LEGISLATIVE AUDIT COMMISSION

Review of
Governor's Office of Management and Budget
Two Years Ended June 30, 2009

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REVIEW: 4357
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET
TWO YEARS ENDED JUNE 30, 2009

FINDINGS/RECOMMENDATIONS - 10

ACCEPTED - 10

REPEATED RECOMMENDATIONS - 7

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 12

This review summarizes a report on the Governor's Office of Management and Budget for the two years ended June 30, 2009, filed with the Legislative Audit Commission September 16, 2010. The auditors performed a compliance examination in accordance with State law and *Government Auditing Standards*.

The statute creating the Office of Management and Budget establishes several goals and mandates, as follows:

- Provide assistance in submitting the annual budget, including estimate receipts and revenue to the General Assembly;
- Perform studies of agencies to enable the Governor to determine what changes should be made in existing organization, activities, and methods of business of such agencies so as to strengthen the State's management processes and bring about more efficient and economical conduct of State services;
- Evaluate programs proposed by State agencies in terms of goals, costs, and relative priorities, keep the Governor informed of the programs and accomplishments of activities by State agencies, and coordinate the development and implementation of State programs so that monies may be expended in the most economical manner with the least possible overlap and duplication.
- Improve intergovernmental cooperation.
- Prepare and submit an annual long-range capital expenditure plan for all State agencies.
- Provide bond indenture to COGFA no later than seven days following the sale or issuance of bonds.
- Distribute forms to all State agencies for preparation of budget estimates.

The Office is organized into several units: Debt Management; Revenue; Capital; Environment; Education; Health and Human Services; Public Safety, Economic Development and Government Services; Legal; Operations Unit; and Shared Services.

Ms. Ginger Ostro was the agency director during the audit period. Mr. David Vaught became Director in October 2009. Mr. Vaught was not previously employed by the agency.

The table below shows the average number of employees at the end of the fiscal years indicated:

	FY09	FY08	FY07
Director's Office	19	19	21
Budget Analyst	17	16	18
Debt and Capital	8	8	8
Total	**44**	**43**	**47**

Expenditures From Appropriations

The General Assembly appropriated a total of $322.9 million the General Revenue Fund and five other funds to the Office in FY09. The vast majority of appropriated funds, $304 million, is from the Build Illinois Retirement and Interest Fund. Total expenditures were $291,662,813 in FY09 compared to $308,502,162 in FY08. Almost $2.65 million was for operational expenses, while the majority of expenditures, $289 million, was used for bond expenses. Appendix A summarizes these appropriations and expenditures for the period under review.

Property and Equipment

Appendix B presents a summary of property and equipment transactions during the period under review. Property and equipment was $338,535 as of July 1, 2007 compared to $320,965 at June 30, 2009.

Accountants' Findings and Recommendations

Condensed below are the ten findings and recommendations presented in the audit report. Seven recommendations were repeated from the previous audit. Responses to the recommendations are classified based on updated information provided by David Vaught, Director, Governor's Office of Management and Budget, via email received on September 22, 2011.

Accepted or Implemented

1. **Strengthen controls to ensure contractual agreements are signed and dated prior to the beginning of services and filed with the State Comptroller's Office in a timely manner. Also, bid out contracts in accordance with the Illinois Procurement Code and publish complete and accurate information in the Illinois Procurement Bulletin. In addition, review procurement documentation policies to ensure proper documentation is retained to support contract award decisions. (Repeated-2005)**

Finding: The Governor's Office of Management and Budget (Office) did not exercise adequate controls over contractual agreements. Auditors tested 15 contracts totaling about $1,093,925 and one contract which was awarded at the rate of $295 per hour without a contract maximum specified, and noted the following:

- Auditors were unable to determine if five of 16 contracts tested, totaling $616,925, were approved prior to the performance of services under the contract. While the contracts were signed by all parties, the signature dates were absent and timeliness could not be determined.
- One of 16 contractual agreements, totaling $300,000, was not signed by all parties prior to the beginning of the contract terms. The contract's final required signature was dated 25 days after the beginning of the contract terms.
- One of 16 contractual agreements, totaling $300,000, was not signed by the chief executive officer, the chief legal counsel and the chief fiscal officer or other senior executives.
- One of 16 contractual agreements, totaling $22,000, contained conflicting terms. The contract had deliverable due dates of January 14, 2007, January 18, 2007 and January 25, 2007. However, the term of the contract was from January 9, 2008 through December 31, 2008, making it impossible for the vendor to be able to achieve the deliverable dates.

Auditors also noted the Contract Obligation Documents (COD) were not properly completed for four of 16 contracts tested as follows:

- Three CODs included inaccurate award code information. In one instance the COD was marked as "exempt from bid" when the contract stated it as a "sole source" contract. For the other two instances, the CODs were marked as "exempt from bid" when the contracts were subject to competitive bidding.
- One COD did not state the maximum or estimated amounts.

The Office did not maintain adequate or accurate documentation of its request for proposal (RFP) and contract award processes. Seven of the 16 contracts tested were awarded through competitive bid process, as follows:

- The Office awarded 3 contracts, totaling $385,625, to vendors other than those with the highest overall scores as evaluated in the RFP process. In these instances, auditors noted the Office evaluated the proposals received in response to the RFP and determined several of the prospective vendors to be adequately qualified to provide the services described in the RFP with the intent of contracting with vendors with specific skill sets, depending on the exact services needed for a particular transaction. However, the RFP did not specify a minimum score necessary for vendors to be deemed adequately qualified. In addition, the minimum score needed to be deemed adequately qualified differed between the types of expertise the RFP sought.

Accepted and or Implemented – continued

- Contract inception dates published in the Illinois Procurement Bulletin (IPB) did not agree to the inception dates stated on the corresponding contracts for three of 16 contracts tested.

In addition, auditors noted the following discrepancies in testing of interagency agreements:

- Five of seven interagency agreements were not signed by all parties prior to the performance of services under the associated contract. Signatures were obtained ranging from nine to 360 days after the inception of the associated contract.

- One of seven interagency agreements did not contain pertinent information including the inception date of the agreement.

Office personnel stated that many of the instances cited by the OAG were the product of staff attrition, and clerical errors, and that many of the instances occurred prior to the completion of the prior audit examination process, wherein GOMB instituted various procedures and protocols which have improved GOMB's control over its contractual agreements, procurements, and interagency agreements.

Response: Accepted. GOMB agrees that some of its past contracts were not dated at the time they were executed. The contracts in question, however, pre-date the completion of the prior audit examination process wherein GOMB instituted procedures which have significantly improved GOMB's compliance with this requirement.

GOMB acknowledges that its prior Director failed to timely execute one of the sixteen contracts tested by the OAG prior to the beginning of the contract's terms. GOMB's current Director understands and will comply with the requirement to timely execute contracts.

GOMB acknowledges that in an oversight, its chief fiscal officer and chief legal counsel failed to execute one of the sixteen contracts tested by the OAG. GOMB further states, however, that both senior staffers had approved of the contract prior to its execution. GOMB has since taken the specific step of adding the statutory requirement that senior staffers execute contracts of $250,000 or more to the legal requirements section of GOMB's intranet page.

GOMB agrees that there was a scrivener's error in one of the sixteen contracts tested by the OAG which without correction, would have resulted in conflicting terms. GOMB further states, however, that the error was recognized by GOMB staff, corrected in the agreement, and acknowledged by both GOMB and the other party of the contract.

GOMB acknowledges that four of the sixteen CODs tested by the OAG included clerical errors. GOMB further states that while the first COD referenced was not properly marked as a "sole source" contract, the contract was indeed exempt from bid, which is the likely source of confusion for it having been marked as “exempt from bid.” GOMB agrees that in the two other instances where the CODs were improperly marked as “exempt from bid,” the contracts were competitively bid in accordance with the Illinois Procurement Code. GOMB has instructed its staff on the importance of reviewing CODs prior to their submission to the Office of the Comptroller.

GOMB acknowledges that the COD at issue did not state a maximum or estimated amount. The COD in question, however, pre-dates the completion of the prior audit examination process. GOMB believes that the procedures instituted following the prior audit process have resulted in consistent compliance with this requirement.

GOMB agrees that in accordance with the Illinois Procurement Code, the RFP identified by the OAG resulted in the determination that a pool of vendors were qualified to provide the services sought in the RFP, and that as a result, contracts were awarded to a number of vendors in the qualified pool. Contracts were awarded, for example, to all vendors with the highest overall scores, as well as to three other vendors that had qualified scores but not the highest overall scores. GOMB acknowledges that the RFP did not specify a minimum score necessary for vendors to be adequately qualified, but notes that the minimum score was properly established prior to the scoring of the RFP responses, and that in all subsequent RFPs where GOMB established a qualified pool, the RFPs specifically identified the minimum score necessary to be a member of the qualified pool. GOMB further agrees that the minimum score needed to be adequately qualified differed between the types of expertise the RFP sought but notes that because the type of expertise sought differed, the standards for determining the qualified pool necessarily differed as well.

GOMB acknowledges that as a result of clerical errors or brief delays in reducing agreements to writing, there is a discrepancy between the inception date in the Illinois Procurement Bulletin and three of the 16 contracts tested by the OAG. GOMB has instructed its staff on the importance of reviewing procurement bulletin notices prior to their posting, and on the timely execution of all contracts.

GOMB acknowledges that some interagency agreements were not signed in a timely manner by some of the parties contracting with GOMB, or in some cases GOMB. The majority of the agreements, however, pre-date the completion of the prior audit examination process wherein GOMB instituted procedures which have improved GOMB’s compliance with this requirement. At the conclusion of the prior audit examination process, GOMB specifically created an Interagency Agreement Process Checklist, which provides the accepted and required procedures for timely negotiation, preparation and execution of all interagency agreements. GOMB employees involved in drafting, negotiation and executing interagency agreements were involved in creating the checklist or were otherwise made aware of the approved procedures. The process for the preparation and execution of all interagency agreements is reviewed and supervised by GOMB’s General Counsel in accordance with the checklist.

Auditor's Comment: The auditors were not provided documentation to support the statement in the Office's response that senior staffers had approved a contractual agreement, totaling $300,000, prior to its execution. Please see the 2nd bullet in our finding and the 3rd paragraph of the Office's response.

In addition, the copy of another contract, totaling $22,000, provided to the auditors for testing did not contain documentation illustrating that the conflicting terms had been recognized by Office and vendor personnel and corrected. Please see the 4th bullet in our finding and the 4th paragraph of the Office's response.

Updated Response: In response to the finding "One of 16 contractual agreements, totaling $300,000 was not signed by the chief executive office, the chief legal counsel and the chief fiscal officer or other senior executives" The Governor's Office of Management and Budget adheres to the protocol set forth in the "legal requirements" section of its internal intranet page, whereby, pursuant to the State Finance Act (30 ILCS 105/9.02), any new contract or contract renewal in the amount of $250,000 or more in a fiscal year, or any order against a master contract in the amount of $250,000 or more in a fiscal year, or any contract amendment or change to an existing contract that increases the value of the contract to or by $250,000 or more in a fiscal year must be signed by or approved in writing by both the Director and General Counsel of the Governor's Office of Management and Budget. If the General Counsel is not reasonably available to sign or approve the contract, the Director shall designate in writing a senior team member as the individual responsible for signature or approval.

2. Investigate and make corrections to expenditure records as necessary to resolve all discrepancies noted during the reconciliation process. Also, properly notify the Comptroller of any irreconcilable differences noted.

Finding: The Office did not correct errors in expenditure records detected during the reconciliation process. The Office's expenditure records were not corrected or adjusted with respect to the discrepancies detected during the reconciliation process. Reconciling items, ranging from $40 to $31,023, should have been posted to 10 of the Office's 16 expenditure line items for FY08, and reconciling items, ranging from $130 to $13,800, should have been posted to nine of the Office's 16 expenditure line items for FY09.

Office personnel stated a computer programming issue prevented them from making the necessary corrections to the expenditure records.

Response: Not Accepted. GOMB did not perform its own voucher processing during the audit period so it was not using any of the states financial programs. To assist in monitoring the spending, two GOMB staff members created a supplementary program which was not intended to be a financial reporting program. This internal program did not have the ability to void transactions. The Comptroller's records were accurate and readily available for financial reporting. GOMB is now managing its voucher processing directly and is not in need of an internal tracking system.

Auditor's Comment: We find it troubling that the Office sees nothing wrong with monitoring their spending by using a program that lacked the ability to post corrections or void transactions. As noted in the significance above, this could result in the Office over-expending appropriated funds.

In addition, the Office's response states the Comptroller's records were accurate and readily available for financial reporting. We question how the Office determined the Comptroller's records to be accurate, when the Office itself did not have accurate expenditure records to compare to the Comptroller's records. Lastly, SAMS (Procedure 27.10.10) explains the preparation of the Generally Accepted Accounting Principles (GAAP) reporting packages and explains that financial data, including agency expenditure records, must be carefully examined in the preparation of an agency's GAAP reporting package. SAMS (Procedure 27.10.10) does not direct the preparers of GAAP reporting packages to rely on Comptroller records.

Updated Response; The Governor's Office of Management and Budget has a staff person that reconciles with the Comptroller on a monthly basis. Any discrepancies are investigated and corrected. These reconciliations are reviewed for accuracy.

3. Exercise adequate control over travel expenditures and require employees to submit travel vouchers in accordance with Office policies. Further, carefully review travel vouchers to ensure consistency with travel support, reasonableness, and mathematical accuracy prior to payment. Ensure all expenditures from Office funds are necessary for the Office's operations. In addition, strengthen controls over voucher processing procedures including maintaining proper documentation. (Repeated-2005)

Finding: The Office did not exercise adequate control over its travel functions. Testing of the Office's travel expenditures included a sample of 25 vouchers and all of the travel vouchers for the top ten traveling employees for each year in the examination period. Five of 25 travel vouchers tested, totaling $6,342, were submitted between four and 170 days late.

- One of 25 travel vouchers tested, totaling $1,010, contained errors totaling $106.
- Two instances noted, totaling $1,927, included charges of $155 for unused hotel rooms for employees who returned to Chicago from Springfield ahead of schedule.
- One instance noted, totaling $875, did not include proper support for the reimbursement of a hotel stay totaling $148. The support provided was a pre-stay confirmation instead of a paid invoice.

Office personnel stated that the issues resulting in the finding happened because of GOMB's failure to update its policies to meet the needs of the department and to have adequate staff that can review records submitted. GOMB has subsequently hired an additional staffer to help provide greater attention to its travel functions.

Response: GOMB acknowledges that five of the 25 vouchers tested by the OAG were not submitted timely. In limited instances, some GOMB employees did not submit travel vouchers in accordance with the time prescribed. Under its new leadership, GOMB is thoroughly reviewing all of its internal policies and procedures and has emphasized to all staff the need to comply with office deadlines for submission of travel vouchers.

GOMB acknowledges that in one isolated instance, an employee's travel voucher was miscalculated, resulting in the traveler receiving $106 less in reimbursement than the traveler was entitled to. GOMB discovered the miscalculation; notified the traveler and instructed the traveler to seek reimbursement through the court of claims. As of this date, the traveler has not pursued the claim. GOMB travel vouchers receive various levels of review prior to submission for reimbursement. In this instance, the miscalculation was not detected during the initial internal review process. GOMB considers this as an isolated incident.

GOMB acknowledges that in two instances employees vacated Springfield hotel rooms prior to the scheduled date but views these instances as unavoidable circumstances and not the result of a failure to follow procedure.

In one instance, the GOMB employee was required to return to Chicago on the evening of March 11, 2009 for medical purposes. The employee attempted to cancel the reservation, however, due to the timing of the medical emergency and the resulting cancellation, the hotel indicated that its internal policy would not allow cancellation without penalty.

In a separate instance, the traveler returned to Chicago the evening of Friday, November 15, 2008. The traveler had expected to remain in Springfield over the weekend for additional work related responsibilities. Upon learning that this was no longer necessary, the traveler attempted to cancel the reservation, however, under the hotel's cancellation policy, a penalty was levied against the traveler. GOMB has instructed all staff that travel that in any instances where there are unavoidable circumstances that lead to a late cancellation, to properly document the relevant circumstances at the time of the submission of the corresponding travel voucher.

GOMB acknowledges that the documentation provided to support the traveler's reimbursement was a pre-stay confirmation. GOMB considers this an isolated instance. GOMB currently requires travelers to maintain and submit all supporting documentation necessary to substantiate their request for reimbursement.

Updated Response: The Governor's Office of Management and Budget sends out a notice to staff on a monthly basis reminding them that all travel reimbursement requests are due by the 15th of the month following the month the expense was incurred. If the voucher is not received by the 15th of the month staff follows up on an individual basis until everything is received. Vouchers are reviewed for reasonableness and to assure that all the proper documentation is attached and all office policies followed.

4. Ensure interagency agreements are approved prior to the effective date of the agreement and prior to services being rendered. (Repeated-2007)

<u>Finding:</u> The Office did not exercise adequate control over its interagency agreements.

Auditors noted 13 of 18 interagency agreements tested were not signed or were not signed timely. Twelve interagency agreements were signed after the effective date of the agreements. The signatures ranged from two to 130 days late. One interagency agreement was not signed by all of the required individuals.

Office personnel stated that many of the instances cited were the product of staff attrition, and that many of the agreements identified were executed prior to the completion of the prior audit examination process, wherein GOMB instituted various procedures and protocols which have improved GOMB's control over the execution of interagency agreements.

<u>Response:</u> GOMB acknowledges that some interagency agreements were not signed in a timely manner by some of the parties contracting with GOMB, and in some cases by GOMB. The majority of the agreements, however, pre-date the completion of the prior audit examination process wherein GOMB instituted procedures which have improved GOMB's compliance with this requirement. At the conclusion of the prior audit examination process, GOMB specifically created an Interagency Agreement Process Checklist, which provides the accepted and required procedures for timely negotiation, preparation and execution of all interagency agreements. GOMB employees involved in drafting, negotiation and executing interagency agreements were involved in creating the checklist or were otherwise made aware of the approved procedures. The process for the preparation and execution of all interagency agreements is reviewed and supervised by GOMB's General Counsel in accordance with the checklist.

<u>Updated Response:</u> The Governor's Office of Management and Budget follows the protocol created and outlined in its "Interagency Agreement Process Checklist." This protocol was designed to set forth the required procedures for timely approval and execution of all interagency agreements, including approval prior to the effective date of the agreement and prior to services being rendered.

5. Implement procedures to ensure the TA-2 reports, Annual Real Property Utilization reports, and FCIAA certifications are filed timely as required. (Repeated-2007)

Accepted and or Implemented – continued

<u>Finding:</u> The Office did not file required reports timely. Auditors noted the following:

- The Office submitted two of four Travel Headquarters (TA-2) reports to the Legislative Audit Commission six and seven days late, respectively.

- The Office submitted one of two Annual Real Property Utilization reports to the Department of Central Management Services 49 days late.

- The Office submitted 1 of 2 (50%) Fiscal Control and Internal Auditing Act (FCIAA) certifications to the Auditor General 5 days late.

Office personnel stated the reports were filed late due to oversight, competing priorities for responsible personnel, and, in one instance, a misunderstanding of the filing requirement.

Response: GOMB agrees that in limited circumstances, and as a result of staff turnover and the reassignment of duties within GOMB's operations unit, it did not file certain reports on a timely basis.

GOMB acknowledges that 2 of 4 Travel Headquarters reports were submitted to the Legislative Audit Commission 6 and 7 days late. The July 2008 report was submitted late due to staff turnover and the reassignment of duties within GOMB's operations unit. Because GOMB has primary responsibility for developing the State's annual operating budget, the months of January, February and March are particularly demanding for the agency and its staff. In GOMB's efforts to complete its responsibilities towards completion and presentation of the State operating budget GOMB was late in submitting its travel headquarters report to the Legislative Audit Commission.

GOMB acknowledges that due to an administrative error, staff submitted an Annual Real Property Utilization report 49 days late. Staff believed the Annual Real Property Utilization report and the Annual Template for Leased and Real Property report to be the same report and did not fill it by the mandated deadline. GOMB was notified of the filing deadline and error on December 18, 2008 and immediately filed the report with the Department of Central Management Services.

GOMB conducted an evaluation of its systems of internal fiscal and administrative controls and filed the FCIAA Internal Control Checklist with the Auditor General's office on May 1, 2008 as required. However, due to an administrative oversight, the certification page was not attached to the initial filing. A May 6, 2008 email from an employee of the OAG notified GOMB that the checklist was received but the certification was not attached. Upon receipt of the notification GOMB filed the signed certification on May 6, 2008.

Updated Response: The Governor's Office of Management and Budget has a share point calendar with all of the due dates of the required reports and certification. Each report has one individual who is responsible for compiling the report on a timely basis. Each report is reviewed by the office manager to assure accuracy.

6. Retain documentation of all probationary and annual performance evaluations performed. Also, implement procedures to ensure the evaluation process is completed timely and evaluations are signed promptly by all employees. Further, properly document approval of salary adjustments. (Repeated-2005)

Finding: The Office did not document employee performance evaluations, did not ensure employee performance evaluations were signed timely, and did not document authorization for salary adjustments. We noted the following:

- Probationary and/or annual performance evaluations were not documented for 12 of 16 employees tested.

- For three of 16 employees tested, employee performance evaluations were prepared and signed timely by the respective employee's supervisors. However, employee signatures, signifying review of the evaluations and completion of the evaluation process, were not obtained and documented on the evaluations forms until 271 to 300 days after the period under evaluation ended.

- Proper documentation of the authorization for salary adjustments was not made available to the auditors timely. Auditors noted the authorization for salary adjustments for six of 16 employees tested was not documented in the employees' respective personnel files at the time of testing. The authorization for these salary adjustments was subsequently provided to the auditors on August 12, 2010.

Office personnel stated that staff turnover was the primary reason for the limited circumstances where evaluations were not properly documented.

Response: GOMB acknowledges that in limited circumstances, and as a result of staff turnover, it did not properly document certain employee evaluations. GOMB has since appointed a new Operations Manager who has the responsibility to ensure all employee evaluations are completed and properly documented. GOMB agrees that it did not document probationary employee evaluations, but states that this omission is a conscious result of a change in office policy. GOMB disagrees with the finding that it did not document authorization for salary adjustments. Salary adjustments are documented for all GOMB employees and can be found in each employee's personnel file.

GOMB disagrees with this finding and states that the documentation required was made available to the OAG during the audit process and again at the exit interview.

Auditor's Comment: The auditors do not dispute that the salary adjustments for the instances described above were documented in the respective employee personnel files.
Accepted and or Implemented – continued

In these instances, we did note documentation in each personnel file indicating a change had been made to the employee salary amounts. The bullet in the finding emphasizes the lack of documentation for the authorization of the salary adjustments. The limited documentation we noted in the personnel files in these instances consisted simply of a new salary amount and an effective date for the change. We did not note any signatures associated with these transactions. More specifically, the person documenting the change in the personnel file did not sign his or her name, the person authorizing the change did not sign his or her name, and the employee him/herself did not even sign his or her own name. The absence of authorization documented in the personnel files creates an opportunity for unauthorized transactions to be consummated, potentially resulting in the misappropriation of funds of the State of Illinois.

Information documenting the authorization of these salary adjustments was provided to the auditors on August 12, 2010. It is important to note the auditors communicated the noted lack of authorization problem to the Office in the form of an exception listing on October 28, 2009, and a preliminary exception response received from Office personnel on November 23, 2009 indicated the Office agreed with this exception. It was only on August 12, 2010 (288 calendar days after this concern was initially communicated to the Office and 262 calendar days after Office personnel had preliminarily agreed with the exception) that the authorization documents were provided to the auditors.

Updated Response: The Governor's Office of Management and Budget has developed a personnel form. Prior to that, approvals were in email form and not printed out and put into the personnel folders. Every change, whether it be an increase or decrease in salary or change in position, must have a signed personnel form that is then put into the file.

7. Review timesheets prepared by employees to ensure compliance with the Office's standard work schedule and leave time policies.

Finding: The Office did not exercise adequate control over employee attendance and related reporting. Auditors noted the following:

- Timesheets submitted by four of 16 employees tested indicated the employees did not work during the regularly scheduled work hours. For two of these employees, auditors noted five instances where the time reported as spent on official State business was less than the required 7.5 hour work day as specified in the Office's policies. In addition, leave time used by these employees for the absent periods was not documented on the timesheet.

- Timesheets submitted by two of 16 employees tested indicated sick and personal time were not taken in increments allowed by Office policies.

- Timesheets submitted by four of 16 employees tested indicated the employees worked on an official State holiday; however no compensatory time, or the incorrect amount of compensatory time, was earned for these instances.

Office personnel stated instances of noncompliance in timekeeping identified by the OAG were primarily the result of clerical errors or a reflection of non-compliance with GOMB's prior timekeeping policy.

Response: GOMB agrees that it didn't fully comply with its former internal policy regarding employee attendance and timekeeping which GOMB believes to be outdated and unrealistic given the demands placed on GOMB during the budget process. GOMB has changed its internal policy, and is revising its employee manual, to better reflect the demands on office personnel. In addition, GOMB has adopted a computerized timekeeping system which will help ensure compliance with GOMB's internal timekeeping policies.

GOMB is aware that the OAG based its review on policies and procedures cited in GOMB's February 1, 2004 employee manual which indicates the standard work schedule as 8:30 am until 5 pm (Monday through Friday), totaling 37.5 hours per week. Following the FY06/FY07 audit period, GOMB adopted a 37.5 hour work week policy to reflect the significant demands placed upon the agency and its employees during the preparation of the governor's annual budget presentation and during the Spring and Fall legislative sessions. GOMB's work week policy was designed to address the common occurrence where an employee is expected to work a 13 to 15 hour work day, and as a result does not begin work the following morning until sometime after 8:30 am. In these circumstances, the employee is not violating GOMB policy by starting the work day an hour or so after the standard starting time because that employee has worked any number of hours in excess of the 37.5 hour work week, due to the demands GOMB placed on its employees.

In addition, following the FY06/07 audit review, in an effort to better adhere to timekeeping policies, GOMB agreed to serve as a test agency for the state-wide implementation of the Kronos timekeeping system. Though there have been some technical and other operational difficulties, GOMB believes that when the system is fully implemented and GOMB's revised and updated policy manual is updated and approved, the agency will be in-line with its timekeeping policies and the actual time demands of its employees.

Auditor's Comment: Our records indicate the audit team requested a copy of the Office's policies and procedures manual, and the Office-designated audit liaison provided us with a copy of the Office's Rules and Policies document, which has a February 1, 2004 effective date. The revised policy referenced in the Office's response above was not provided to the auditors for consideration.

Accepted and or Implemented – continued

Updated Response: The Governor's Office of Management and Budget was a test site for KRONOS when this audit was being completed. This testing did not go well and KRONOS is being abandoned. For example the system should have automatically credited the time of point 3, where the employees worked on holidays. The Governor's

Office of Management and Budget's timekeeping needs did not require the robust functionality of the system. An internal time system is under development by the IT staff.

Also, the policy has been changed to what has always been practice. Staff works 37.5 hours per week and not 7.5 hour days. The policy also was also changed to reflect that staff can take 15 minute increments of sick and personal time.

8. Implement procedures to ensure all vouchers are approved timely in accordance with the Illinois Administrative Code and develop and implement procedures to identify all vouchers not paid within 60 days to ensure the proper amount of interest is paid in accordance with the State Prompt Payment Act. In addition, comply with SAMS procedures and the State Records Act by having a receiving officer sign each voucher to indicate goods were received according to stated specifications and by ensuring the agency head or an authorized designee's signature is dated.

Finding: The Office did not exercise adequate controls over voucher processing. Auditors noted the following:

- Forty-one of 146 vouchers tested, totaling $25,060,427, were not properly approved by the agency head or an authorized designee. The vouchers were not dated by the Office's Director, and therefore we were not able to determine whether these vouchers were approved timely.

- Thirty-nine of 146 vouchers tested, totaling $152,633, were approved for payment from one to 152 days late.

- Eight of 146 vouchers tested, totaling $73,142, were paid from 41 to 140 days late and resulted in interest due to vendors totaling $1,946. However, the Office did not pay vendors the interest owed in these instances.

- Four of 146 (3%) vouchers tested, totaling $4,052, were not signed and dated by the receiving officer.

Office personnel stated the deficiencies were due to employee oversight. They further stated that the deficiencies were also due to limited fiscal staff and competing priorities for responsible personnel.

Response: GOMB agrees that some of its vouchers were signed but not dated by its previous Director. GOMB also acknowledges that because the vouchers in question were not dated, the OAG was limited in its efforts to determine whether these vouchers were approved timely. GOMB's current Director has been made aware of the relevant SAMS requirements and will (as agency head) sign and date all vouchers. In addition, GOMB's operations' personnel have also been instructed to review all vouchers for completeness prior to processing.

GOMB acknowledges that a portion of the tested vouchers were not processed timely. GOMB has made significant progress addressing this deficiency by hiring additional administrative support staff. With the additional staff support, GOMB's voucher processing functions can now be completed in-house which will reduce the time in which vouchers are processed. GOMB further notes that some of the vouchers were in fact approved by GOMB in a timely manner, however, due to extended processing time, a portion of the vouchers in question were paid late. GOMB agrees that some amount of interest accumulated as a result of the delayed vouchers, but believes the amount to be significantly less than the amount identified by the OAG.

GOMB acknowledges that 3% of the vouchers tested by the OAG were not signed and dated by the receiving officer. Under the leadership of its current Director, GOMB has hired additional personnel to support its overall business operations and has appointed a new Operations Manager. GOMB's newly appointed Operations Manager and all relevant support staff have been instructed on the necessary levels of review for voucher processing as well as on the directives set forth in SAMS.

Auditor's Comment*:* In their response above, the Office stated they believe the amount of interest owed to vendors to be significantly less than the amount identified by the OAG; however, the Office provided no calculations or support for this statement. Our testing identified the following vouchers as paid late, with interest amounts owed but not paid as follows:

Voucher Number	Voucher Amount	Days Late	Interest Amount Owed but not Paid
800000053	$ 9,566.67	41	$ 129.44
800000052	19,133.33	49	309.39
900000242	2,665.60	60	52.78
900000164	9,854.00	65	211.37
900000004	3,363.50	67	74.37
900000098	7,068.33	80	186.60
900000120	1,783.97	122	71.82
900000147	19,707.00	140	910.46
Total Interest Amount Owed but not Paid			$1,946.23

This information was provided to the Office in the form of exceptions submitted throughout our fieldwork.

Accepted and or Implemented – continued

Updated Response: During the time of the audit the vouchers for The Governor's Office of Management and Budget were done outside of the office. Sufficient staff has been hired so that the function now resides in the office and the vouchers are carefully monitored for accuracy, signature and dating.

9. Strengthen controls over the recording and reporting of State property by reviewing inventory and recordkeeping practices to ensure compliance with statutory and regulatory requirements. Also, ensure all equipment is accurately and timely recorded on the Office's property records. In addition, thoroughly review all reports prepared from internal records for accuracy before submission to the State Comptroller and the Department of Central Management Services. (Repeated-2005)

Finding: The Office did not exercise adequate controls over the recording and reporting of State property.

Three of eight (38%) Quarterly Reports of State Property (C-15's) prepared by the Office and submitted to the State Comptroller's Office did not accurately reflect Office equipment transactions. Auditors noted differences between the addition, deletion, and ending balance amounts reported on the C-15's and the Office's quarterly transaction spreadsheets.

Quarter Ended	Asset Class	Amount Reported to Comptroller	Amount Per Quarterly Transaction Spreadsheet	Difference
12/31/2007	Total Amount reported by Agency	$374,427	$300,558	$73,869
6/30/2008	GAAP Reportable Amount	$300,559	$316,934	$(16,375)

Quarter Ended	Amount Reported to Comptroller	Amount that should have been reported
12/31/2007	$36,935 Deletions	$36,935 Net Transfers
6/30/2009	$11,920 Additions	$3,987 Additions $7,933 Net Transfers

In addition, auditors noted noncompliance with the Statewide Accounting Management System (SAMS) procedures. Specifically, six equipment items acquired during the examination period, totaling $7,256, were not reported on the Office's C-15's. One item tested, totaling $1,109, was not recorded on the C-15 timely. It was purchased in June of 2007 but wasn't reported on the C-15 until the second quarter of Fiscal Year 2008. In addition, the voucher could not be located for testing.

Further, auditors noted noncompliance with statutory requirements and the Illinois Administrative Code as follows:

- The Office did not timely record three of four items, totaling $3,055, on its property control listing. These items were recorded from 116 to 364 days late. Two of 50 items tested did not have a physical property tag. One of 25 items tested, totaling $334, appeared on the Office's property inventory register but could not be located within the Office.

- One of 25 items tested, totaling $623, could not be traced to the annual report submitted to DCMS. Two of 26 (8%) items tested were not added to the property control listing.

Office personnel stated that it was the result of staff turnover and a failure to hire, or properly train replacement or backup staff.

Response: GOMB agrees that certain items were incorrectly recorded, accounting for the differences identified. These reports have since been corrected. GOMB disagrees with the item totaling $36,935 that was listed as a deletion and which the OAG indicates should have been transferred. This item was moved to surplus and GOMB was instructed that surplus items should be deleted.

GOMB agrees that its inventory system did not timely or accurately record certain items as required by SAMS and the Administrative Code. GOMB believes these oversights are the result of staff attrition and the failure to properly assign the relevant responsibilities to GOMB staff. Previously, one GOMB staffer had the responsibility for performing all the inventory tasks. GOMB has since hired additional personnel to ensure that there are multiple individuals responsible for performing the relevant administrative tasks. In addition, GOMB has appointed a new Operations Manager, who has the responsibility to supervise the relevant administrative tasks.

Auditor's Comment: As described in the finding above, we noted items totaling $36,935 were reported by the Office as deletions for the quarter ended December 31, 2007. We noted, and the Office confirmed in their response above, that these items were in fact transferred to the Department of Central Management Services surplus property division. SAMS (Procedure 29.20.10) explains the types of transactions that should be recorded as transfers and deletions on the C-15 report and specifically states that transfers refer to items that have been moved between agencies, such as items sent to the Department of Central Management Services surplus property division.

Accepted and or Implemented – concluded

Updated Response: The Governor's Office of Management and Budget has carefully reviewed its procedures for tracking property. A SharePoint tracking system was developed to account for all of the property. An annual inventory was just completed to make sure all of the assets that exist are in the system and all assets listed in the system can be accounted for. Each item is tagged with an asset number for ease of tracking.

The Governor's Office of Management and Budget believes it is in compliance with the Illinois Administrative Code and SAMS tracking.

10. Comply with the General Obligation Bond Act and Build Illinois Bond Act by making all necessary costs of issuance and truth in borrowing disclosures available on the website timely. In addition, implement controls necessary to ensure all upcoming bond sales are advertised in newspapers in advance as required.

Finding: The Office did not comply with provisions of the General Obligation Bond Act and Build Illinois Bond Act as required.

During the examination period, the Office provided for the issuance of three separate bond series. Two series, totaling $275,000,000, were issued according to provisions of the General Obligation Bond Act during Fiscal Years 2008 and 2009. One series, totaling $50,000,000, was issued according to provisions of the Build Illinois Bond Act during Fiscal Year 2008. There were no bonds issued pursuant to the Build Illinois Bond Act during Fiscal Year 2009. Auditors noted the following:

- The Office did not timely provide auditors with documentation to provide evidence that one of three bond issues was advertised in two newspapers as required. The bond issues, totaling $50,000,000, were sold pursuant to notice of sale and public bid. Documentation showing the bonds were advertised as required was provided to the auditors on August 12, 2010.

- The summary of costs of issuance for one of three bond issues was not posted to the Office's website timely. We noted the summary of costs of issuance in this instance was posted 4 days late. In addition, the auditors could not determine if the costs of issuance for one of three (33%) bonds tested was posted on the Office's website timely as required.

- The auditors could not determine if the truth in borrowing disclosure for one of three bond issues was posted on the Office's website timely as required.

Office personnel stated that they take very seriously their obligations under the General Obligation Bond Act and the Build Illinois Bond Act and that they believe they have complied with those acts in all respects.

Response: GOMB fully complied with the General Obligation Bond Act and the Build Illinois Bond Act in all respects. Due to staff turnover, GOMB cannot verify whether the documents identified by the OAG were timely provided to the OAG. GOMB agrees with the OAG that copies of the certifications of advertisements in the Chicago Sun Times and the State Journal-Register were provided to the OAG on August 12, 2010 and that those documents were in full compliance with the Build Illinois Bond Act.

GOMB disagrees with the finding that a summary of costs of issuance was not timely posted on GOMB's website. The cost of issuance summary identified by the OAG was posted in a timely manner, but after an error was identified, GOMB properly removed the posting. As soon as the error was corrected, the cost of issuance summary was re-posted on GOMB's website (four days after the initial due date). GOMB further notes that all cost of issuance summaries are currently available on its website in accordance with GOMB's statutory obligations.

GOMB believes that the truth in borrowing disclosure was timely posted on GOMB's website and noted that it can be found at:
http://www.state.il.us/budget/Statement%20of%20Total%20Sales%20Tax%20Rev%20CI%202007.pdf

Updated Response: The Governor's Office of Management and Budget believes it is currently in compliance with all requirements of the General Obligation and the Build Illinois Bond Acts. Everything has been filed and posted on a timely basis.

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 3 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.

During FY09 and FY08, the Governor's Office of Management and Budget filed no 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 agency 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.

In a report filed in July 2009 indicated that nine employees spent more than 50% of their work time at locations other than official headquarters.