LEGISLATIVE
AUDIT
COMMISSION

Review of
Office of Banks and Real Estate
Two Years Ended June 30, 2004

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REVIEW: 4233
OFFICE OF BANKS AND REAL ESTATE
TWO YEARS ENDED JUNE 30, 2004

FINDINGS/RECOMMENDATIONS - 16

ACCEPTED - 14
IMPLEMENTED - 2

REPEATED RECOMMENDATIONS - 2

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 6

This review summarizes the auditors' reports of the Office of Banks and Real Estate for the two years ended June 30, 2004, filed with the Legislative Audit Commission on March 8, 2005. The auditors conducted a compliance examination in accordance with State law and *Government Auditing Standards.* This is the final examination of the Office of Banks and Real Estate. As a result of Executive Order #6 (2004), which became effective July 1, 2004, the Office of Banks and Real Estate was considered abolished, and is now part of the new Department of Financial and Professional Regulation.

The Office of Banks and Real Estate was created on June 1, 1996 with the merger of two agencies, the Commissioner of Banks and Trust Companies and the Commissioner of Savings and Residential Finance.

The Office of Banks and Real Estate oversees State-chartered banks, trust companies, ATMs not owned by financial institutions, real estate brokers and salespersons, appraisers, mortgage brokers and bankers, check printers, pawnbrokers, savings banks and savings and loan associations, auctioneers, home inspectors, leasing agents, and time share companies.

The Agency receives no appropriations from the General Revenue Fund, operating instead from annual appropriations by the General Assembly from the Savings and Residential Finance Regulatory Fund, Appraisal Administration Fund, Pawnbroker Regulation Fund, Auction Regulation Administration Fund, Home Inspector Administration Fund, Real Estate Audit Fund, Bank and Trust Company Fund, Real Estate Research and Education Fund, and the Real Estate License Administration Fund. The Agency has four Bureaus: Bureau of Administration, Bureau of Banks and Trust Companies, Bureau of Real Estate Professions, and Bureau of Residential Finance. The operations of the Agency are wholly funded through fees assessed from supervised institutions or paid by licensees in the form of license and renewal fees. Appendix A shows the services efforts and accomplishments of the various service bureaus of the Agency during FY04, FY03, and FY02.

Mr. William Darr served as Commissioner of Banks and Real Estate until January 31, 2003. Mr. D. Lorenzo Padron was appointed Commissioner of Banks and Real Estate effective May 2, 2003. Once the Agency became part of the Department of Financial and Professional Regulation, Mr. Padron's title was changed to Director of the Division of Banks and Real Estate, and he still serves in that capacity. He was not previously associated with the Agency.

The average number of employees was:

2004 - 251; 2003 - 271; 2002 - 274.

Expenditures From Appropriations

The General Assembly appropriated a total of $30,559,581 to the Agency in FY04. Appendix B summarizes these appropriations and expenditures for the period under review. Overall expenditures increased from $28,571,299 in FY02, to $29,553,417 in FY03, then decreased to $27,327,676, or 7.5%, in FY04. Variations in expenditures are attributable to the following to fewer employees and the elimination of most board per diem payments through executive order and legislation. Lapse period expenditures were $1.3 million, or 4.9%, in FY04.

Cash Receipts

Appendix C provides a summary of cash receipts for FY04-FY02. The revenues of the Agency are deposited in 11 funds: Savings and Residential Finance Regulatory Fund, Appraisal Administration Fund, Pawnbroker Regulation Fund, Real Estate Recovery Fund, Auction Regulation Administration Fund, Auction Recovery Fund, Home Inspector Administration Fund, Real Estate Audit Fund, Bank and Trust Company Fund, Real Estate License and Education Fund, and Real Estate License Administration Fund. Total cash receipts decreased slightly from $31,869,625 in FY02, to $31,340,228 in FY03, and then increased to $44,958,156 in FY04. The increase in receipts between FY03 and FY04 is attributable to the following:

- The increase in the Savings and Residential Finance Regulatory Fund is due to fee increases;
- The increase in the Appraisal Administration Fund is due to the biennial renewal cycle;
- The increase in Pawnbroker Regulation Fund is due to an increase in the number of pawnbroker licenses;
- The increase in the Auction Regulation Administration Fund is due to the biennial renewal cycle;
- The increase in the Bank and Trust Company Fund is due to fee increases; and
- The increase in the Real Estate License Administration Fund is due to fee increases.

The Bank Examiners' Education Foundation Fund is a fund held outside the State Treasury and is operated as an endowment-like trust fund whose earnings are to be used to provide continuing professional education to bank examiners.

Accounts Receivable

Appendix D summarizes the accounts receivable of the Agency as of June 30, 2004 and 2003. Net balance of accounts receivable for FY04 and FY03 were $7.697 million and $5.730 million, respectively, with the majority of the accounts being current. The Agency uses private collection services and the offset system to collect old receivable balances. The allowance for doubtful accounts, which totaled in $1.16 million FY04, is comprised only of the Appraisal Administration Fund and the Real Estate Recovery Fund.

Property and Equipment

Property and equipment transactions during the period under review are summarized in Appendix E. The balance increased from $4,627,005 as of July 1, 2002, to $4,507,306 as of June 30, 2004.

Accountants' Findings and Recommendations

Condensed below are the sixteen findings and recommendations included in the audit report. Of these, two are repeated from prior audits. The following recommendations are classified on the basis of updated information provided by Travis March, Chief Financial Officer, Department of Financial and Professional Regulation, in a memo received via email dated October 17, 2005.

Accepted or Implemented

1. Only make payments for efficiency initiative billings from line item appropriations where savings would be anticipated to occur. Further, seek an explanation from the Department of Central Management Services as to how savings levels were calculated, or otherwise arrived at and how savings achieved or anticipated impact the Agency's budget.

Findings: The Agency made payments for efficiency initiative billings from improper line item appropriations and funds. During FY04, the Agency received three billings totaling $386,693 as follows:

• Procurement Efficiency	$263,930
• Information Technology	$118,197
• Vehicle Fleet Management	$ 4,566
Total	$386,693

Accepted or Implemented – continued

The Agency made payments not from line item appropriations where the cost savings were anticipated to have occurred, but from line items that had available monies such as:

- $78,859 from the Savings and Residential Finance Regulatory Fund for all three initiatives; and
- $187,234 from the Bank and Trust Company Fund for all three initiatives.

Response: Accepted. Pursuant to the provisions in Public Act 93-0025, and in order to meet the directive made by the Director of the Governor's Office of Management and Budget on September 19, 2003, the Agency made the Efficiency Initiative Payments from line items, to attain efficiency savings as requested, that would least affect the ability of the Agency to meet its statutory requirements. Without having the procurement savings identified in advance of the required date of payment, the Agency targeted those lines having the 3% transferability option. Subsequent to the efficiency payments, the 3% transfers never occurred because the Agency was not provided documentation as to the details of the procurement savings. Since the time of efficiency payments, the Agency has continued to seek identification of these savings.

Updated Response: DFPR continues to seek information from CMS regarding calculation methodology and savings justifications for agency efficiency initiative billings.

2. Evaluate the CLEAR (Credentialing Licensing Enforcement And Regulation) system and develop a corrective action plan to enhance the system to ensure that it meets the needs of the user.

Findings: The Agency's Credentialing Licensing Enforcement and Regulation system (CLEAR) was implemented in February 2003, at a cost of about $1 million, and replaced the Agency's outdated legacy systems. The auditors identified the following problems with the system:

- Inability to accurately count fees and reconcile to dollar amounts;
- Entities are billed more than once for the same transaction;
- Licenses were not automatically listed as inactive when renewal timeframes were not met;
- Access to the system was not effectively controlled. The auditors identified former employees with active access rights and staff with excessive rights based on job duties; and
- A user manual to guide staff on the efficient and effective use of the system had not been developed.

Additionally, the lack of user training has led to inaccurate information being entered into the CLEAR system, thus causing incorrect fees to be assessed. The CLEAR system was implemented without the use of system development standards that required adequate testing, and security controls to ensure the accuracy and integrity of the system.

Response: Accepted. With the following responses:

- **Inability to accurately count fees and reconcile to dollar amounts.**

The Clear system has a problem tracking fees. The Agency would prefer a payment tracking system, but CLEAR currently uses an account balance system. The Agency has requested that the vendor convert to a payment tracking system that will more accurately account for fees paid. The Agency is awaiting a response from the vendor on a solution.

- **Entities are billed more than once for the same transaction.**
  Procedures will be developed and training provided to the users and Agency personnel to assist in properly processing billings and payments in CLEAR.
- **Licenses were not automatically listed as inactive at end of renewal.**
  The CLEAR system does not automatically change the status of a licensee; however, it does have a process that will accomplish this function. The Real Estate Board prefers not to inactivate licenses at the time of the expiration date due to the volume of renewals that have to be handled. Many renewals are received at the last minute and processing continues for some time after the due date. The system is designed to renew active licenses; therefore, maintaining an active status after the expiration date saves processing time for late renewals. Other professions that utilize the system may require that processes be designed to monitor inactive licenses on a more timely basis.
- **Access to the system was not effectively controlled.**
  For the IS staff to be aware of an access rights modification, the business areas must communicate any desired staff changes. The business areas have final determination for access rights. The Agency will seek to identify better ways of communicating any applicable access rights changes to the IS staff.
- **A user manual has not been developed.**
  The Agency will be in conversation with the vendor to ascertain the capability of developing a complete Agency manual for all CLEAR users.

Updated Response: The Agency has corrected the finding issues related to duplicate billing errors, system access and the user manual. The vendor has been contacted to obtain a cost estimate on updating CLEAR to contain a payment tracking system.

3. Perform monthly receipt reconciliations timely, and timely submit Reconciliation Exception Notification forms as required by SAMS.

Findings: The Agency did not perform monthly reconciliations of its receipts to the Comptroller's records as required by SAMS. The auditors noted that 84 out of 108, and 70 out of 108 monthly receipt reconciliations were not performed by the end of the following month during FY04 and FY03, respectively. Due to untimely reconciliations, forms were not timely submitted to the Comptroller to notify them of discrepancies.

Accepted or Implemented – continued

<u>Response:</u> Accepted. With the onset of the consolidation, reconciliation procedures are being reviewed for consistency across all Divisions. The individual handling the reconciliation process had several other duties, including but not limited to, assisting with the budget to prepare the Illinois State Legislature forms. As a result of the consolidation, the individual performing reconciliations has assumed other duties. Also, due to the consolidation, the Agency's reconciliation functions will be centralized allowing for greater focus on a timely completion.

<u>Updated Response:</u> As part of the DFPR consolidation, reconciliation functions have been centralized. This has corrected this OBRE finding and has allowed for timely completion of reconciliation work.

4. Develop and implement adequate and consistent internal controls over revenue processing. Adequately segregate the billing functions from the receipt functions.

<u>Findings:</u> The auditors noted the following deficiencies with revenue processing:

- Checks are not logged immediately after receipt;
- Checks are not immediately restrictively endorsed;
- Daily receipt logs, if maintained, are not reconciled to deposits or entries in the CLEAR system;
- Receipts entered into the CLEAR system are not reconciled to the general ledger;
- Fees assessed are not reconciled to fees collected;
- The Agency does not maintain a listing of NSF/returned checks to promote adequate monitoring and follow-up;
- Divisions with the Bureau of Real Estate Professions and Bureau of Residential Finance do not have procedures in place to adequately monitor and track accounts receivable;
- General policies and procedures for revenue processing have not been developed; and
- The Mortgage Banking division does not adequately segregate the billing function from the payment receipt function.

Agency personnel stated that some of the deficiencies are due to the decentralized nature of receipt processing at the Agency. However, many of the deficiencies are due to CLEAR not providing the information needed to perform any reconciliations or track returned checks and accounts receivable.

<u>Response:</u> Accepted. Due to the consolidation, the Agency plans to centralize the receipt processing function into the existing Cash Unit. The Agency believes centralization of this process will provide stricter oversight to the total receipt processing function. In addition, the Agency has submitted a request to the vendor for an estimate of costs to change the CLEAR system in respect to the controls over revenue processing. The cost estimates that would provide for the revenue enhancements have been received from the vendor and are under Agency review.

Updated Response: DFPR is in the process of consolidating legacy receipt processing functions into a centralized agency Cash Unit. Once completed, this will result in standardized revenue controls agency wide and will correct the issues raised in this finding.

5. Use adequately supported information on the annually submitted Agency Fee Imposition Report.

Findings: The Agency did not maintain adequate documentation to support the Agency Fee Imposition Report. The number of fees charged for each type of fee listed on the FY03 and FY04 reports was not adequately supported. In addition, the auditors could not perform additional analytical procedures such as comparing the number of fees collected to the number of licenses issued due to the lack of documentation.

Response: Accepted. The CLEAR system has a problem tracking fees. The Agency would prefer a payment tracking system but the CLEAR system currently uses an account balance system. The Agency has requested that the vendor convert to a payment tracking system that will more accurately account for fees paid. The Agency is awaiting a response from the vendor on a solution.

Updated Response: The agency has requested a price quote from the developer to establish a financial system within CLEAR. When this estimate is known, the agency will either develop the system or choose another option to correct this finding.

6. The computer system (CLEAR) should be modified to automatically mark a license inactive when it is not renewed by the required timeframe.

Findings: The Agency did not update licensing information on a timely basis. The CLEAR system did not automatically mark a license as inactive when the license was not renewed within the required timeframe. Office personnel are required to manually mark the license as inactive resulting in a period of time when licenses that are not renewed appear active. When the auditors tested 25 expired licenses, seven were listed as active on the Agency's license lookup website. Of the seven expired licenses, three had been expired for more than one month, and one had been expired for more than three months.

Response: Accepted. The CLEAR system does not automatically change the status of a licensee; however, it does have a process that will accomplish this function. The Real Estate Board prefers not to inactivate licenses at the time of the expiration date due to the volume of renewals that have to be handled. Many renewals are received at the last minute and processing continues for some time after the due date. The CLEAR system is designed to renew active licenses; therefore, maintaining an active status after the

Accepted or Implemented – continued

expiration date saves processing time for late renewals. Other professions may require that processes be designed to monitor inactive licenses on a timelier basis.

7. Maintain daily vehicle logs that include purpose of travel, destination, dates, and mileage readings. Obtain and maintain adequate support before paying expenditures. In addition, re-evaluate the need for mail cars to be taken home by employees on a nightly basis.

Findings: The Agency did not maintain adequate control over State vehicles. The auditors noted the following:

- Vehicle logs were not maintained to track vehicle usage. Fourteen weekend gas purchases were made on seven of 25 tested vouchers. Whether vehicles were used for personal purposes, other than commuting, could not be determined.
- Two of the Agency's mail cars were not personally assigned, yet were driven by two employees to and from their personal residences on a daily basis, to avoid leaving the vehicles unattended at night and on weekends. Neither employee reported the use of the vehicle as a fringe benefit. Agency personnel stated that no commuting was involved since the employees were required to take the vehicles home.
- Six of the 25 vouchers tested contained automotive expenditures that lacked supporting documentation such as gas tickets.

Response: Accepted. Each year, at the time of the annual vehicle certification, employees who are assigned State vehicles are mailed a mileage pamphlet to log their daily personal and work related mileage. The annual certifications were returned to meet the statutory requirement; however, mileage logs were not maintained and submitted to Fiscal on a timely basis.

The Agency concurs that pool vehicles being driven home on a daily basis, by the mail messengers, should be discontinued. The Agency will take proper measure to see that this practice is discontinued.

The Agency also concurs that Fiscal should obtain vehicle gas tickets prior to paying the State vendor. The Agency will reinforce the necessity to send gas tickets to the Fiscal Division as purchase are made, so the receipts will be on had when the invoice is received from the vendor.

Updated Response: Control of all agency vehicles has been consolidated within the newly formed DFPR Administrative Services Division. They are developing comprehensive policies to address this finding and other vehicle-related issues within the agency. The Agency no longer allows mail vehicles being driven home by mail messengers.

8. Enforce the provisions of the Savings Bank Act or seek legislative remedy to the statutory requirement. (Repeated-2002)

<u>Findings</u>: The Agency did not establish a Savings Bank Examiner Training Foundation, for the purpose of funding and overseeing the training of savings bank examiners, in accordance with statute.

<u>Response</u>: The Agency has determined that implementing a Savings Bank Examiner Training Foundation provision is impracticable under current conditions. Amendments to the Savings Bank Act to mitigate the finding are being drafted. Once the draft language is finalized, it will then be forwarded to management for consideration.

<u>Updated Response:</u> Agency personnel are preparing a legislative proposal for introduction in the 2006 spring session that would amend the Savings Bank Examiner Training Foundation provision.

9. Implement procedures to ensure that performance evaluations are conducted in a timely manner and to ensure that monthly attendance records are accurate in accordance with the Illinois Administrative Code. In addition, require the use and submission of written leave requests and implement the necessary controls to ensure that employee use of leave time is in accordance with Agency policies.

<u>Findings:</u> The Agency did not maintain adequate controls over employee attendance, performance evaluations, and leave usage. The auditors tested 25 employees and noted the following:

- Performance evaluations for 18 of 25 employees tested were not conducted in accordance with Agency policies. Nine evaluations were late, and there was no record of the other nine.
- The monthly attendance records for eight out of 25 employees did not trace to the time and attendance system (CTAS).
- Human Resources does not maintain written documentation of requests for leave time as Agency policies require.
- Nine out of 25 employees tested did not use leave time in accordance with Agency policies. Employees used sick time in ½ hour increments instead of one-hour increments. They used personal time in ½ hour and one-hour increments instead of two-hour, ½ day or whole-day increments. They used vacation and holiday time in ¼ hour increments instead of ½ day, whole day or ½ hour increments.
- Two of seven employees tested on leave of absence had a statement on file that in the physician's opinion, the patient was permanently and totally disabled for employment, but the employee's disability leave was not terminated.

<u>Response:</u> Accepted. After the consolidation, the Agency implemented new procedures for timekeeping. The procedure of entering the employee's time monthly has now been modified to enter time on a semi-monthly basis. In addition, employees are required to

Accepted or Implemented – continued

complete a time sheet prior to the use of time, which should result in a more efficient tracking method for the Agency.

The Agency will continue to work toward meeting the provisions in the Illinois Administrative Code (80 Ill. Adm. Code 302.270) that stipulates, "the evaluation of an employee shall be prepared not less often than annually."

Updated Response: DFPR has implemented new procedures for timekeeping that require all employees to complete a time sheet prior to the use of time. The agency is also seeing improvement in the timely preparation of annual evaluations.

10. Identify and cancel telephone calling cards for terminated employees on the date of termination. The Human Resources Department should notify the telecommunications coordinator of the terminated employees before the employee's termination date. In addition, implement procedures to ensure that telecommunications invoices are documented as reviewed.

Findings: The Agency did not cancel calling cards for terminated employees timely, and does not have adequate controls over the review of telecommunications invoices.

Eleven of 38 calling cards were not canceled timely. They were canceled from 2 to 1,139 days after the employees' separation dates. Five of 25 vouchers tested contained unusual phone calls, such as calls exceeding 30 minutes, frequent out-of-state calls, calls after hours and on weekends. These calls were not documented and/or pursued. One employee had reimbursed the Agency for calls made to a particular phone number on a cell phone, but not on the desk phone.

Response: Accepted. Of the 11 cards not canceled timely, 10 were canceled between 2 and 47 days and only one resulted in 1,139 days before it was cancelled. The card for 1,139 days was an employee on disability leave for an extended period of time, who later died on May 20, 1999. As soon as the error was discovered the Agency cancelled the card on July 2, 2002. In addition, it is should be noted that once the card is terminated by the Agency and notification is forward to CMS, CMS does not immediately cancel the card. During this time period, the State is still vulnerable for charges. In addition, it is the Agency's understanding that no charges were made on any of the cards not cancelled in a timely fashion. As a result of the consolidation the telecommunications function will become the responsibility of one unit, which will provide for more resources to focus on telecommunication issues.

Updated Response: The Agency previously cancelled all cards involved in this finding. Phone card issuance has been consolidated in the newly formed Division of Administrative Services and they are developing policies to ensure future problems do not occur.

11. Adequately identify, track, monitor, and report petty cash and locally held funds. Also, invest and maximize cash and other investable State assets to achieve the greatest return when appropriate.

Findings: The Agency did not have adequate controls over petty cash and locally held funds. A petty cash fund that the Agency was unaware of had been inactive since 1996. Of the $480 fund balance, $332 was lost due to bank charges. Two locally held funds, one with a balance of $27,861 and another with a balance of $592, were not reflected in Agency records or properly established and reported to the Comptroller as required by statute and SAMS. These funds had been inactive since the 1996 reorganization. The funds were held in either checking or passbook savings accounts at minimal interest rates.

Response: Accepted.

- **Petty Cash Fund inactive since 1996**
  Agency personnel were at all times aware of the existence of this fund. When the error was discovered attempts were immediately made by the Agency to close out the account with the Treasurer's Office. However, the Comptroller required replenishment of the fund to $480 before it could be dissolved. Final dissolution of the fund was approved by the Comptroller's Office on April 22, 2003.
- **Two locally held funds**
  The locally held funds subject to this finding resulted from funds unclaimed following the receivership of a failed State bank. Receivers appointed by the commissioner no longer forward unclaimed funds directly to the Agency, but forward them directly to the State treasurer's Unclaimed Property Division, thereby precluding a similar situation from occurring again.

The Agency has developed procedures to more accurately identify, track and monitor petty cash and locally held funds and to report on those funds to the Comptroller's Office accordingly. This process will allow the Agency to achieve the greatest return on our investments.

Updated Response: The petty cash fund was dissolved by the Comptroller's Office on April 22, 2003. The two locally held funds were transferred to the Unclaimed Property Division of the Treasurer's Office.

12. Ensure compliance with the provisions of the Residential Mortgage License Act of 1987. (Repeated-2002)

Findings: The Agency was not in compliance with provisions of the Act. Residential Mortgage Board members were not appointed by the Commissioner in accordance with the Act.

Accepted or Implemented – continued

Additionally, twenty-five licensees were selected from a universe of 2,001 licensees. Fourteen of the 15 tested did not submit an annual report within 90 days of their fiscal year end, and the Commissioner did not cause an audit of the licensee to be made. Agency personnel stated that the examination staff reviews the reports as they come in, but the Licensing Section must input the reports. There are a large volume of statements to input between March and April.

Finally, the Agency obtained the Report of Default and Foreclosure only once a year during FY03 and FY04 instead of semi-annually as required.

Response: Accepted and will implement the following procedures:

- Request the hiring of additional staffing resources to perform licensing, examination, supervision, investigation, legal, switchboard, and other clerical functions.
- Provide three-to-four month advance notification to the Director, the names of Board members with expiring terms.
- Establish procedures to increase frequency of communication with all Residential Mortgage Board members who have outstanding conflict of interest statements. Board members will be notified two to three months in advance to file Conflict of Interest and business transaction statements.
- Mortgage Banking regulation will seek the assistance of the Agency's State Purchasing Officer to establish a bid process for selecting licensed certified public accountants to audit licensees that have not submitted financial statements within 90 days of their fiscal year-end.
- Mortgage Banking Regulations will review its current processes to conduct semi-annual default and foreclosure examinations.

Updated Response: The agency has hired additional staff to assist with regulation of the Mortgage Banking profession. IDFPR is also working with the Governor's Office to fill vacancies on the Residential Mortgage Board.

13. Comply with the State Officers' and Employees' Money Disposition Act by making timely deposits and documenting the dates that receipts are received.

Findings: The Agency did not timely deposit receipts or document the date of receipts. The auditors noted 19 of 50 receipts tested, totaling $80,929 were deposited approximately two to 69 days late. In addition, the exact date of receipt could not be determined for six receipts totaling $15,300 because the Agency did not maintain documentation of the date received.

<u>Response:</u> Accepted. The response to the finding has three components:

- Due to the consolidation, the Agency plans to centralize the receipt processing function into the existing Cash Unit. The Agency believes centralization of this process will provide stricter oversight to the total receipt processing function.
- Fine receipt processing will be reviewed to determine the most effective method of levy and collection.
- The Agency is implementing ACH processing for a number of license fees, thereby eliminating manual check processing.

<u>Updated Response:</u> The Agency is in the process of consolidating legacy receipt processing functions into a centralized Cash Unit. Centralization of this process will provide stricter oversight to the total receipt processing function. Expansion of electronic payment capabilities is under review and the agency has also sought the approval of a deposit extension waiver with the Illinois Comptroller's Office and the Treasurer's Office.

14. Ensure examinations are conducted within the required time frame to ensure licensees are in compliance with the Act.

<u>Findings:</u> The Agency failed to conduct examinations of the affairs of residential mortgage licensees. The auditors noted that examinations had not been conducted as required for 203 of 515 licensees reviewed.

<u>Response:</u> Accepted. Mortgage Banking regulation lacks sufficient examination resources to fully comply with the mandated examination frequency schedule. Currently, Mortgage Banking Regulation has six examiners to conduct 1-30 day licensing examinations of 2,000+ broker/banker licensees. Further, special examination must be performed and are excluded from the regular examination frequency count. Moreover, the Administrative Rule of the Residential Mortgage License Act requires all licensees be examined at least once over a 3-year period. During 2003, Mortgage Banking Regulation entered into a reciprocal agreement with New York regulators to mitigate some of the examination staffing issues. Mortgage Banking Regulation will continue to seek other avenue/resources to improve compliance efforts as it pertains to the examination frequency schedule.

<u>Updated Response:</u> The Agency recently hired two new Banking Examiners and has additional requests to fill vacancies pending action in the hiring process.

15. Implement procedures to ensure that all vouchers are approved or denied within 30 days of receipt, monitor the date of payment by the Comptroller's Office, and pay interest charges as required by the State Prompt Payment Act.

<u>Findings:</u> The Agency did not have adequate controls to ensure vouchers were approved or denied within 30 days and required interest is paid. The auditors noted the following:

Accepted or Implemented – concluded

- Twenty-three of 314 vouchers tested were not approved within 30 days of receipt. The vouchers were approved from three to 81 days late.
- The Agency does not have procedures to pay interest accrued on vouchers not paid within 60 days of receipt. The Agency did not pay vendors interest charges totaling $306 for two out of 314 vouchers tested.

Response: Accepted with the addition of the following comments:

- The Agency follows Comptroller guidelines outlined in the statute 30 ILCS 540 and 74 Illinois Administrative Code Section 900 regarding prompt payment.
- The Agency was unable to meet 30-day approval timeframe on voucher processing due to various problems such as timely receipt of support documentation on invoices and Comptroller requests for additional processing requirements.
- The Agency will reinforce the policy concerning the promptness of submitting proper billings and documentation of future vendor payments.

Updated Response: As part of the DFPR consolidation, bill payment functions have been consolidated into a central vouchering unit. This has resulted in an improvement in meeting the 30-day approval timeframes. In addition, the Agency is currently developing procedures regarding the timeliness of bill certifications within Agency divisions. The Agency also now receives a monthly report from the accounting system that identifies vendor payments that are eligible for interest under the Prompt Payment Act.

16. Submit a letter to the Governor's Office to request that the vacancies are filled.

Findings: Nine of 16 positions on the State Banking Board were vacant. These members are appointed by the Governor with the advice and consent of the Senate.

Response: Accepted. The Agency has been in contact with the Governor's Office to advise them of the need for appointments to the Banking Board.

Updated Response: DFPR has been in contact with the Governor's Office and is working with them to identify candidates for appointment as soon as possible.

Emergency Purchases

The Illinois Purchasing Act (30 ILCS 505/1) states, "The principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts..." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies "involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records. The Chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make ‘quick purchases’, including but not limited to items available at a discount for a limited period of time.”

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption. During FY03 and FY04, the Office of Banks and Real Estate did not file any affidavits for emergency purchases.

Headquarters Designations

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State office is required to file reports of all its officers and employees for whom official headquarters have been designated at any location other than that at which official duties require them to spend the largest part of their working time.

The Office of Banks and Real Estate report filed July 14, 2004 indicates that the Office of Banks and Real Estate had 111 employees assigned to locations other than that at which official duties required them to spend the largest part of their working time.