

**STATE OF ILLINOIS  
BOARD OF EXAMINERS  
COMPLIANCE EXAMINATION**

For the Two Years Ended June 30, 2011

STATE OF ILLINOIS  
BOARD OF EXAMINERS  
COMPLIANCE EXAMINATION  
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**AGENCY OFFICIALS**  
**BOARD OF EXAMINERS**

Executive Director

Mr. Russell Friedewald

Members of the Illinois Board of Examiners as of June 30, 2011 were as follows:

Kenneth J. Hull, CPA, Chair

Sharon Morrow, Public Member

Gary L. Fish, CPA, Vice Chair

Myra A. Swick, CPA

Thomas Winkler, CPA

Cheryl S. Wilson, CPA

Margaret A. Cartier, CPA

Richard J. York, CPA

Claireen L. Herting, CPA

Penelope Yunker, CPA

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# Illinois Board of Examiners

100 TRADE CENTRE DRIVE • SUITE 403 • CHAMPAIGN, ILLINOIS 61820-7233

May 11, 2012

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

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 Illinois Board of Examiners (Board). 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 Board's compliance with the following assertions during the two-year period ended June 30, 2011. Based on this evaluation, we assert that during the years ended June 30, 2010 and June 30, 2011, the Board has materially complied with the assertions below, except as disclosed to you.

- A. The Board has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Board has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Board has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Board are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Board on behalf of the State or held in trust by the agency have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

Illinois Board of Examiners

Russ Friedewald, Executive Director

## 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.

### ACCOUNTANTS' 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

<u>Number of Findings</u>	<u>Current Report</u>	<u>Prior Report</u>
Repeated findings	6	5
Prior recommendations implemented or not repeated	4	4
	1	3

### SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS (STATE COMPLIANCE)			
11-1	8	Inadequate internal controls over contractual services and agreements	Significant Deficiency and Noncompliance
11-2	11	Inadequate controls over memorandum of understanding	Significant Deficiency and Noncompliance
11-3	13	Procedural deficiencies	Significant Deficiency and Noncompliance
11-4	16	Board not staffed as required	Noncompliance
11-5	18	Failure to notify Secretary of State of all employees whose positions require them to file a Statement of Economic Interest	Significant Deficiency and Noncompliance
11-6	20	Inadequate controls over property reporting	Significant Deficiency and Noncompliance

PRIOR FINDINGS NOT REPEATED

A            22        Inappropriate use of State funds

**EXIT CONFERENCE**

The findings and recommendations appearing in this report were discussed with Board personnel at an exit conference on May 7, 2012. Attending were:

Board of Examiners

Russ Friedewald, Executive Director

Gary Fish, Board Chairman

Myra Swick, Board member

Office of the Auditor General

Courtney Dzierwa, Audit Manager

Tad Huskey, Audit Supervisor

Responses to the recommendations were provided by Russ Friedewald, Executive Director, in correspondence dated May 9, 2012.

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OFFICE OF THE AUDITOR GENERAL  
WILLIAM G. HOLLAND

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

Honorable William G. Holland  
Auditor General  
State of Illinois

**Compliance**

We have examined the State of Illinois, Board of Examiners (Board) 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 two years ended June 30, 2011. The management of the Board is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Board's compliance based on our examination.

- A. The Board has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Board has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Board has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Board are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the agency on behalf of the State or held in trust by the Board have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

We conducted our examination 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 Board's compliance with those requirements listed in the first paragraph of this report 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 Board's compliance with specified requirements.

In our opinion, the Board complied, in all material respects, with the requirements listed in the first paragraph of this report during the two years ended June 30, 2011. However, the results of our procedures disclosed instances of noncompliance, 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 findings as findings 11-1, 11-2, 11-3, 11-4, 11-5, and 11-6.

### **Internal Control**

Management of the Board is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the Board's internal control over compliance with the requirements listed in the first paragraph of this report as a basis for designing 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, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

*A deficiency in an entity's internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements listed in the first paragraph of this report on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance described in findings 11-1, 11-2, 11-3, 11-5, and 11-6, in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over compliance. *A significant deficiency in an entity's internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

As required by the Audit Guide, immaterial findings excluded from this report have been reported in a separate letter.

The Board's responses to the findings identified in our examination are described in the accompanying schedule of findings. We did not examine the Board's responses and, accordingly, we express no opinion on them.

**Supplementary Information for State Compliance Purposes**

Our examination was conducted for the purpose of forming an opinion on compliance with the requirements listed in the first paragraph of this report. The accompanying supplementary information as listed in the table of contents as Supplementary Information for State Compliance Purposes is presented for purposes of additional analysis. We have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the 2010 and the 2011 Supplementary Information for State Compliance Purposes, except for Service Efforts and Accomplishments on which we did not perform any procedures. However, we do not express an opinion on the supplementary information.

We have not applied procedures to the 2009 Supplementary Information for State Compliance Purposes, and accordingly, we do not express an opinion thereon.

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



BRUCE L. BULLARD, CPA  
Director of Financial and Compliance Audits

May 11, 2012

STATE OF ILLINOIS  
BOARD OF EXAMINERS  
**SCHEDULE OF FINDINGS**  
For the Two Years Ended June 30, 2011

11-1. **FINDING** (Inadequate internal controls over contractual services and agreements)

The Illinois Board of Examiners did not have adequate internal controls over contractual services and lease agreements. During our testing, we noted the following:

- For one of three (33%) contracts tested, totaling \$232,700, the Board failed to ensure that subcontractor information, required under the Illinois Procurement Code (Code), was included in the contract awarded by the Board. The Code (30 ILCS 500/20-120) requires contracts to state whether the services of a subcontractor will or may be used. The Code also states the contract shall include the names and addresses of all known subcontractors with subcontracts with an annual value of more than \$25,000 and the expected amount of money each will receive under the contract.
- For one of three (33%) contracts tested, totaling \$19,950, the Board failed to ensure the certificate of registration with the State Board of Elections, required under the Code, was included in the contract awarded by the Board. In addition, the Board also failed to publish a notice of award for this contract in the Illinois Procurement Bulletin. The Code (30 ILCS 500/20-160(b)) requires contracts executed after January 1, 2009, to contain a certification by the contractor that either the contractor is not required to register as a business entity with the State Board of Elections pursuant to this section or the contractor has registered as a business entity with the State Board of Elections and acknowledges a continuing duty to update the registration. The Code (30 ILCS 500/15 - 25(b)) also requires a notice of each and every contract that is let or awarded, including renegotiated contracts and change orders, to be published in the next available subsequent Procurement Bulletin.
- For two of three (67%) contracts tested, totaling \$252,650, the Board failed to file a copy of the contracts with the State Comptroller's Office. The Code (30 ILCS 500/20-80) requires State agencies to reduce to writing contractual liabilities involving expenditures of more than \$10,000 and file them with the State Comptroller's Office within 15 days.
- The real property lease, totaling \$72,872 and \$74,263 in Fiscal Year 2010 and Fiscal Year 2011, respectively, was not filed with the State Comptroller's Office. Statewide Accounting Management System (SAMS) (Procedure 15.20.40) states a lease for real property must be filed with the State Comptroller's Office within 15 calendar days after execution for any real property lease exceeding \$10,000.

Board personnel stated the issues noted above were due to oversight and unfamiliarity with some of the requirements.

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Failure to exercise adequate control over contractual agreements may result in loss of State funds and may subject the State to unnecessary legal risks. Failure to publish contracts awarded or intent to award sole source contracts is noncompliance with the Illinois Procurement Code and could lead to the inefficient use of State resources. (Finding Code No. 11-1, 09-2, 07-3)

In addition, during the prior examination, the auditors noted contractual agreements were not reduced to writing and signed by all parties prior to the beginning of the contract terms. During the current examination, we did not note any significant noncompliance of this type for the sample of contracts tested.

**RECOMMENDATION**

We recommend the Board comply with the Illinois Procurement Code by including all required contract content and publishing all contracts that are let or awarded in the Illinois Procurement Bulletin. Further, we recommend the Board file real property leases exceeding \$10,000 with the State Comptroller's Office.

**BOARD RESPONSE**

Response: Agree.

Bullet 1 – The Board of Examiners forwards all contracts to the University of Illinois for processing of all contracts over \$5,000. The University prepares all required documents for submission to the State in accordance with the procurement code procedure requirements. The Board of Examiners routinely inquires of the University the status of contracts submitted and completes any forms or responds to any inquiry from the University to assure the procurement process continues without delay. The Board of Examiners has never been asked by the University to complete any documents cited by the finding that were required to fulfill the procurement code requirements. A checklist will be developed to track contract processing to ensure that all steps are completed as required under the Illinois Procurement Code. This checklist will be attached to each contract file.

Bullet 2 – The Board of Examiners will make sure all appropriate forms are included in the execution of contracts directly with local vendors. A checklist will be developed to track contract processing to ensure that all steps are completed as required under the Illinois Procurement Code. This checklist will be attached to each contract file.

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For the Two Years Ended June 30, 2011

Bullet 3 – The Board of Examiners forwards all contracts to the University of Illinois for processing of all contracts over \$5,000. The University prepares all required documents for submission to the State in accordance with procurement code procedure requirements. The Board of Examiners routinely inquires of the University the status of contracts submitted and completes any forms or responds to any inquiry from the University to assure the procurement process continues without delay. The Board of Examiners has never been asked by the University to complete any documents cited by the finding that were required to fulfill the procurement code requirements. A checklist will be developed to track contract processing to ensure that all steps are completed as required under the Illinois Procurement Code. This checklist will be attached to each contract file.

Bullet 4 – The Board of Examiners entered the lease arrangements for the current office space in 2004, before the Board of Examiners became a State agency. We agree the lease should have been filed with the Comptroller once we became a State agency. However, a copy will be forwarded to the Comptroller the week of May 7, 2012.

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11-2. **FINDING** (Inadequate controls over memorandum of understanding)

The Illinois Board of Examiners (Board) did not have adequate controls over its Memorandum of Understanding between the Board of Trustees of the University of Illinois (Trustees) and the Board. The Memorandum of Understanding between the Board and the Trustees is for the purpose of delineating the services to be provided by and between the Trustees and the Board, and the responsibilities for the administration of examinations and issuance of certificates of certified public accountants (CPA) in Illinois.

We noted the Board did not have a Memorandum of Understanding in place for Fiscal Year 2010 or Fiscal Year 2011 and continued to operate under the memorandum that was executed for Fiscal Year 2008.

Good internal controls require all agreements entered into be documented in writing and approved by all parties involved prior to the execution of the agreement. Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires that all State agencies establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that resources are utilized efficiently, effectively, and in compliance with applicable law.

Board personnel stated that due to uncertainty regarding the relationship between the Board and Trustees, no agreements have been signed since Fiscal Year 2008.

The Memorandum of Understanding between the Board and Trustees provides the Board with important and necessary resources as well as insurance liability coverage making it an integral part of the Board's operating requirements. Failure to approve and reduce to writing agreements prior to the performance of services may result in loss of State funds and may subject the State to unnecessary legal risks. (Finding Code No. 11-2, 09-3)

**RECOMMENDATION**

We recommend the Board affirm its relationship with the University and implement a Memorandum of Understanding.

**BOARD RESPONSE**

Response: Disagree.

The Board of Examiners has continually requested the University sign a memorandum of understanding since the last one signed in Fiscal Year 2008. This matter was discussed at length during a number of Board meetings held during the examination period. The relationship is being terminated, and a transition agreement has been signed by all parties.

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**AUDITOR'S COMMENT**

While the Board is in the process of terminating its relationship with the University of Illinois (University), the issue identified in this finding existed throughout the examination period. The Board relied on the University for certain services critical to the Board's mission and operations, including insurance coverage, yet had no agreement in writing during Fiscal Years 2010 and 2011 to govern this relationship. The absence of a written agreement posed significant potential risk to the Board's ability to conduct day-to-day operations and perform its statutorily mandated duties, as well as created a risk whereby the State may be subject to litigation.

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11-3. **FINDING** (Procedural deficiencies)

During our testing of the Illinois Board of Examiners (Board), we noted the following procedural deficiencies:

- The Board did not timely prepare and submit a complete property listing with the Department of Central Management Services (DCMS) for Fiscal Year 2010. The Board filed the report 59 days late. The Illinois Administrative Code (44 Ill. Adm. Code 5010.460) requires agencies to certify completion of an annual physical inventory of State equipment and submit a complete property listing to DCMS.
- The Board did not timely prepare and submit its annual Fee Imposition Report to the Illinois Office of the Comptroller (IOC) for Fiscal Year 2010. The Board filed the report 23 days late. The State Comptroller Act (15 ILCS 405/16.2(a)) requires those agencies that impose fees to file the Agency Fee Imposition Report. Statewide Accounting Management System (SAMS) (Procedure 33.16.20) defines fees, in relation to the Fee Imposition Report, as all charges by State agencies to citizens and private organizations, and also states that the report is due by August 1<sup>st</sup> of each year.
- The Board did not file its Fiscal Control and Internal Auditing Act (FCIAA) certification for Fiscal Year 2010 in a timely manner. The report was due on May 1, 2010 and was filed on May 7, 2010, which is 6 days late. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3003) requires the chief executive officer of each State agency to conduct an evaluation with the Auditor General by May 1<sup>st</sup> of each year. An evaluation of internal control is necessary to determine whether the existing measures are adequate to safeguard assets, ensure the accuracy and reliability of accounting data and encourage adherence to legal requirements and prescribed management policies.
- The Board's annual reports did not contain all mandated requirements. The Fiscal Year 2010 and Fiscal Year 2011 annual reports did not contain the number of examinations given and the pass/fail ratio for the examinations. The Illinois Public Accounting Act (225 ILCS 450/2) requires the Board to make an annual report of its activities to the Governor and the Director and shall include a complete operating and financial statement covering its operations during the year, the number of examinations given, the pass/fail ratio for examinations, and any other information deemed appropriate.

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- The Board did not prepare and file its Report of Receipts and Disbursements for Locally Held Funds (C-17) with the IOC in Fiscal Years 2010 and 2011. SAMS (Procedure 33.13.20) requires each State agency file C-17 reports on a quarterly basis and submit it to the IOC no later than the last day of the month following the last day of the quarter.

Board personnel stated the instances noted were largely due to oversight and competing priorities for the responsible employees.

Failure to file the annual Fee Imposition Report and C-17 reports reduces the reliability and the accuracy of State-wide financial data maintained by the IOC. Timely evaluations of internal controls are necessary to determine whether existing controls are adequate to prevent or detect potential risks. Failure to include all required content in the Board's annual reports is noncompliance with the Illinois Public Accounting Act. (Finding Code No. 11-3, 09-4, 07-7)

**RECOMMENDATION**

We recommend the Board submit the annual Fee Imposition Report to the IOC by August 1<sup>st</sup> of each year, file the annual FCIAA certification by May 1<sup>st</sup> of each year, and file its C-17 reports with the IOC no later than the last day of the month following the last day of the quarter. We further recommend the Board comply with the Illinois Public Accounting Act by ensuring all required content is included in the Board's annual reports.

**BOARD RESPONSE**

Response: Agree.

Bullet 1 – The Board will take action to be sure reports are filed timely. Calendars will be noted to remind management of dates reports are to be filed.

Bullet 2 – The Fee Imposition report was due on August 1<sup>st</sup>. It was filed on August 23<sup>rd</sup>. The Board will take action to be sure reports are filed timely. Calendars will be noted to remind management of dates reports are to be filed. A specific staff member will be designated to monitor due dates.

Bullet 3 – The FCIAA report was due May 1<sup>st</sup>, but was filed on May 6<sup>th</sup>. As stated above, calendars will be noted to remind management of dates reports are to be filed. A specific staff member will be designated to monitor due dates.

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Bullet 4 – Annual reports will be amended to include the number of examinations given, the pass/fail ratio for examinations, and any other information deemed relevant.

Bullet 5 – The Board will take action to be sure reports are prepared and filed timely. Calendars will be noted to remind management of dates reports are to be filed.

STATE OF ILLINOIS  
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11-4. **FINDING** (Board not staffed as required)

The Illinois Board of Examiners (Board) was not staffed at a total of 11 examiners as required by the Illinois Public Accountancy Act (Act).

During the engagement period, the Board was without representation of the one public member required by the Act. As of June 30, 2011, an appointment for the vacant public Board member position and appointments for eight filled Board positions, which terms expired between July 2004 and July 2006, had not been made and the members continued to serve as allowed by the Act.

The Act (225 ILCS 450/2) states the Governor shall appoint a Board of Examiners that shall determine the qualifications of persons applying for certificates and shall make rules for and conduct examinations for determining the qualifications. The Board shall consist of 11 examiners, including two public members, with the remaining examiners being certified public accountants. In addition, the Act states as the term of each examiner expires, the appointment shall be filled for a term of 3 years from the date of expiration. The Act further states, any Board member who has served as a member for six consecutive years shall not be eligible for reappointment until two years after the end of the term in which the sixth consecutive year of service occurred.

Board personnel stated they have relayed vacancy information to the Office of the Governor, yet there has been no action taken to address the vacancies.

Board members should be appointed in a timely manner in order to properly formulate the function of the Board as intended. A full Board is necessary to properly conduct meetings and operate effectively and efficiently. Failure to appoint new members to the Board may result in questions regarding the legitimacy of actions taken by Board members whose appointments had expired. (Finding Code No. 11-4, 09-5, 07-6, 05-1)

**RECOMMENDATION**

We recommend the Board continue to work with the Governor's Office to ensure Board vacancies are filled in a timely manner and new appointments are made for members with expired terms.

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**BOARD RESPONSE**

Response: Disagree.

The Board of Examiners prepares a letter of nomination for Board membership annually. The letter includes the names of nominees and biographical information for each. The governor made three appointments in 2010. One of the newly appointed public members passed away in April 2011, and a letter of nomination to replace that member was forwarded to the Governor on July 22, 2011. The nominee also completed the required on-line application. To date, no replacement has been appointed by the Governor.

**AUDITOR'S COMMENT**

The Illinois Public Accountancy Act states the Board shall consist of 11 examiners, as appointed by the Governor. As of June 30, 2011, the Board did not consist of 11 examiners. One public member position was vacant due to the untimely passing of the incumbent. Eight of the 10 (80%) filled positions on the Board were held by persons whose terms had expired - in some cases, by persons whose terms had expired nearly 7 years ago. While the Act permits appointed persons to serve in a holdover capacity until a new member can be appointed, the Act does specify persons shall not serve more than 2 consecutive 3-year terms, which implies the desire for turnover within each position on the Board at 6-year intervals. This provision of the Act was intended to prevent temporary lapses in Board membership that would inhibit Board action (ie. instances where the Board needed to take action on an important matter, yet the Board lacked quorum due to lapsed terms). This provision of the Act was not intended to allow Board members to serve indefinitely. The matter of vacancies and expired terms is an important issue that needs to be addressed and limits input into Board decisions and policies.

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- 11-5. **FINDING** (Failure to notify Secretary of State of all employees whose positions require them to file a Statement of Economic Interest)

The Illinois Board of Examiners (Board) did not notify the Secretary of State of all employees whose positions required them to file a Statement of Economic Interests (Statement).

We noted one employee, who is involved in the management and operation of the Board, as well as the Board's contracting and procurement processes, was not reported to the Secretary of State as a person who is required to file a Statement. Secretary of State personnel could not locate any Statements filed by this employee for Fiscal Years 2010 or 2011.

The Illinois Governmental Ethics Act (5 ILCS 420/4A-101(f)(2)) requires persons who are the head of a department, commission, board, division, bureau, authority, or other administrative unit within the government of this State, or who have direct supervisory authority over, or direct responsibility for the formulation, negotiation, issuance or execution of contracts entered into by the State in the amount of \$5,000 or more to file verified written statements of economic interests by May 1st of each year.

Board personnel stated the employee did prepare and file a Statement for Fiscal Year 2011. However, they believe that since the person's name was not reported to the Secretary of State as a person required to file a Statement, the Secretary of State may have misfiled the Statement filed by that employee. Board personnel stated the employee did not prepare and file a Statement for Fiscal Year 2010 due to unfamiliarity with the filing requirement.

Failure to file Statements of Economic Interests could lead to employees making decisions in which they should have been disqualified due to a conflict of interest. (Finding Code No. 11-5)

**RECOMMENDATION**

We recommend the Board report all employees whose positions require them to file Statements of Economic Interests to the Secretary of State. We also recommend the Board ensure all employees who are required to file submit the completed Statements to the Secretary of State in a timely manner as required.

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**BOARD RESPONSE**

Response: Agree.

When appointed as Executive Director, the Board of Examiners was already a State agency. The previous Executive Director had submitted the required document to the Secretary of State and the new Executive Director expected a statement of economic interest would be forwarded to him as is customary. When one was not forthcoming, the Executive Director took it upon his own initiative to prepare and submit a statement in October of 2009. Subsequent statements were submitted in February of 2010 and May of 2011. No contact was made with the Secretary of State to ensure receipt, but copies of the forms were kept in the Executive Director's personnel file. When contacted, the Secretary of State had no record of receipt, but indicated the Executive Director was listed as reporting through the University of Illinois. State records have now been corrected to reflect the State agency status of the Board.

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11-6. **FINDING** (Inadequate controls over property reporting)

The Illinois Board of Examiners (Board) did not exercise adequate controls over the recording and reporting of its property. We noted the following:

- The Board did not prepare and file its Quarterly Reports of State Property (C-15s) timely as required. During the examination period, the Board filed 6 of 8 (75%) C-15s between 19 and 176 days late.

Statewide Accounting Management System (SAMS) (Procedure 29.20.10) requires C-15s to be filed on a quarterly basis and submitted to the Illinois Office of the State Comptroller (IOC) no later than the last day of the month following the last day of the quarter.

- Amounts reported on the Board's C-15s did not trace to the Board's property control records. We noted differences between the beginning balances as of June 30, 2009, additions, deletions, and transfer amounts. We also noted one equipment acquisition during the examination period was not reported on the Board's C-15s or property control records. The net effect of the errors and omissions noted is a \$1,735 understatement.

SAMS (Procedure 29.20.10) requires an agency to report all additions, deletions, and net transfers affecting each asset class that occurred during the quarter being reported. SAMS (Procedure 29.10.10) also states that the objective of fixed asset reporting is to ensure that agencies are updating property records to reflect the current balance of fixed assets and to enhance the accuracy of information reported. Good internal controls require sufficient and properly designed accounting records be maintained to adequately control fiscal operations and provide reliable data for necessary management reports. Additionally, good business practices require an agency to review all reported information for accuracy before submission.

Board personnel stated the C-15s were not filed timely due to competing priorities for the responsible personnel. Board personnel also stated the differences noted during our testing were due to the challenges faced as they implemented C-15 reporting for the first time, in response to a prior examination finding. Lastly, Board personnel indicated the one item was excluded from both Board records and the related C-15 due to oversight.

Inaccurate and untimely property reporting reduces the reliability of Statewide property information. (Finding Code No. 11-6)

STATE OF ILLINOIS  
BOARD OF EXAMINERS  
**SCHEDULE OF FINDINGS**  
For the Two Years Ended June 30, 2011

**RECOMMENDATION**

We recommend the Board prepare and file accurate property reports in accordance with SAMS.

**BOARD RESPONSE**

Response: Agree.

Bullet 1 – The Board will take immediate action to be sure reports are filed timely. Calendars will be noted to remind management of dates reports are to be filed. A specific staff member will be designated to monitor due dates.

Bullet 2 – The Board of Examiners will change its procedures to include all additions, deletions, and net transfers on C-15 reports.

STATE OF ILLINOIS  
BOARD OF EXAMINERS  
**PRIOR FINDINGS NOT REPEATED**  
For the Two Years Ended June 30, 2011

A. **FINDING** (Inappropriate use of State funds)

During the prior examination, the Board did not exercise adequate controls over disbursements, and had inappropriate disbursements, including meals for University of Illinois employees, purchases of alcohol, meals for Board guests or Board members' family, sales tax, tips, and flowers.

During the current examination, the Board exercised adequate controls over disbursements and no such inappropriate disbursements were noted. (Finding Code No. 09-1)

## **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 Receipts, Disbursements and Fund Balance (Modified Accrual) – Locally Held Fund
- Schedule of Changes in State Property
- Comparative Schedule of Cash Receipts
- Analysis of Significant Variations in Receipts

- Analysis of Operations:

- Board Functions and Planning Program
- Average Number of Employees and Board Members
- Memorandum of Understanding
- Service Efforts and Accomplishments (Not Examined)

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states the auditors have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General, except for information on the Service Efforts and Accomplishments on which they did not perform any procedures. However, the accountants do not express an opinion on the supplementary information.

STATE OF ILLINOIS  
 BOARD OF EXAMINERS  
**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCE**  
**(MODIFIED ACCRUAL) - LOCALLY HELD FUND**  
 For the Two Years Ended June 30, 2011

CPA Examination Trust Account

Balance at July 1, 2009	\$	3,752,951
Revenues:		
Fees		1,428,228
Interest Income		4,221
Expenditures:		<u>1,135,391</u>
Balance at June 30, 2010	\$	<u><u>4,050,009</u></u>
Balance at July 1, 2010	\$	4,050,009
Revenues:		
Fees		1,431,690
Interest Income		2,437
Expenditures:		<u>1,182,719</u>
Balance at June 30, 2011	\$	<u><u>4,301,417</u></u>

Note: Modified accrual basis is when revenues are recognized when it becomes available and measurable and expenditures are recognized when liability is incurred versus cash basis which recognizes revenues and expenses when cash is actually received or paid.

STATE OF ILLINOIS  
 BOARD OF EXAMINERS  
**SCHEDULE OF CHANGES IN STATE PROPERTY**  
 For the Two Years Ended June 30, 2011

		Equipment
Balance at July 1, 2009	\$	176,912
Additions		18,978
Deletions		(48,604)
Net Transfers		-
Correction of Errors from Prior Periods		5,931
Balance at June 30, 2010	\$	153,217
Balance at July 1, 2010	\$	153,217
Additions		770
Deletions		(1,972)
Net Transfers		-
Balance at June 30, 2011	\$	152,015

Note: The above schedule has been derived from C-15s submitted to the State Comptroller's Office and Board records; however, the Board failed to maintain adequate supporting documentation for additions and deletions transactions. See finding 11-6.

STATE OF ILLINOIS  
BOARD OF EXAMINERS  
**COMPARATIVE SCHEDULE OF CASH RECEIPTS**  
For the Fiscal Years Ended June 30,

CPA Examination Trust Account	<u>2011</u>	<u>2010</u>	<u>2009</u>
Domestic evaluation fee	\$ 460,600	\$ 459,065	\$ 412,475
Foreign evaluation fee	181,950	170,850	192,275
Exam fee-one part	256,760	237,360	211,120
Exam fee-two parts	193,982	203,124	200,192
Exam fee-three parts	50,868	47,412	51,604
Exam fee-four parts	176,733	196,645	182,952
Reciprocal fee	98,615	98,715	79,225
Miscellaneous fees	18,228	18,180	21,972
Investment and other income	<u>2,437</u>	<u>4,221</u>	<u>44,742</u>
 Total Receipts	 <u>\$ 1,440,173</u>	 <u>\$ 1,435,572</u>	 <u>\$ 1,396,557</u>

STATE OF ILLINOIS  
BOARD OF EXAMINERS  
**ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS**  
For the Two Years Ended June 30, 2011

Significant variances in receipts were determined to be changes of \$5,000 or more and at least 20% between fiscal years, and are explained below.

**ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS BETWEEN FISCAL YEARS 2010 AND 2011**

No significant variations in receipts were noted between Fiscal Year 2010 and Fiscal Year 2011.

**ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS BETWEEN FISCAL YEARS 2009 AND 2010**

**Reciprocal Fees**

The increase in reciprocal fees of \$19,490 in Fiscal Year 2010 was due to the increase in volume of candidates applying for reciprocal certification in Fiscal Year 2010. In Fiscal Year 2009, 232 reciprocal applications were submitted compared to 288 in Fiscal Year 2010.

**Investment and Other Income**

The decrease in investment and other income of \$40,421 was due to the decline in interest rates of 2.19% in Fiscal Year 2009 to 1.14% in Fiscal Year 2010.

STATE OF ILLINOIS  
BOARD OF EXAMINERS  
**ANALYSIS OF OPERATIONS**  
For the Two Years Ended June 30, 2011

**BOARD FUNCTIONS AND PLANNING PROGRAM**

The Illinois Board of Examiners (Board) was originally established under “An Act to Regulate the Profession of Public Accountants” (Act of 1903) that was passed by the General Assembly of Illinois on May 15, 1903 with an effective date of July 25, 1903. The Act of 1903 was later replaced by the Act of 1943 approved July 22, 1943. The Board currently operates under the authority of the Illinois Public Accounting Act (Act) (225 ILCS 450/0.01 et seq.).

The Illinois Board of Examiners is to be governed by a board of eleven examiners appointed by the Governor, two of which are to be public members. The governing board currently has one public member vacancy. As of June 30, 2011, the board members were:

**Member**

Kenneth J. Hull, CPA, Chair  
Gary L. Fish, CPA, Vice Chair  
Thomas Winkler, CPA  
Margaret A. Cartier, CPA  
Claireen L. Herting, CPA

Sharon Morrow, Public Member  
Myra A Swick, CPA  
Cheryl S. Wilson, CPA  
Richard J. York, CPA  
Penelope Yunker, CPA

The Board’s responsibilities include:

- The effective administration of applicable provisions of the Illinois Public Accounting Act including the adoption of any necessary and reasonable rules and regulations.
- Adopting a fair and impartial method of determining the qualifications of applicants for the Certified Public Accounting examination and a fair and wholly impartial method of examination of persons under the Act.
- Issuing certificates to holders of a foreign designation, granted in a foreign country entitling the holder thereof to engage in the practice of public accounting provided they meet certain requirements.
- Providing information regarding educational requirements, the application process, the examination and fees on the Board’s website as well as in printed documents.
- Submitting an annual report of its activities to the Governor and the Director of Professional Regulation that includes a complete operating and financial statement covering its operation during the year, the number of examinations given, and the pass/fail ratio for examinations.
- Charging fees in an amount at least sufficient to defray the costs and expenses incident to the examination and issuance of certificates.

STATE OF ILLINOIS  
BOARD OF EXAMINERS  
**ANALYSIS OF OPERATIONS**  
For the Two Years Ended June 30, 2011

**Planning Program**

The Board has developed and maintained a Strategic Plan that is updated periodically as needed (last updated July 2009). The Strategic Plan contains the Board's strategic planning methodology, strategic opportunity statements, goals, objectives and strategies for goal implementation, and the Board's mission statement.

The Board's mission is "To set the educational requirements and to verify, through testing or transfer, candidate qualifications to apply for licensure as Certified Public Accountants in the State of Illinois."

The Board accomplishes this mission through the following goals:

- Promote a Board that is composed of an appropriate balance of professional and public members, and that is accountable to the public and committed to the public interest.
- Obtain assistance to ensure updated knowledge of legislative activities affecting the accounting profession and its impact on examination, licensure and enforcement.
- Keep Illinois regulations (rules) current governing the certificate of Certified Public Accountants.
- Maintain open communication channels for effective delivery of information.
- Utilize technology to maximize the efficiency of the processes and enhance the productivity and responsiveness of the organization.
- Continue serving CPA candidates on a timely basis under any disruptive circumstances.
- Create and maintain an effective and efficient financial reporting system.
- Establish a regular and consistent planning process that provides for regular review by Board and staff.
- Influence professional policies through relationships with other organizations.
- Maintain a voice to the profession on Board concerns affecting the examination process for qualification as a Certified Public Accountant.
- Maintain a highly qualified, experienced staff to provide quality services to stakeholders.
- Assure the continuing and effective leadership of the Board.

STATE OF ILLINOIS  
BOARD OF EXAMINERS  
**AVERAGE NUMBER OF EMPLOYEES**  
For the Two Years Ended June 30,

AVERAGE NUMBER OF EMPLOYEES

The following table, prepared from Board records, presents the average number of employees and Board Members for the Fiscal Years ended June 30,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Employees	1	1	1
Board Members	11	8	8

In addition, eleven University of Illinois employees work exclusively for the Board in accordance with a Memorandum of Understanding between the Board and the University of Illinois. The Memorandum of Understanding was in effect for Fiscal Year 2008, and although the Memorandum of Understanding has not been renewed in Fiscal Year 2010 and Fiscal Year 2011, these eleven employees continue to work for the Board.

STATE OF ILLINOIS  
BOARD OF EXAMINERS  
**MEMORANDUM OF UNDERSTANDING**  
For the Two Years Ended June 30, 2011

MEMORANDUM OF UNDERSTANDING

The Illinois Board of Examiners (Board) had a Memorandum of Understanding with the University of Illinois (Trustees) for the purpose of defining and designating services to be provided by and between the Trustees and the Board, and the responsibilities for the administration of examinations and issuance of certificates of certified public accountants (CPA) in Illinois. The Memorandum of Understanding states: the Trustees shall provide the Board with management, secretarial, clerical, bookkeeping, auditing, legal and other services as the Board deems necessary and/or appropriate for its administration and operations; the Board shall be solely responsible for employment and compensation for the Executive Director of the Board; the Trustees shall provide liability coverage to the Board and the Executive Director at no cost under the University's self-insurance plan, or at the discretion of the trustees at the Board's cost, under a separately purchased liability coverage, or a combination of the two; the Trustees shall, under the Board's request, provide legal services to the Board, Board members, and the Executive Director; the Vice Chancellor for Student Affairs shall be an ex officio, nonvoting member of the Board and shall be notified and consulted concerning matters related to the operations of the Board; and the Executive Director shall be responsible for implementation of personnel decisions and transactions pertaining to staff of the University who perform work for the Board. The Memorandum of Understanding further states that the Board's operating account shall be referred to as the CPA Examination Trust Account and shall be used to reimburse the Trustees for all personnel expenses and other costs attributable to services requested and provided to the Board including fringe benefits normally paid to staff members of the University.

The Board did not have a Memorandum of Understanding in place for Fiscal Year 2010 and Fiscal Year 2011, but continued to operate under the expired memorandum that was executed during Fiscal Year 2008. See finding 11-2.

STATE OF ILLINOIS  
BOARD OF EXAMINERS  
**SERVICE EFFORTS AND ACCOMPLISHMENTS**  
For the Fiscal Years Ended June 30,  
(Not Examined)

	2011	2010	2009
<b>Number of applications processed by type</b>			
Foreign credential evaluations	818	724	809
Domestic credential evaluations	2,901	2,746	2,498
First-time candidates for exam	2,844	2,805	2,706
Re-exam candidates from paper and pencil	107	160	194
Re-exam candidates from Computer Based Testing	8,584	8,268	7,528
Reciprocal certificate by substantial equivalency	52	56	50
Reciprocal certificate by education	8	11	6
Reciprocal certificate by experience	5	3	2
Reciprocal certificate by International Qualification Examination	97	120	64
Certification by total transfer of credit	171	131	142
<b>Average pass rates by section</b>			
Auditing (AUD)	49.8%	52.4%	53.9%
Business Environment and Concepts (BEC)	56.6%	56.1%	55.9%
Financial Accounting Reporting (FAR)	50.7%	53.0%	55.0%
Regulation (REG)	50.6%	53.4%	56.1%
Number of candidates that passed the Uniform CPA Exam	1,821	1,879	1,804
Number of certified candidates by Exam	1,673	1,858	1,720
Number of certified candidates by Total Transfer of Credit or Reciprocity	249	245	204