LEGISLATIVE AUDIT COMMISSION

Review of
Department of Central Management Services
Two Years Ended June 30, 2015

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REVIEW: 4466
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
TWO YEARS ENDED JUNE 30, 2015

FINDINGS/RECOMMENDATIONS - 9
ACCEPTED - 5
IMPLEMENTED - 4

REPEATED RECOMMENDATIONS - 6
PRIOR AUDIT FINDINGSS/RECOMMENDATIONS - 18

This review summarizes the auditors' reports on the Department of Central Management Services filed with the Legislative Audit Commission April 21, 2016. The auditors conducted a compliance examination for the two years ended June 30, 2015 and a financial audit for the year ended June 30, 2015 in accordance with *Government Auditing Standards* and State law, and stated that the financial statements of the Department are fairly presented.

The Department of Central Management Services (CMS) provides a wide variety of centralized services to other State and local government agencies. CMS is organized into nine major bureaus: Agency Services, Administrative Operations, Communication and Computer Services, Personnel, Benefits, Property Management, Information Services, Business Enterprise Program, and Strategic Sourcing. The different areas of administrative management include the Director's Office, Legal Services, Governmental Affairs, Internal Audit, Office of Finance and Management, and the Vendor Payment Program.

The current organizational structure 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 Enterprise Program for Minorities, Females and Persons with Disabilities.

Malcolm Weems was Director from July 1, 2011 through October 4, 2013. Following his resignation, several Acting Directors (Simone McNeil, Ngozi Okorafor, and Tom Tyrrell) were appointed until Tom Tyrrell was appointed Director on April 30, 2015. Director Tyrrell left this position on January 15, 2016 and was replaced by Acting Director Michael Hoffman. Director Hoffman most recently worked as the Chief Operating Officer of the Illinois Department of Commerce and Economic Opportunity. He retired as a major in the Marines after serving 15 years.

Appendix A details some of the service efforts and accomplishments of the Department during the audit period in the various areas managed by CMS such as benefits, communications, labor relations, personnel, and workers' compensation. The average number of full-time equivalent employees appears on the next page.

Bureau	FY15	FY14	FY13
Agency Services	179	181	-
Administrative Operations	103	112	103
Communication and Computer Services	509	514	533
Personnel	97	95	98
Benefits	75	73	98
Property Management	268	274	303
Information Services	38	42	66
Business Enterprise Program	13	10	12
Strategic Sourcing	26	28	181
TOTAL	**1,308**	**1,329**	**1,394**

Expenditures From Appropriations

The General Assembly appropriated $5,755,195,572 to the Department for the year ended June 30, 2015. Appendix B summarizes these appropriations and expenditures by fund for the period under review. Ordinary and contingent expenditures and all other expenditures are described by reporting program in Appendix B.

Total expenditures of the Department were $4,914,384,835 in FY15 compared to $5,007,509,914 in FY14, a decrease of $93.2 million, due primarily to the Department receiving a supplemental appropriation in FY14 to facilitate payment of Department of Corrections invoices owed to the Department's revolving fund, for healthcare claims, for property management, and various other items. Expenditures in FY15 decreased over expenditures in FY14 from the following funds:

- $10.4 million in the State Garage Revolving Fund due to increased procurement of vehicles from various vendors to increase the vehicle fleet in FY14; and
- $23 million in the Communications Revolving Fund due to additional costs paid in FY14 for the conclusion of the ARRA project in the broadband project.
- $171.1 million in the Health Insurance Reserve Fund due to a decrease in paid health care coverage claims.

Lapse period spending in FY15 was 7.7%, or $380.7 million.

Cash Receipts

Appearing in Appendix C is a summary of all cash receipts of the Department for FY15 and FY14. Total cash receipts decreased $228 million from $4.09 billion in FY14 to $3.86 billion in FY15. Some of the changes were explained in the audit report as follows:

- $50.5 million decrease in the Teachers Health Insurance Security Fund due to decreased receipts in insurance premiums and the Medicare enrollment demographic shift from self-insured carriers to the (fully insured) Medicare Advantage carriers resulting in less Medicare D revenues.

- $124.3 million decrease in the Health Insurance Reserve Fund as expected due to the rates previously set for the fiscal year and it was anticipated that retirees would contribute toward their premiums. Also, the Medicare enrollment demographic shift from self-insured carriers to the (fully insured) Medicare Advantage carriers resulting in less Medicare D revenues.

Other changes in receipts from FY14 to FY15 are:

- $30.2 million decrease in the Communications Revolving Fund due to FY14 being the last year of the Federal Stimulus Package grant.
- $26.1 million decrease in the Statistical Services Revolving Fund due to fewer receipts from user agencies.
- $21 million decrease in the Facilities Management Revolving Fund due to less rental income.
- $8.5 million decrease in the State Garage Revolving Fund due to fewer receipts from user agencies.

Property and Equipment

Appendix D provides a summary of property and equipment for FY15 and FY14. The balance as of the end of FY15 for property and equipment was $926,488,000 compared to $917,757,000 in FY14. In FY15, the majority of property and equipment was comprised of buildings and building improvements ($636.3 million) and equipment ($191.4 million).

Accounts Receivable

According to the Department, net accounts receivable was almost $73.5 million as of June 30, 2015. The largest receivables were $31.7 million for the Health Insurance Reserve Fund; $21.5 million from the Teachers Health Insurance Security Fund; and $14.2 million from the Group Insurance Fund.

Follow-up on Management and Performance Audits

The following descriptions detail recommendations not yet fully implemented by the Department of Central Management Services related to Management and Performance Audits released on programs managed by the Department.

- 2006 Business Enterprise Program—two recommendations (certification and site visits) remain partially implemented.
- 2008 Joint Procurement of Bulk Rock Salt—one recommendation (bid analysis and cost savings) remains partially implemented.
- 2011 Operation of Vehicle Fleet—five recommendations (annual reporting, license plates, motor pool log, cost data, and GPS) remain partially implemented.
- 2012 State Workers' Compensation Program—one recommendation (workers' compensation) is not implemented, while six recommendations (claims reporting, claims adjudication, subrogation eligibility, data matches, adjuster caseloads, and contractor approval limits) remain partially implemented.

- 2013 Space Utilization Program—four recommendations (surplus real property, space monitoring, disposal of surplus property, and sale of surplus property) remain partially implemented.
- 2013 Management Positions in the State Executive Branch—one recommendation (4D3 exemptions) has not been implemented, while three recommendations (Rutan exemptions, personnel classification, and confidential employees in unions) remain partially implemented.
- 2014 Inmate Phone Service Procurement—three recommendations (site visits, procurement method, and pricing factors) are not implemented, while three recommendations (vendor questions, contract amendment, and contract monitoring) remain partially implemented.

Accountants' Findings and Recommendations

Condensed below are the nine findings and recommendations, six repeated, included in the audit report. The following recommendations are classified on the basis of updated information provided by Debbie Abbott, Chief Internal Auditor of the Department of Central Management Services, in a memo received via electronic mail on November 3, 2016.

Accepted or Implemented

1. Implement procedures and cross-training measures to ensure required financial information is prepared in a timely, accurate and complete manner, including allocating sufficient staff resources and the implementation of formal procedures to ensure accurate and reliable financial information is prepared and submitted to the Office of the State Comptroller. Procedures should address all elements of the financial reporting process including, but not limited to, accruals for liabilities and receivables, maintenance of capital asset and inventory records, supervisory review of supporting spreadsheets for data accumulation, and the preparation of management estimates. Finally, establish and document the process for preparing accounting estimates significant to the financial statements.

Finding: The Department of Central Management Services' (Department) year-end financial reporting in accordance with generally accepted accounting principles (GAAP) to the Illinois Office of the State Comptroller contained significant errors in the determination of certain year-end account balances.

During the audit of the June 30, 2015 financial statements, auditors noted the following errors resulting from the Department's failure to establish adequate internal control over the accumulation of information necessary for the proper reporting of financial information as follows:

- The Department overstated the liability for workers' compensation claims by $17.758 million due to the improper addition of claims held at June 30, 2015 to the actuarially determined liability. The Department revised the applicable financial statements for this error.

- The Department overstated accounts payable in the Health Insurance Reserve Fund (0907) by $16.964 million due to the improper duplication of held warrants in the accounts payable balance. The Department revised the applicable financial statements for these errors.
- The Department failed to record a liability for health insurance claims which were incurred but not adjudicated at June 30, 2015 in the Teacher Health Insurance Security Fund (0203). This error resulted in the understatement of liabilities and expenses by $15.641 million. The Department revised the applicable financial statements for this error.
- The Department overstated receivables by $7.947 million due to the failure to establish a reasonable estimation methodology for certain rebate receivables at June 30, 2015. The Department receives formulary rebates from its pharmacy benefit vendor. Following the end of each contract year, the vendor calculates the actual rebates earned by the State for utilization by its members and determines the amount due to the State. It has been the Department's practice to record current year receivables at the amount of the formulary rebate payment received for the prior year. Specifically, the rebate receivables of $28.890 million at June 30, 2015 were the amount of the formulary rebate payment related to FY14 activity received in FY15. The Department failed to consider any changes in relevant factors between FY14 and FY15 in estimating the rebates to be received for FY15. Rebate reports received from the vendor on December 30, 2015 showed the actual rebate payment to be $20.943 million.
- The Department overstated the amount of disbursements from the State Employees Deferred Compensation Plan Fund (0755) for June 2015 by $5.916 million due to a spreadsheet input error.
- The Department overstated capital assets due to improper adjustments to Common Inventory System (CIS) records in determining balances for GAAP reporting. Improper adjustments were primarily the addition of vouchers to CIS balances which were already accounted for in CIS. These errors resulted in a $5.239 million overstatement of capital assets.
- The Department overstated due from component units by $4.476 million as a result of errors in estimating reimbursement payments to be received after June 30, 2015.
- The Department failed to consider proper accounts payable cutoff during the GAAP reporting process. The Department recorded all lapse period expenditures as accounts payable at June 30, 2015 without consideration of when goods were received or services rendered. After inquiry by the auditors, the Department prepared and provided an analysis showing accounts payable were likely overstated by $920,000. The auditors identified errors in this analysis and the Department provided a revised analysis showing a likely overstatement of $2.134 million. Auditors identified additional transactions totaling $558,000 which were improperly recorded as payables resulting in a total likely overstatement of $2.692 million.
- The Department overstated inventory by $1.290 million as a result of an adjustment to record liabilities for lapse period expenditures. The adjustment was made by fiscal staff improperly increasing the balance of inventory reported by Bureau of Agency Services staff.

Accepted or Implemented – continued

- The Department overstated unearned revenues related to fiber optic leases by $1.265 million. These errors were primarily due to the inclusion of duplicate billings in the Department's calculation of unearned revenues. Errors were also caused by incorrect deferral time periods.

The Department stated these weaknesses were primarily due to lack of key personnel. In addition, financial reporting for the Department is currently handled by a different agency (Shared Services) which contributed to the disconnect of the sharing and correct interpretation of financial information. The Department further stated that a reasonable estimation methodology for rebate receivables could not be established as the information required would not be provided by the vendor until late December.

<u>**Updated Response:**</u> Implemented. The Department concurs. CMS filled 2 vacant positions responsible for financial reporting. An Intergovernmental Agreement was signed with Dept. of Revenue and financial reporting staff was moved over to the Stratton Building. Additionally, the Department has been working toward more comprehensive cross-training and communication among financial reporting staff at CMS. In regards to the overstatement of the rebate receivable, the Department remedied the situation through a new contract requirement for the vendor to provide the necessary information within 60 days. Finally, an overhaul continues of CMS's financial reporting procedures to ensure accurate and reliable financial information is prepared and submitted to the Office of the Comptroller.

2. **Ensure complete, accurate and detailed records are available to substantiate the midrange environment. In addition:**
    - **Develop and implement minimum security standards for the midrange environment.**
    - **Ensure all administrative accounts meet password and security standards.**
    - **Standardize password length and content requirements and ensure all user accounts require a password.**
    - **Update servers to current vendor recommended patch or service pack levels.**
    - **Ensure all servers are running antivirus software.**
    - **Ensure all servers are routinely backed up. (Repeated-2007)**

<u>**Finding:**</u> The Department had not implemented adequate security and controls over the midrange environment.

In order to conduct audit work of the midrange environment, the auditors requested a listing of all servers being utilized by the various agencies. The Department provided the auditors three different listings, ranging from approximately 2,100 to 4,800 servers. In addition, the listings lacked detailed information. Due to the lack of complete, detailed and accurate information the auditor's ability to identify and target high risk servers for detailed testing was inhibited.

Although the auditors were unable to ascertain a complete and accurate listing of servers, they reviewed the information provided, noting servers:

- With powerful administrator accounts which did not require passwords,
- Running unsupported operating systems or service pack versions,
- Without anti-virus software,
- Not properly backed up, and
- With deficient password length, change interval, and content requirements.

Although the Department shares responsibility with consolidated agencies, CMS has the ultimate responsibility to effectively secure and control its midrange environment which supports agency applications and data.

The Department stated that these weaknesses exist as a result of legacy environments that were inherited during the consolidation process. Business requirements and configurations of various agency environments prevented adherence to Department policies and standards. Due to required business transactions with external partners, Department password standards could not be enforced. Legacy applications that required end-of-life operating systems could not all be upgraded to current vendor supported versions, and due to these end-of-life operating systems, antivirus was no longer supported for these systems, and current updates were unavailable. Additionally, administrative rights were in place on these legacy servers in order to provide necessary support. These permissions were provided not only to infrastructure personnel, but to application support people as well that remained with the Agency after the consolidation.

Updated Response: Accepted. The Department concurs. The Department has implemented numerous policies, standards, tools and procedures to help address these issues. Additionally policy and security standardization are being accomplished in several ways (1) since the creation of the Department of Innovation and Technology (DoIT), all agencies are being required to conform to state-wide policies and standards, which have been updated to include the NIST framework and presented to management for review; (2) Phase 1 of the Enterprise Resource Planning (ERP) program went live on October 1, 2016 which will help to sunset aging applications requiring special configurations and policy exceptions and help with the password and security standards; (3) a requirement to use new service offerings, like Office 365, Azure, WebEx and Jabber, are only being offered to customers in Illinois.gov domain. As of October 17, 2016, approximately 85% of the unsupported 2003 servers, identified in April 2015, were decommissioned. Server patch management procedures were updated as of Feb. 24, 2016 and affected systems are updated monthly to recommended patch levels. The Department implemented System Center Operations Manager (SCOM) in August 2016, to better monitor availability, health and performance of the State's IT infrastructure and also upgraded to System Center Configuration Manager (SCCM) to augment the IT inventory assets capability and improve patch distribution for updating servers and endpoint devices. Accounts with administrative privileges have been reviewed, and adjusted where operationally feasible; the review of user access is an ongoing effort.

Accepted or Implemented – continued

3. Implement controls and procedures to ensure additions are entered timely and accurately, documentation exists to support location changes, transfers and deletions are properly recorded, the Certification of Inventory is timely and accurately prepared, and the Agency Report of State Property is prepared in accordance with SAMS. (Repeated-2002)

Finding: The Department did not demonstrate adequate control over property and equipment during the engagement period. Specific deficiencies noted as a result of testing are described below.

Additions and Location of Equipment

During testing of the addition of equipment and the physical inventory and location of equipment, auditors noted the following exceptions:

- Nineteen of 25 (76%) equipment vouchers totaling $3,928,121 and containing 518 pieces of equipment were not timely entered into the Department's property records. The delays ranged from nine to 448 days.
- Three of 25 (12%) equipment vouchers totaling $50,050 were not entered correctly into the Department's property records. In these exceptions, the initial equipment entries included incorrect purchase dates and amounts. These vouchers included two automobiles, a security software bundle, and audiovisual equipment.
- Three of 25 (12%) equipment vouchers tested totaling $1,601,519 did not have documentation supporting a change in location. The items of equipment involved included servers, power supplies, USB adapters, and related computer hardware.

Department management stated timely entry of equipment information into the Department's property records is not always achieved due to a lack of timely paperwork submittal to the Bureau of Property Management as well as staffing issues.

Deletions and Transfers

During testing of the deletions and transfers of equipment, auditors noted the following exceptions:

Equipment Deletions

- Auditors noted four of 60 (7%) items with a total cost of $60,999, which were subsequently sold via IBID, that were not coded correctly on the "Depreciation Report of Deletions."

Equipment Transfers

- Auditors noted 14 of 60 (23%) items with a total cost of $568,160 did not have the purchase price or purchase date included on the Surplus Property Delivery Form.
- Auditors noted three of 60 items with a total cost of $90,493 with incorrect transaction codes entered.

Department management stated the Property Control Division handles approximately 50,000 items valued in excess of $278 million at 344 locations controlled by 167 property control liaisons throughout the State and property control usually takes a low priority in the many duties of the liaisons. Additionally, there is a high turnover in the liaison positions resulting in lack of staff knowledge of policy and procedures within many agencies/divisions and incorrect and untimely submission of paperwork.

Certification of Inventory

The Illinois Administrative Code requires that all agencies conduct an annual physical inventory of State equipment in their possession and provide a certification of such inventory to the Property Control Division (a unit within the Department). The Department's certification date was December 31, 2014 and the properly completed Certification of Inventory and Agency Inventory Summary was to be submitted no later than April 1, 2015. The Department requested and received a 90 day extension in March 2015 and a July 2, 2015 deadline was established. The Annual Certification for calendar year 2014 was filed on July 23, 2015, twenty-one days after the approved extension date.

In addition, auditors noted the Department omitted three of 25 equipment vouchers totaling $1,082,282 on its calendar year 2014 Certification of Inventory and Agency Inventory Summary. Those additions were comprised of 47 pieces of equipment including camera upgrades, storage equipment, and servers, power supplies and USB adapters.

Department management attributed the cause of these weaknesses to those mentioned above for the "Additions and Location of Equipment" and "Deletions and Transfers."

Preparation of the Agency Report of State Property (C-15)

The Department did not prepare the quarterly Agency Report of State Property (C-15) in the manner required by the Statewide Accounting Management System (SAMS). State property totaling $40,226,315 was not included in the Department's C-15 at June 30, 2015 due to the Department incorrectly preparing its quarterly C-15s. The assets omitted initially cost between $500 and $4,999. The assets included in the Department's C-15 were those in excess of $5,000. The assets omitted at June 30, 2014 were not quantified for the purposes of this finding; however, the practice did not begin in FY15.

Department management stated it appears there was a misunderstanding upon implementation of depreciation reporting through the Common Inventory System (CIS) in the mid-1990s. As a result, assets with a value under $5,000 were eliminated from C-15 reporting in error, which was recently discovered by the external auditors. The information is contained within CIS; however, it is not included in the C-15 reports prepared by Shared Services.

In response to the finding in the previous engagement, the Department stated it would continue to implement and improve on adequate controls and procedures to ensure property/equipment are adequately safeguarded. The Department stated it would continue to travel to each location and meet with all assigned property control liaisons to ensure the correct understanding of procedures and documents were submitted correctly and timely.

Accepted or Implemented – continued

Additionally, the Department stated it would work to develop training materials to communicate to all employees their responsibilities with regard to inventory control.

<u>Updated Response:</u> Implemented.

1. The Department concurs. We continue to implement and improve on controls & procedures to ensure property and equipment additions, deletions, and transfers are properly and timely recorded. Training has been provided, as needed, on required documentation for property transactions; returning incomplete or incorrect documents to their originator for correction; and the Property Control Officer continues to review information entered into the Common Inventory System (CIS) for accuracy to minimize errors.
2. Dually date stamping transaction documents continues, upon receipt and when processed, to help identify and correct delays. We continue to monitor the flow of paperwork to ensure timely entry as the amount of transactions increases.
3. While working with each bureau we have visited 95% of 345 property locations, and met with all assigned property control liaisons to ensure the correct understanding of procedures, duties, and responsibilities; and that documents are submitted correctly and timely. We anticipate having visited 100% of locations by the end of November 2016.
4. The Agency Report(s) of State Property (C-15) were corrected to comply with SAMS property reporting requirements. The additional reports for this compliance are being generated through CIS.
5. The Department updated property control procedures in October 2016 and sent a notification of same to all employees to communicate their responsibilities with regards to inventory control. Additionally, we are following up with all property control liaisons and sending them the procedures directly.

4. Reinforce procedures to all Bureaus to ensure the timely completion of performance evaluations in accordance with internal personnel policy. (Repeated-2013)

<u>Finding:</u> The Department failed to conduct employee evaluations on a timely basis.

During review of 60 employee performance evaluations, auditors noted that 25 evaluations (42%) were not conducted in accordance with Department policies. The evaluations were performed two to 526 days after the annual due date for the evaluation.

In response to this finding from the previous engagement, the Department stated it had instituted a tracking and notification process for evaluations. The Department indicated it would communicate to all Bureaus, stressing the importance of timely completion of performance evaluations and continue to track and monitor progress towards improvement. Department management stated the primary reason for this deficiency is during the past administration there was a lack of enforcement from management to the various Bureaus to ensure compliance with the timely completion of evaluations.

<u>Updated Response:</u> Accepted. The Department concurs. The Department continues to monitor the evaluation process and improve compliance with the personnel policies relating to the annual evaluations; as of September 30, 2016, 87% of evaluations due for 545 CMS and DoIT employees had been completed. CMS had completed 89% due and DoIT had a 72% completion rate. On a monthly basis supervisors are notified of both upcoming evaluations due and past due evaluations. If an evaluation is overdue by two or more months the Bureau liaison is notified of the delinquency with a request from Personnel to ensure compliance. If delinquency continues, the Deputy Director is notified accordingly.

5. Ensure all interagency agreements are approved by an authorized signer prior to the effective date of the agreement and executed prior to the commencement of services. (Repeated-2006)

<u>Finding:</u> The Department's process to monitor interagency agreements was inadequate.

During testing of the Department's interagency agreements, auditors noted eight of 25 (32%) were not signed by all necessary parties before the effective date. These agreements were signed between one and 79 days late.

Related to the exceptions noted during the current engagement period, Department management stated circumstances do not always allow each agreement to be fully executed before it becomes effective.

The Department entered into 191 agreements with other State agencies during the engagement period.

<u>Updated Response:</u> Accepted. The Department concurs. CMS's legal department has a dedicated position responsible for maintaining a central file for IGAs and working with responsible agency attorneys to ensure that IGAs are properly approved prior to the effective or execution dates of such agreements. Of 75 IGAs CMS entered into during FY16, 83% were approved prior to the effective date. Further, all CMS attorneys have been made aware that any IGAs entered into by their respective bureaus should be routed to appropriate legal department personnel as this will help the agency's efforts to identify expiring IGAs that need to be renewed, thus assisting our efforts to have such agreements executed prior to the effective date.

As noted in prior responses, circumstances do not always allow each agreement to be fully executed before it becomes effective; in FY16, 80% of all 75 IGAs were executed prior to the effective date of the IGA. CMS will continue to take every possible precaution to ensure that the material terms of each agreement are final and agreed upon, and will strive to ensure that each agreement is fully signed, in advance of the effective date and prior to the commencement of services.

Accepted or Implemented – continued

6. Develop and implement procedures to routinely track, control, and monitor end-user software use. In addition, reconcile the software inventory system to vendor software inventory at least annually. (Repeated-2007)

Finding: The Department did not have procedures in place to track, control, and monitor end-user software use.

During the examination period, the Department had not developed procedures for the monitoring and tracking of software licenses. In addition, the Department had not reconciled their software inventory system with purchased vendor software inventory.

Department officials stated that due to staff shortages, procedures for monitoring and tracking software licenses were not reduced to writing.

Updated Response: Accepted. The Department concurs. DoIT has continued to support and gather data using SCCM to ensure that software inventory is performed in a timely manner. The SCCM client has been installed on each workstation; the client collects and reports back information, some of which relates to installed software. An upgrade to SCCM 1602 has been initiated to further enhance the benefits gained by its use. The Department continues to restrict software installation by users, develop procedures for monitoring end-user software and reconcile software inventory to control distribution.

7. Implement adequate controls over all aspects of State property. Ensure computer equipment is timely wiped of data. In addition, enforce contract terms and ensure written certifications are completed and retained as required by statute.

Implement a process to review the condition of equipment prior to being sent to the recycling vendor. All usable equipment should be obtained by the Department, offered to other State agencies or local units or sold, with the proceeds being deposited into the applicable fund.

Ensure agencies receive the signed and verified CMS Surplus Property Delivery Form within 30 days to properly document equipment record changes as outlined in the Department's Property Control Rules. (Repeated-2013)

Finding: The Department had not established adequate controls over the surplus of electronic equipment inventory.

During review of surplus electronic inventory:

- Auditors inquired with the Department regarding their process for ensuring the wiping of data drives. The Department stated they did not wipe the hard drives of the laptops or PCs. Instead they relied on the recycling vendors to wipe the drives; however, the required written certification was not requested or obtained from the vendor. Although contracts with the recycling vendors included requirements for the wiping certification, the provision was not enforced by the Department.

- Surplus electronic equipment was not offered to State agencies or to municipalities and units of local government, rather equipment was shipped directly to recycling vendors. According The Department's Property Control Rules stated that surplus electronic equipment was to be offered to any State agency, prior to being offered for sale. Where items could not be transferred to another State agency, the Department was to offer the equipment first to municipalities, units of local government and certain organizations and then to the general public.
- The Department's Property Control Rules required agencies to adjust their property records within 30 days of acquisition, change or deletion of equipment items. However, the Department or vendor did not routinely provide certification of receipt of equipment within the 30 day timeline. As a result, the Department and other agencies were not able to adjust property records within the timeline.

Department management stated a lack of resources contributed to the issues identified. Additionally, non-consolidated agencies at times send their property directly to the recycling vendor, in which case, the process that determines whether the computer should be redeployed or recycled does not occur.

Updated Response: Implemented. The Department concurs. However, CMS is responsible for electronic equipment for consolidated agencies.

- We updated the CMS State Surplus Electronic Recycling Policy & Procedure, effective July 1, 2016. Hard drives are destroyed by the vendor; since FY15 we have required the certification of destruction be provided to the Department. The certifications are available to agencies once the equipment has been processed.
- For consolidated agencies, the DoIT End User group determines whether electronic equipment is to be redeployed or recycled. Most recycled equipment goes directly to the recycling vendor under a State use contract. Surplus equipment is maintained in the warehouse for 30 days prior to being put onto iBid, the CMS website for selling State surplus property. During the 30 days at the warehouse, the equipment is available to municipalities and other units of local government. We will continue to work on improving this process as resources permit.

Surplus electronic equipment received at the warehouse to be processed by recycling vendors typically waits in queue several months before the electronics can be sent and certified as destroyed. As a result, certification of receipt by recyclers may not be received by the Department within the 30 day timeframe. Surplus property has adjusted procedures to account for this discrepancy. Additionally, the Department's legal division is finalizing a request to change 5010.400 of the JCAR rules to exempt EDP equipment from the 30 day time period currently required for all property.

8. Assign resources to ensure security policies are appropriately monitored and any noncompliance is timely rectified. In addition, comply with the Policy and establish a formal risk assessment program in order to identify potential threats, the associated risk, and develop appropriate controls to reduce or eliminate the risk.

Accepted or Implemented – concluded

Finding: The Department did not monitor or enforce compliance with security policies.

The Department had implemented several security policies which addressed an array of physical and logical security requirements in which the Department's staff were to comply with. According to the policies, Statewide agency security personnel, or their designee, were responsible for monitoring, auditing, tracking, and validating compliance with policies and procedures and conducting investigations into violations of law, policies, or procedures. For example, the Department had not performed risk assessments as outlined in the IT Risk Assessment Policy (Policy), effective March 1, 2012.

According to Department management, the Department's Compliance Officer was responsible for monitoring and ensuring compliance with policies; however, these tasks had not been conducted.

Department management stated progress in the areas of compliance and risk management have been hampered over the past few years by staff shortages and financial constraints, which have weakened monitoring and assessment capabilities for the Department and agencies. With the implementation of IT Transformation and the creation of the Department of Innovation and Technology (DoIT) agency, there is a plan to provide proper resources to ensure security policies are monitored for compliance and a risk assessment framework is put in place.

Updated Response: Accepted. The Department concurs. In April 2016 DoIT's Security and Compliance Division hired an additional staff person who is currently reviewing logical and physical access for compliance with policies and provides corrective action support to remediate identified non-compliance. The State engaged a vendor to assist in developing the State Risk Management Program and develop guidance for agencies and clusters participating in the program. Additionally, in September 2016 the State received the draft risk assessment framework and assessment template. All mentioned documents are currently being finalized.

9. **Assess each program accepting credit card payments, the methods in which payments can be made, and match these methods to the appropriate Self-Assessment Questionnaire (SAQ) at least annually. Complete the appropriate SAQ(s) for the environment and submit documentation supporting validation efforts to the Treasurer's Office and the E-Pay program vendor. Maintain contact with the Treasurer's Office to ensure sufficient knowledge and awareness of PCI Compliance status, issues, and guidance surrounding the E-Pay program.**

Finding: The Department had not completed all requirements to demonstrate full compliance with the Payment Card Industry Data Security Standards (PCI DSS).

The Department's Bureau of Benefits and Bureau of Agency Services accepted credit card payments for I-Bid Property and Vehicle Sales, Vehicle Auctions, State and Federal surplus and for insurance premiums from members on leave, respectively. In FY14 and FY15, the

Department handled approximately 7,604 transactions totaling $3,569,102 and 17,512 transactions totaling $4,135,513, respectively.

Upon review of the Department's efforts to ensure compliance with PCI DSS, auditors noted they had not:

- Formally assessed each program accepting credit card payments, the methods in which payments could be made, matched these methods to the appropriate Self-Assessment Questionnaire (SAQ), and contacted service providers and obtained relevant information and guidance as deemed appropriate.
- Completed a SAQ addressing all elements of its environment utilized to store, process, and transmit cardholder data.
- Submitted compliance documentation to the Treasurer's E-Pay program vendor.

Department management stated this occurred due to staff turnover and lack of a thorough understanding of the PCI process.

The Department's Bureau of Benefits (BOB) management stated BOB's FY14 SAQ was completed by a previous Deputy Director although current BOB staff was unable to locate documentation that it was filed with the Treasurer or vendor. The FY15 SAQ was completed and filed with the Treasurer's E-Pay program vendor; however, an older version of the SAQ was used which did not cover the current environment and lacked a signature and date page. The Department's Bureau of Agency Services management states that Surplus Property staff had requested the SAQs from the vendor and had not received them yet.

Updated Response: Implemented. The Department concurs. In January 2016, Bureau of Benefits completed and submitted the proper SAQ form and the attestation of compliance to the PCI vendor. The confirmation of receipt received from the vendor was forwarded on February 8th to both the Treasurer's Office and BCCS to complete the process. This corrective action will remedy this finding for annual submittals.

In FY16, Bureau of Agency Services completed the following to comply with these recommendations: Assessed each program accepting credit card payments, and determined the appropriate SAQ to complete; completed the appropriate SAQs and submitted the documentation supporting its validation efforts to the Treasurer's Office and E-Pay program vendor. Further, the Division communicated with the Treasurer's Office to ensure sufficient knowledge and awareness of PCI Compliance status, etc.

Emergency Purchases

The Illinois Procurement Code (30 ILCS 500/) states, "It is declared to be the policy of the State that the principles 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 when there exists a threat to public health or public safety, or when immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage to State Property, to prevent or minimize serious disruption in critical State services that affect health, safety, or collection of substantial State revenues, or to ensure the integrity of State records; provided, however that the term of the emergency purchase shall not exceed 90 days. A contract may be extended beyond 90 days if the chief procurement officer determines additional time is necessary and that the contract scope and duration are limited to the emergency. Prior to the execution of the extension, the chief procurement officer must hold a public hearing and provide written justification for all emergency contracts. Members of the public may present testimony.

Notice of all emergency procurement shall be provided to the Procurement Policy Board and published in the online electronic Bulletin no later than three business days after the contract is awarded. Notice of intent to extend an emergency contract shall be provided to the Procurement Policy Board and published in the online electronic Bulletin at least 14 days before the public hearing.

A chief procurement officer making such emergency purchases is required to file an affidavit with the Procurement Policy Board and the Auditor General. The affidavit is to set forth the circumstance requiring the emergency purchase. The Legislative Audit 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.

The Department spent $3.9 million on emergency purchases in FY14 and FY15.

In FY14, the Department spent $2,213,469 for 14 emergency purchases as follows:

- $ 874,162 for office space;
- $ 339,161 for Navistar OEM vehicle parts;
- $ 306,132 for Statewide radio services;
- $ 305,000 for tower maintenance;
- $ 124,513 for janitorial services;
- $ 110,500 for insurance coverage;
- $ 84,700 for waste hauling services; and
- $ 69,300 for recycling;

In FY15, the Department spent $1,683,668 for 15 emergency purchases as follows:

- $ 710,098 for building repairs and maintenance;
- $ 454,206 for office space;
- $ 267,878 for coal;
- $ 245,000 for truck fleet overflow; and
- $ 6,486 for janitorial services;

Headquarters Designations

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

Central Management Services indicated as of July 15, 2015 the Department had 51 employees assigned to locations other than official headquarters.

APPENDIX A

Service Efforts and Accomplishments

	FY15	FY14
Benefits		
Total Lives Covered - Group Health	362,696	361,861
Active Employees	103,085	103,077
Retired Employees	88,423	88,300
Dependents of Active Participants	131,869	131,517
Dependents of Retired Participants	39,319	38,967
Total Lives Covered - Life Insurance	300,910	295,220
Business Enterprise Program		
BEP Applications received	2,137	2,200
Newly certified vendors	248	226
Certified Business Enterprise Program Vendors	1,799	1,712
Communications and Broadband Services		
Leased Phone Lines managed	54,415	55,376
Phones converted to Voice Over Internet Protocol (VOIP) technology	3,464	3,296
Non-Smartphones wireless devices managed	12,535	13,291
Smartphone devices managed	4,540	4,531
Illinois' Century Network (ICN) anchor institutions	5,246	6,026
Deferred Compensation		
Output Indicators		
Investment options offered	16	18
Total program participants	52,415	51,459
Outcome Indicators		
Participant dollars deferred	$ 166,938,000	$ 163,400,000
Average annual contribution by actively contributing employees	$ 5,251	$ 5,454
Average annual administrative cost per participant	$ 25.24	$ 22.49
Facilities Management		
State facilities (owned and leased)	9,083	9,083
Square feet of State space (owned and leased)	128,352,789	122,448,129
Facilities under CMS management	689	610
Square feet managed by CMS	15,005,453	13,007,965
Leases under CMS management	359	393
Surplus real properties managed by CMS	17	10
Capital spending on CMS managed state-owned facilities	$ 3,442,500	$ 1,453,400
Information Technology		
State employee users supported	40,865	40,875
E-mail users supported	43,500	44,240
Help Desk calls answered	154,608	196,366

Appendix A - continued

	FY15	FY14
Labor Relations and Legal Services		
Union agreements managed	32	34
Code covered bargaining unit employees represented	42,315	41,122
Grievances processed	1,072	1,075
Disciplinary actions processed including discharges, and suspensions over 30 days	460	443
Personnel		
Code covered state employees	45,189	44,085
Job applications received	188,308	244,819
Veterans counseled on employment opportunities	305	335
Rutan reviews of positions processed	1,853	1,595
Employees enrolled in Upward Mobility Program	4,033	2,204
Strategic Sourcing		
Facilities Procurement Business Cases (PBC)	416	463
Number of statewide Master contracts	468	519
Disabled persons employed under State Use contracts	2,656	2,446
Vehicles and Surplus Property		
Total vehicles managed by CMS	12,400	12,290
Electric vehicles	55	56
Gallons of fuel purchased (all blends)	524,732	631,254
Fleet Consumption - Biodiesel (gallons)	2,175,800	2,214,200
Fleet Consumption - E85 (gallons)	127,700	150,832
Percentage of obsolete vehicles (8+ year sold and/or 150,000+ miles) in the state fleet	44%	46%
Item Sold via-I-Bid	7,058	3,220
Workers' Compensation and Risk Management		
New Workers' Compensation (WC) injuries	5,269	5,660
Open workers' compensation claims (per statute)	20,150	25,594
Active workers' compensation claims (per 3rd party Administrator)	5,282	4,556
WC claimants returned to work at modified duty	540	316
WC claims denied/non-compensable claims (percent)	16%	17%

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CENTRAL MANAGEMENT SERVICES
TWO YEARS ENDED JUNE 30, 2015

APPENDIX B

Summary of Expenditures by Fund and Reporting Program

	Expenditures	
	FY15	**FY14**
Total Appropriation	**5,755,195,572**	**5,604,017,181**
By Fund		
General Revenue Fund	$ 1,607,781,374	$ 1,512,934,890
Road Fund	123,372,000	120,773,000
Capital Development Fund	4,481,693	5,509,609
State Garage Revolving Fund	49,774,676	60,215,289
Statistical Services Revolving Fund	141,705,443	143,792,807
Communications Revolving Fund	98,868,821	121,924,964
Facilities Management Revolving Fund	186,698,957	181,962,323
Professional Services Fund	10,022,381	9,683,691
Workers' Compensation Revolving Fund	140,858,932	131,421,882
Group Insurance Premium Fund	90,423,948	87,857,164
State Employees' Deferred Compensation Plan	1,231,598	1,157,196
State Surplus Property Revolving Fund	3,962,262	3,896,643
Health Insurance Reserve Fund	2,455,202,750	2,626,380,456
Total Fund Expenditures	**4,914,384,835**	**5,007,509,914**
By Reporting Program		
Benefits	4,237,985,300	4,284,407,200
Facilities Management	210,192,800	217,099,700
Information Technology	144,910,300	145,963,100
Workers' Compensation and Risk Management	143,410,200	133,576,600
Communications and Broadband Services	101,806,900	125,933,000
Vehicles and Surplus Property	53,782,800	64,162,800
Personnel	9,565,100	8,793,600
Labor Relations and Legal Services	8,075,600	8,069,700
Strategic Sourcing	2,249,400	2,365,600
Deferred Compensation	1,232,600	1,158,100
Business Enterprise Program	1,173,800	980,500
Non-Reporting Programs	-	15,000,000
Total Program Expenditures	**$ 4,914,384,800**	**$ 5,007,509,900**

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CENTRAL MANAGEMENT SERVICES
TWO YEARS ENDED JUNE 30, 2014

APPENDIX C

Cash Receipts

		FY15		FY14
General Revenue Fund				
Miscellaneous	$	-	$	1,539,550
Repay State-Upward		40,938		47,979
Other		1,523		6,895
Total cash receipts per Department	$	42,461	$	1,594,424
Local Government Health Insurance Fund				
Insurance Premiums		37,427,967	$	35,387,621
Third Party Reimbursements		795,769		444,757
Federal Medicare Part D		61,634		48,773
Total cash receipts per Department	$	38,285,370	$	35,881,151
Teachers's Health Insurance Fund				
Insurance Premiums	$	316,290,075	$	339,565,664
Third Party Reimbursements		15,445,175		18,861,243
Transfers in from other funds		84,152,500		90,430,000
Federal Medicare Part D		2,821,374		21,351,381
Total cash receipts per Department	$	418,709,124	$	470,208,288
Group Insurance Premium Fund				
Direct payments of insurance premiums by employees	$	1,420,489		1,195,136
Optional life deductions		54,929,597		53,847,426
Carrier refunds		11,863,196		4,926,742
Employer reimbursement for basic life coverage		11,095,571		11,559,390
Tranfers in from other funds		15,000,000		15,000,000
Total cash receipts per Department	$	94,308,853	$	86,528,694
State Employers' Deferred Compensation Plan				
Benefit receipts	$	5,366,175	$	4,289,412
Payroll deductions		167,331,377		162,974,231
Record keeping reimbursements		1,500,000		-
Other		75		2,940
Total cash receipts per Department	$	174,197,627		167,266,583
Health Insurance Reserve				
Reimbursement of insurance premiums from federal trusts, other funds and employers	$	157,649,224		218,462,963
Direct payments of insurance premiums by employees		3,396,614		3,477,958
Refunds from insurance carriers		48,933,711		40,684,297
Optional health deductions		359,464,379		363,520,625
Health facilities		230,368,759		242,110,651
Transfers in from other funds		1,773,746,200		1,802,773,000
Federal Medicare Part D		5,845,852		32,763,705
Total cash receipts per Department	$	2,579,404,739		2,703,793,199

Appendix C - continued

Other Funds	$	30,307,052		28,885,943
Flexible Spending Account		40,318,125		22,811,701
State Garage Revolving Fund		54,910,263		63,447,728
Community College Health Insurance Security		6,145,328		8,325,294
State Surplus Property Revolving		3,851,076		4,144,270
Statistical Services Revolving Fund		143,561,039		169,676,897
Communications Revolving Fund		99,258,782		129,511,834
Facilities Management Revolving Fund		178,082,664		199,016,600
State Police Vehicle Maintenance Fund		406,454		264,309
Workers' Compensation Revolving Fund		2,488,205		941,233
Total Other Funds	**$**	**559,328,988**	**$**	**627,025,809**
Grand Total - All Funds	**$**	**3,864,277,162**	**$**	**4,092,298,148**

APPENDIX D

Summary of State Property

	FY15	FY14
Beginning Balance	**$ 917,757,000**	**$ 920,521,000**
Additions	16,733,000	32,829,000
Deductions	(8,582,000)	(60,067,000)
Net Transfers	580,000	24,474,000
Ending Balance	**$ 926,488,000** *	**$ 917,757,000** *
* Represented by:		
Land & land improvements	38,894,000	38,894,000
Building & building improvements	636,388,000	634,900,000
Site Improvements	3,889,000	3,889,000
Equipment	191,420,000	185,473,000
Leases	49,829,000	49,436,000
Construction in progress	1,213,000	350,000
Other	4,855,000	4,815,000
Total	**$ 926,488,000**	**$ 917,757,000**