditures – state appropriated funds (in thousands) [(b)]	$2,633,483.3	$2,792,435.3	$ 136,209.6	$ 225,187.2	$ 249,156.2
● Average monthly full-time equivalents [(a,b)]	115.0	102.0	76.0	93.0	96.0

Output Indicators					
• Number of disputes resolved	4,374	2,086	2,200	2,116	2,200
• Number flexible spending account participants (MCAP & DCAP)	6,839	8,286	8,200	7,705	8,475
• Deferred compensation – total dollars deferred (in millions)	$ 133.7	$ 142.1	$ 142.0	$ 152.2	$ 160.0
• Number of deferred compensation participants	51,679	51,868	51,900	52,157	53,200
• Number of new deferred compensation participants	2,528	2,325	2,500	2,678	3,000
• Number of premium refund requests received	N/A	N/A	2,500	2,336	2,500
• Number of payroll deduction discrepancies received	N/A	N/A	12,000	11,695	12,000
• Number of SERS Financial Incentive Program Participants	N/A	N/A	100.0	78.0	103.0
• Number of new SERS Financial Incentive Program Participants	N/A	N/A	100.0	78.0	25.0
• Number of COBRA notifications mailed	N/A	N/A	15,000	16,438	16,500
• Number of Medicare Coordination of Benefits cases received	N/A	N/A	3,000	3,392	4,000
• Number of Workers' Compensation injuries [c]	2,365	6,823	6,687	6,823	7,000
• Number of independent medical evaluations performed [c]	145.0	217.0	239.0	199.0	225.0
• Number of injured employees returned to work at modified duty [c]	93.0	2,752	2,500	2,755	2,750
• Number of motor vehicle liability claims	1,682	1,739	1,704	1,611	1,650
• Number of non-litigated vehicle liability claims closed	1,577	1,735	1,700	1,699	1,650
Outcome Indicators					
• Percent of disputes resolved within 30 days of notification	75%	97%	90%	93.3%	90%
• Percent of payroll deduction discrepancies resolved within 60 days of Benefits notification	N/A	N/A	N/A	87%	90%
• Percent of premium refunds processed within 30 days of receipt	N/A	N/A	N/A	92.25%	90%
• Percent of COBRA eligible participants notified within 30 days	N/A	N/A	N/A	84%	87%
• Percent of Medicare COB cases completed within 30 days	N/A	N/A	N/A	90%	90%
• Annual change in Workers' Compensation spending	-17.95%	116.73%	49.07%	28.08%	50%
• Savings resulted from Workers' Compensation Physicians PPO Network (in millions)	$ 1.6	$ 4.1	$ 4.0	$ 3.7	$ 4.0

• Percent of medical cost containment savings to total medical program cost	18.25%	24.81%	18.5%	22.94%	20%
• Percent of workers compensation claims paid within 90 days	97.94%	89.6%	77%	31.28%	80%
• Percent of workers compensation claimants with a satisfied/very satisfied rating of the early intervention program	N/A	92%	92%	93%	93%
• Percent of vehicle liability claimants contacted within 5 calendar days	91%	99.94%	85%	95.28%	90%
• Average number of days to close a vehicle liability case (bodily injury and property damage)	170.4	61.2	80.0	76.8	90.0
• Auto vehicle liaison satisfaction with training and communication (1 = very dissatisfied, 5 = very satisfied)	4.7	4.9	4.5	5.0	5.0
• Percent of indemnity expenses and awards within a 20 business day period	N/A	N/A	N/A	96.7%	90%
External Benchmarks					
• Number of deferred compensation investments exceeding benchmark – 1 year rolling return (Before fiscal year 06, there were a total of 12 investments.)	7.0	9.0	14.0	7.0	10.0
Efficiency/Cost-Effectiveness					
• Average annual administrative cost per deferred compensation participant (state program) (in dollars)	$ 24.23	$ 20.85	$ 24.25	$ 23.24	$ 24.25

Footnotes

a Employee Benefits and Risk Management were previously reported as separate programs. These programs both fall under CMS Bureau of Benefits.

b Effective July 1, 2005, health care purchasing was consolidated under the Department of Healthcare and Family Services. CMS maintained the administrative and member facing functions while DHFS assumed the responsibilities of claim payment, contract administration and vendor facing functions.

c Effective September 1, 2005, the Workers' Compensation operations of the Departments of Human Services, Corrections, Transportation, and Illinois State Police were consolidated into the Department of Central Management Services.

Property Management

Mission Statement: The Property Management Program is authorized by statute to provide, coordinate, operate, and oversee State of Illinois facilities, and real and personal property for state agencies. to that end, the program secures property by lease or purchase and manages the daily operations of and public access to facilities by maintaining grounds, structure, utilities, and environmental systems. The program acquires and disposes of real and personal property through the surplus property programs in an efficient and cost effective manner.

Program Goals:
Objectives:

1. Establish benchmarks, measures and service expectations.
   - [a] Implement a fully integrated facility and real estate management enterprise solution.
   - [b] Implement the leasing strategy's holdover lease component aimed at reduction of holdover leases to industry standards.
   - [c] Reduce the State's cost of occupancy in both state owned and leased properties.
   - [d] Improve the Bureau's timeliness, responsiveness, and customer satisfaction by streamlining internal procedures.
   - [e] Reduce the State's energy cost utilizing energy consumption and contract consolidation strategies.
2. Manage resources and services efficiently to minimize costs.
   - [a] Drive down occupancy cost through the application of newly developed space standards, the due diligence process, facilities assessments and operational consolidation.
   - [b] Ensure the state only pays for goods and services that it needs and for which it is responsible.
   - [c] Ensure the rates State Government pays and the prices that CMS charges for services are appropriate.
3. Expand marketing efforts of I-cycle program to educate state government employees about the benefits of recycling.
   - [a] Initiate marketing strategies in coordination with the Governor's Green Council Committee, Department of Natural Resources, and Department of Commerce and Economic Opportunity.
   - [b] Implement programs and policies for recycling of plastics and fluorescent and high intensity discharge lamps.
   - [c] Continue to review, recommend and implement recycling programs for various types of batteries and small electronics.
   - [d] Continue to participate in toner cartridges and book recycling.

Funds: General Revenue Fund, Statistical Services Revolving Fund, Facilities Management Revolving Fund, Efficiency Initiatives Revolving Fund, State Surplus Property Revolving Fund, Special Events Revolving Fund	**Statutory Authority: 20 ILCS 405/405-300**

	Fiscal Year 2004 Actual	Fiscal Year 2005 Actual	Fiscal Year 2006 Target /Projected	Fiscal Year 2006 Actual	Fiscal Year 2007 Target /Projected
Input Indicators					
• Total expenditures – all sources (in thousands)	$ 36,172.8	$ 148,769.5	$ 356,773.7	$ 207,725.3	$ 287,803.9
• Total expenditures – state appropriated funds (in thousands)	$ 36,172.8	$ 148,769.5	$ 356,773.7	$ 207,725.3	$ 287,803.9
• Average monthly full-time equivalents	140.0	307.0	378.0	315.0	335.0

Output Indicators					
• Number of facilities participating in I-cycle Program	251.0	251.0	255.0	251.0	300.0
• Number of equipment items transferred out of State Surplus Warehouse	3,638	5,093	4,500	2,616	3,000
• Number of items sold via I-bid	954.0	2,464	3,900	3,700	4,500
• Number of Registered bidders for I-Bid Program	4,580	7,431	10,000	10,469	15,000
Outcome Indicators					
• CMS downtown Chicago lease rate ($/sq. ft.) (in dollars)	$ 21.12	$ 21.06	N/A	$ 21.03	N/A
• Percent of leases in holdover status [c]	N/A	N/A	N/A	38%	5%
• Percent of work orders completed within 20 working days	91%	79%	90%	85.23%	100%
• Percent of tenant improvement requests completed [d]	N/A	N/A	N/A	N/A	100%
External Benchmarks					
• Building Owners & Managers Association (BOMA) downtown Chicago lease rates (calendar year 2004 - $/sq. ft.) (in dollars)	$ 26.07	$ 25.31	N/A	N/A	N/A
Efficiency/Cost-Effectiveness					
• JRTC building operating expenses ($/sq. ft.) (in dollars) [b]	$ 8.21	$ 7.39	$ 7.39	$ 9.43	N/A
• MABB building operating expenses ($/sq. ft.) (in dollars) [b]	$ 7.84	$ 7.26	$ 7.26	$ 8.95	N/A
External Benchmarks					
• BOMA downtown Chicago building operating expenses (calendar year 2004 avg. $/sq. ft.) (in dollars)	$ 9.12	$ 7.54	$ 7.54	N/A	N/A

Explanatory Information

The Personnel Program was not reported in previous reports. Historical data and estimates were not available at the time of this report.

Footnotes

a Property Management experienced significant growth due to the consolidation of other state agencies' facilities management functions into CMS.

b Rising energy costs, increased vendor rates, and increased security contributed to increased operating expenses.

c This metric was not previously tracked. Inadequate resources to support significant program growth resulted in holdover lease issues. The agency is addressing operational deficiencies and pursing process improvements.

d New metric for FY2007. Not previously tracked. Historical and current data is unavailable.

Procurement

Mission Statement: To reduce the cost of state government through a center-led procurement approach, while alleviating the burdens Illinois businesses have faced in doing business with the state. The Procurement program is also responsible for state fleet operations and maintenance, fuel management, and vehicle leasing for all state agencies, as well as providing timely mail services for state government.

Program Goals:
Objectives:

1. Provide seamless, high quality procurement services to other state agencies while reducing the cost of government.
   - a Provide adequate levels of services to other agencies to allow them to focus on their core missions.
   - b Improve the transparency, quality and consistency of procurement processes and documents.
   - c Drive down costs through strategic sourcing best practices.
   - d Build knowledge and spend management functions to assist user agencies with making better sourcing decisions.
2. Significantly improve the ease and accessibility of doing business with the State with particular emphasis on small and diverse businesses.
   - a Increase access and expand contracting opportunities for small and diverse businesses.
3. Manage fleet resources and services efficiently to minimize costs.
   - a Increase mechanic staff and enhance vendor network to ensure agency fleet needs are met and fleet cost reductions maintained.
   - b Stabilize fleet management costs and enhance fleet asset.
   - c Capture fleet data for enhanced fleet management.

Funds: General Revenue Fund, State Garage Revolving Fund, Statistical Services Revolving Fund, Paper and Printing Revolving Fund, Communications Revolving Fund, Efficiency Initiatives Revolving Fund, Health Insurance Reserve Fund	Statutory Authority: 30 ILCS 500, 20 ILCS 405

	Fiscal Year 2004 Actual	Fiscal Year 2005 Actual	Fiscal Year 2006 Target /Projected	Fiscal Year 2006 Actual	Fiscal Year 2007 Target /Projected
Input Indicators					
• Total expenditures – all sources (in thousands) (b)	N/A	$ 39,271.3	N/A	$ 40,632.8	$ 49,980.8
• Total expenditures – state appropriated funds (in thousands) (b)	N/A	$ 39,271.3	N/A	$ 40,632.8	$ 49,980.8
• Average monthly full-time equivalents (b)	0	218.0	0	209.0	217.0
Output Indicators					
• Total number of contracts (b)	N/A	N/A	N/A	1,511	N/A
• Total number of renewals (b)	N/A	N/A	N/A	265.0	N/A
• Total number of contracts under $25,000 (b)	N/A	N/A	N/A	366.0	N/A
• Total gallons of gasohol sold (b)	1,300,506	1,079,373	1,000,000	1,125,689	N/A
• Total state garage billings (in millions) (b)	$ 24.9	$ 24.8	$ 24.5	$ 26.2	N/A

Outcome Indicators					
• Total contract dollars awarded to small businesses through Small Business Set-Aside Program (in dollars) [b]	N/A	$ 14,014,965	N/A	$ 38,129,478	$ 46,000,000
• Mechanic productivity rate [a]	104.1%	104.4%	104%	104.3%	N/A
• Percent savings to state agencies (DOV mechanical labor rate per hour vs. industry average for passenger vehicles) [a]	7.1%	9.7%	5.4%	19%	N/A
External Benchmarks					
• DPV mechanical labor rate per hour (in dollars)	$ 65.00	$ 65.00	$ 70.00	$ 65.00	N/A
Efficiency/Cost-Effectiveness					
• Industry average mechanical labor rate per hour (in dollars)	$ 70.00	$ 72.00	$ 72.00	$ 80.00	N/A

Footnotes

a FY07 projections not available for many indicators at time of report. Evaluating baseline data to determine appropriate targets.

b Procurement was not reported in previous years. Combined with Division of Vehicles for FY06 report. Historical data not available for many new metrics.

Personnel

Mission Statement: To develop and administer the State's Personnel Code, Personnel Rules, Pay Plan, Position Classification Plan, current collective bargaining agreements and other applicable laws.

Program Goals:
Objectives:

1. Provide adequate levels of personnel services to other agencies to assist them in carrying out their core missions.
   - [a] Improve timeframes for hiring and recruitment efforts.
   - [b] Improve turnaround time to all agencies regarding classification issues and Rutan compliance.
   - [c] Improve development and administration of testing and selection instruments.
2. Increase diversity of Illinois workforce and access to job opportunities.
   - [a] Develop plans to recruit and monitor hiring of minorities.
   - [b] Conduct job fairs across Illinois to help increase diversity of state workforce.
3. Improve Personnel-related technology and form automation.

Funds: General Revenue Fund	**Statutory Authority: 20 ILCS 415**

	Fiscal Year 2004 Actual	Fiscal Year 2005 Actual	Fiscal Year 2006 Target /Projected	Fiscal Year 2006 Actual	Fiscal Year 2007 Target /Projected
Input Indicators					
• Total expenditures – all sources (in thousands) (a)	N/A	$ 13,249.0	N/A	$ 12,621.1	$ 13,553.7
• Total expenditures – state appropriated funds (in thousands) (a)	N/A	$ 13,249.0	NA	$ 12,621.1	$ 13,553.7
• Average monthly full-time equivalents (a)	0	122.0	0	131.0	131.0
Output Indicators					
• Number of job descriptions (104s) processed (a)	N/A	N/A	N/A	8,792	8,700
• Number of Rutan reviews processed (a)	N/A	N/A	N/A	3,436	3,400
• Number of people trained (a)	N/A	N/A	N/A	1,743	1,700
• Number of participants at Diversity Enrichment job fairs (a)	N/A	N/A	N/A	22,478	22,000
• Number of veterans counseled (a)	N/A	N/A	N/A	491.0	490.0
• Number of automated exams given (a)	N/A	N/A	N/A	63,342	63,000
• Number of job applications received (a)	N/A	N/A	N/A	68,774	65,000
• Number of Upward Mobility Program participants certified and credentialed (a)	N/A	N/A	N/A	874.0	870.0
• Number of TRAEX exams graded (a)	N/A	N/A	N/A	50,413	50,000

• Number of Upward Mobility Program participants appointed to UMP positions [(a)]	N/A	N/A	N/A	283.0	380.0
• Number of people enrolled in Upward Mobility Program [(a)]	N/A	N/A	N/A	4,100	4,100
• Number of transactions processed	N/A	N/A	N/A	149,403	149,000

Footnotes

a Personnel program was not reported in previous years. Historical data was not available for new metrics at the time of submission of this report.

Business Enterprise Program

Mission Statement: To promote the economic development of businesses owned by members of minority groups, females, or persons with disabilities by providing access and assistance in the procurement process for contracts from state agencies and universities.

Program Goals:
Objectives:

1. Increase number of and enforce contracts subject to BEP subcontracting goals.
   - [a] Require diverse business subcontracting goals for RFPs over $500,000.
   - [b] Enhance contract management to enforce BEP participation goals.
2. Increase outreach efforts to expand the vendor pool of diverse businesses.
   - [a] Provide training to vendors on bidding and performing State contracts.

Funds: General Revenue Fund, Minority and Female Business Enterprise Fund	**Statutory Authority: 30 ILCS 575**

	Fiscal Year 2004 Actual	**Fiscal Year 2005 Actual**	**Fiscal Year 2006 Target /Projected**	**Fiscal Year 2006 Actual**	**Fiscal Year 2007 Target /Projected**
Input Indicators					
• Total expenditures – all sources (in thousands)	N/A	$ 456.4	N/A	$ 420.3	$ 506.7
• Total expenditures – state appropriated funds (in thousands)	N/A	$ 456.4	N/A	$ 420.3	$ 506.7
• Average monthly full-time equivalents	0	6.0	0	6.0	6.0
Output Indicators					
• Number of outreach events attended	N/A	N/A	N/A	69.0	92.8
• Number of BEP applications received	N/A	N/A	N/A	1,248	1,497
• Number of BEP certifications approved	N/A	N/A	N/A	984.0	1,180
• Number of BEP certifications denied	N/A	N/A	N/A	233.0	46.6
• Number of BEP (Minority, Women, Disabled Business Enterprise) subcontracting firms (b)	N/A	N/A	N/A	N/A	N/A
Outcome Indicators					
• Total contract dollars generated from diverse business sub-contracting goals (in thousands)	0	0	N/A	$ 31,952.4	$ 38,342.4

Footnotes

a The Business Enterprise Program was not reported in previous reports. Consequently, these metrics were not previously tracked and reported. Historical data is unavailable. Targets will be set once baseline data is established.

b The total number of firms was not available for this report.