LEGISLATIVE
AUDIT
COMMISSION

Review of
Department of Commerce and Economic Opportunity
Two Years Ended June 30, 2018

622 Stratton Office Building
Springfield, Illinois 62706
217/782-7097

REVIEW: 4497
DEPARTMENT OF COMMERCE AND ECONOMIC OPPORTUNITY
TWO YEARS ENDED JUNE 30, 2018

FINDINGS/RECOMMENDATIONS - 10

NOT ACCEPTED - 1
ACCEPTED & PARTIALLY IMPLEMENTED - 9

REPEATED RECOMMENDATIONS - 9

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 12

This review summarizes the auditors' report of the Illinois Department of Commerce and Economic Opportunity for the two years ended June 30, 2018, filed with the Legislative Audit Commission on April 24, 2019. The auditors performed a compliance examination in accordance with State law and *Government Auditing Standards*.

The mission of the Department of Commerce and Economic Opportunity (DCEO) is to raise Illinois' profile as a premier global business destination and to provide a foundation for the economic prosperity of all Illinoisans, through coordination of business recruitment and retention, provision of essential capital to small businesses, investment in infrastructure and job training for a 21st century economy, and administration of State and federal grant programs.

The Department's Regional Field Offices provide front-line services to all areas of the State. The offices are located in Canton, Chicago, Effingham, Galesburg, Lisle, Marion, Peoria, Quincy, Rockford, Springfield, and Viola. Additionally, the Department has international offices in Brussels, Jerusalem, Mexico City, Shanghai, Tokyo, and Toronto.

DCEO's organizational structure has two types of units: administrative and programmatic. The central administration point is the Director's Office and the programmatic units are organized into 13 Offices: Business Development; Coal Development; Community Development; Employment & Training; Community Assistance; Entrepreneurship, Innovation, and Technology; Energy & Recycling; Illinois Film Office; Regional Economic Development; Tourism; Trade & Investment; Urban Assistance; and Minority Economic Empowerment.

Sean McCarthy served as Director from April 2016 until September 2018. Thereafter, Leslie Munger served as Acting Director from September 2018 until January 11, 2019. Erin Guthrie was named Acting Director on January 21, 2019, and she continues to serve in that position.

Projected job creation and projected private investment decreased in FY18 compared to FY17 due to program inactivity after EDGE 1.0 expired. EDGE 2.0, signed into law in September 2017, should provide a more robust baseline for target-setting purposed for FY20 forward. Small Business Development Centers assisted in 433 new business starts. Hotel-motel tax receipts increased to $280.7 million, the State welcomed 2 million foreign visitors, and Film Industry expenditures were $319.4 million. Film Production was down from an all-time high in FY17 of $552 million due to the end of two episodic television programs. Production activity in the pipeline indicates that improvement during FY19 is likely. The value of export sales through Illinois' World Institute for Strategic Economic Research (WISER) was $66.4 billion in FY18, and 167 companies participated in trade missions. Also, 307,793 households received heating assistance through the Low Income Home Energy Assistance Program (LIHEAP).

According to information supplied by DCEO for the report, State grant-funded programs such as the Employment Opportunity Grant Program and the Urban Weatherization Initiative were not funded during FY17 or FY18. These programs were reinitiated during FY19, but results will likely not occur until FY20.

The average number of employees by division in the years indicated was as follows:

	FY18	**FY17**	**FY16**
General Administration	83	81	104
Office of Tourism	11	11	12
Office of Employment & Training	45	46	52
Office of Entrepreneurship, Innovation, and Technology	15	17	22
Office of Regional Outreach	17	17	14
Office of Business Development	13	14	12
Office of Coal Development	-	1	2
Illinois Film Office	6	6	5
Office of Trade and Investment	11	12	12
Office of Energy Assistance	33	29	27
Office of Community Development	12	11	12
Office of Energy & Recycling/IL Energy Office	3	21	19
TOTAL	**249**	**266**	**293**

Expenditures from Appropriations

The General Assembly appropriated over $1.3 billion from 28 funds to the Department in FY18. Due to the Budget Impasse, the Department did not receive GRF appropriations prior to FY16 and FY17. DCEO received other State funding and federal appropriations after the fact for FY16 and FY17 which covered a portion of Department expenditures. DCEO used the court order which did not limit the amount of expenditures to pay payroll in FY16 and FY17. Total expenditures were $497.1 million in FY18 compared to $639.2 million in FY17, a decrease of $142.1 million, or 22.2%. Appendix A summarizes expenditures by fund, while

Appendix B compares expenditures by object for FY18 through FY16. Significant variations in expenditures in FY18 and FY17 were as follows:

- $94.1 million increase in the Energy Efficiency Portfolio Standards Fund in FY17 was due to the inability to issue grants until the end of FY16 as a consequence of the Budget Impasse. This Fund experienced a decrease of $116.8 million in FY18 due to the Energy Efficiency Portfolio Standards program being returned to the utility companies by PA 99-0906, effective July 1, 2017 (FY 18);
- $24.0 million decrease in FY18 and a $22.2 million increase in FY17 in the Low Income Home Energy Assistance Block Grant Fund mostly due to variations in expenditures for awards and grants;
- $18.1 million increase in the Tourism Promotion Fund in FY17 was due to late issuing of grants in FY16 as a result of the Budget Impasse. In FY18, the Fund decreased by $10.6 million due to transfers that were held by the IOC in FY18; therefore, the Department did not have access to the cash necessary to have activity levels comparable to FY17;
- $13.0 million increase in FY18 and a $6.9 million increase in FY17 in the Supplemental Low-Income Energy Assistance Fund due mostly to increased expenditures in awards and grants;
- $8.3 million increase in the Community Service Block Grant Fund in FY18 due to changes to the Grant Accountability and Transparency Act that were implemented in FY17 that resulted in fewer grant expenditures in the year of implementation compared to FY18; and
- $5.4 million decrease in the DCEO Energy Projects Fund in FY18 which was transferred to EPA. Also, the Coal Technology Development Assistance Fund was transferred to DNR after FY17.

During FY17, the Department operated without enacted appropriations until PA100-0021 was signed into law on July 6, 2017. During the Impasse, the Circuit Court of St. Clair County in *AFSCME Council 31 v. Munger* ordered the Comptroller to draw and issue warrants for wages of State employees at their normal rates of pay. As a result, the Department’s court ordered payroll payments were able to be paid from the General Revenue Fund, the Solid Waste Management Fund, and the Coal Technology Development Assistance Fund. Additionally, Public Act 100-021 authorized the Department to pay its unpaid FY16 and FY17 costs using either the Department’s FY17 or FY18 appropriations for non-payroll expenditures.

- The Department paid two invoices totaling $1,185 for FY17 expenditures using FY18 appropriations.
- The Department did not use any of its FY17 appropriations to pay FY16 costs.

Other key highlights include:

- During FY18, the Department incurred $2.3 million in Prompt Payment Interest for 309 invoices from 14 vendors.
- During FY17, the Department incurred $435 in Prompt Payment Interest for three invoices from three vendors.

- The Department and its vendors did not participate in alternative financing in lieu of enacted appropriations involving the Illinois Finance Authority or the Vendor Support Initiative Program (VSI) during FY18 or FY17.
- In FY17, four vendors participated in the Vendor Payment Program (VPP) for 266 invoices totaling over $25.4 million; whereas, no vendors participated in the VPP in FY18.

During FY16, the Department operated without enacted appropriations until PA99-0409, PA99-0491, and PA99-0524 were signed into law in August 20, 2015, December 7, 2015, and June 30, 2016, respectively. During the budget impasse, the Circuit Court of St. Clair County in *AFSCME Council 31 v. Munger* ordered the Comptroller to draw and issue warrants for wages of State employees at their normal rates of pay. The Department incurred non-payroll obligations which the Department was unable to pay until the passage of the Public Acts listed above. The Department did not use any of its FY17 appropriations to pay FY16 costs, and no DCEO vendors participated in the Vendor Payment Program in FY16.

Lapse period expenditures from appropriated Funds in FY18 were $34.3 million, or 6.9% of total expenditures. In FY17, the Department spent $104.8 million, or 16.4% of total expenditures, in the lapse period. A large portion of FY17 lapse period expenditures can be attributed to expenditures in the Energy Efficiency Portfolio Standards Fund. The program's regular cycle was such that a large portion of the grant payments and rebate reimbursements were always requested during the lapse period. The Energy Efficiency Portfolio Standards program ended during FY17, so no program costs could be carried to the next fiscal year.

Cash Receipts

Appendix C is a summary of the Department's cash receipts for FY18 through FY16. Total cash receipts were approximately $555.9 million in FY18 compared to $633.2 million in FY17, a decrease of $77.3 million, or 12.2%. The largest share of receipts in FY18 was from federal grants at $364.9 million while federal grants were $368.1 million in FY17. Examples of the most significant changes in receipts were as follows:

- Receipts increased $84.2 million in FY17 in the Energy Efficiency Portfolio Standards Fund due to the Budget Impasse in FY16. The Fund decreased $74.0 million in FY18 due to the program winding down;
- Receipts decreased in FY17 by $14.9 million in the Community Development/ Small Cities Block Grand Fund due to two disaster relief programs winding down. In FY18, receipts increased by $15.9 million due to the revolving loan fund accounts being closed and money being returned to the Department;
- Receipts increased $13.7 million in FY17 in the Low Income Home Energy Block Grant Fund and a decrease of $16.6 million in FY18; and
- Receipts increased $11.9 million in FY17 in the Energy Projects Fund due to a new award received in FY17 with up-front federal government funding. Fund receipts decreased $12.0 million in FY18 because Energy Projects fund moved to the Environmental Protection Agency as part of the Executive Order 2017-3 transfer.

Property and Equipment

Appendix D provides a summary of property and equipment for FY18 and FY17. The Department's assets, represented almost entirely by equipment, decreased from $4,096,636 as of July 1, 2016 to $3,578,976 as of June 30, 2018.

Accounts Receivable

At June 30, 2018 the Department had almost $8.2 million in gross receivables, a decrease of $23.7 million, or 74.3%, from FY17. This significant decrease was due to statutory changes that resulted in the Department no longer administering the Energy Efficiency Portfolio Standards Program after the end of FY17. In FY18, net accounts receivable were $3.9 million while the estimated uncollectibles were over $4.2 million. The majority of the Department's receivables are from the Energy Efficiency Portfolio Standards Program. The Department utilizes the Office of the Attorney General, outside collection agencies through the Department of Revenue, and the Comptroller's offset system to collect overdue receivable balances.

Accountants' Findings and Recommendations

Condensed below are the 10 findings and recommendations presented in the compliance examination report. There were nine repeat recommendations. The following recommendations are classified on the basis of updated responses provided by the Department of Commerce and Economic Activity via email received on October 11, 2019 and October 17, 2019.

Not Accepted

7. Work with the Self-Directing Customers (SDCs) to ensure timely filing of their annual reports. Further, appoint a trustee to the Illinois Clean Energy Community Trust. (Repeated-2014)

<u>Finding:</u> The Department of Commerce and Economic Opportunity (Department) did not comply with certain provisions of the Public Utilities Act. During testing, auditors noted the following:

- Natural gas utilities and the Department are required to use cost-effective energy efficiency to reduce direct and indirect costs to consumers. Certain requirements of the Public Utilities Act do not apply to customers of a natural gas utility that are considered a Self-Directing Customer (SDC) or Exempt Customer. In the previous examination, auditors noted the only SDC application received during the examination period was approved by the Department 32 days late. During the

Not Accepted – continued

current examination period, no new applications were received by the Department to approve.

- Three of eight (38%) of SDCs tested did not timely submit their annual reports. The annual reports were submitted 66 to 121 days late.

- The Department did not formally appoint a non-voting trustee on the Illinois Clean Energy Community Trust.

In response to this finding from the previous examination, the Department stated it would take steps to ensure compliance with the requirements of the Public Utilities Act; or, where appropriate, the Department would seek statutory changes. Department officials stated the SDCs did not file their annual reports on time despite repeated follow-up by the Department. Department officials stated the failure to complete the appointment to the Illinois Clean Energy Community Trust was due to competing priorities.

Updated Response: Not Accepted. Executive Order 17-03 issued March 31, 2017 and effective July 1, 2017 transferred these responsibilities to IEPA. The Executive Order expressly states that DCEO has no duty to work with SDCs to ensure timely filing of their annual reports and no authority to appoint a trustee to the Trust. DCEO acknowledges the validity of the Auditor General's finding prior to July 1, 2017.

Accepted or Implemented

1. Strengthen controls over the grant administration process including controls over disbursement of grant funds and grant monitoring. (Repeated-2008)

Finding: The Department of Commerce and Economic Opportunity (Department) did not ensure adequate controls were established in the administration of grant programs.

The Department expended $1,085,204,865 for awards and grants during the examination period. Expenditures for awards and grants accounted for 95% of the Department's total expenditures of $1,146,709,915. Auditors tested 60 grant agreements spread across the various bureaus within the Department.

During the testing of awards and grants, the following issues were noted: Sixteen awards (27%) tested contained instances of required grantee reports being submitted from 4 to 68 business days late. Furthermore, for 13 of the 16 (81%) grantees that submitted reports late, the Department failed to send the required notifications. $569,448 was obligated by the Department while these reports had not been submitted and the Department had not sent all required notifications to the grantee. Additionally, $193,323 of that amount occurred after the date the cash shutoff should have occurred.

During the previous examination the Department stated they had implemented new controls to ensure payments to grantees are only made after required reports are received and approved by the Department as required in the grant agreement. In addition, the Department stated its Office of Accountability would ensure that grant monitoring will occur per the conditions of the grant agreements for those programs that lack monitors. Department officials stated the current examination issues noted with grant administration were due to a lack of resources.

Updated Response: Accepted and partially implemented. The Department continues to work aggressively to strengthen its controls over the grant administration process. The Auditor General tested 60 grant agreements across the various bureaus within DCEO and although this finding was confined to only one of many DCEO grant programs (Low Income Home Energy Assistance Program), DCEO has instituted a number of new controls in our grants administration process. These include implementing better controls over grant fund disbursement by widespread use of robust desk audits, drafting guidance on grant management to standardize grant management across the Agency, evaluating the centralization of grants management for more consistency in program management, consolidating fiscal monitoring, and data-sharing with IDOR to standardize data collection and use of data internally and externally. Full implementation anticipated by 6/30/2020.

2. Address staffing limitations and conduct internal audits of major systems and administrative controls at least once every two years in compliance with the Fiscal Control and Internal Auditing Act. OIA should include review of the Department's internal control over its administration of federal and State grants and include review of major electronic systems installed or review of major modifications to the existing electronic systems. (Repeated-2012)

Finding: The Department's internal auditing program did not fully comply with the Fiscal Control and Internal Auditing Act.

The Department's Office of Internal Audit (OIA) did not conduct audits of the Department's major systems of internal accounting and administrative control to ensure major systems are reviewed at least once every two years. During FY17 and FY18, the OIA did not conduct and complete any audits. In addition, the Department implemented a new electronic data processing system during the examination period which, according to the risk assessment performed by the Department, required a limited system development review to be performed by OIA. The limited system development review was not conducted during the examination period. The Chief Internal Auditor was hired September 21, 2015 and a staff member was added to the OIA on December 18, 2017.

In response to this finding from the prior year, the Department stated it continues to establish processes that will help ensure adherence to all requirements of the Fiscal Control and Internal Auditing Act. Department officials stated they would pursue filling internal auditor positions.

Accepted and Partially Implemented – continued

Regarding the failure to conduct audits of the Department's major systems of internal accounting and administrative control to ensure major systems are reviewed at least once every two years during the current examination period, Department officials stated the noncompliance with the Act was mainly due to staffing limitations in the OIA. Department officials further stated that during the current examination period one staff member was added to the OIA team and another position was posted, but not filled.

Regarding the failure to conduct a required limited system development review of a new data processing system Department officials stated that weaknesses in communication and absence of relevant policies and procedures was the reason for the Department's failure to conduct the review.

Response: Accepted. The Department continues to establish processes that will help ensure adherence to all requirements of the Fiscal Control and Internal Auditing Act. The Department is pursuing filling internal auditor positions which are essential to operate a fully functioning Office of Internal Audit.

Updated Response: Accepted and Partially Implemented. The Department is committed to a robust internal audit function. The Department is in the process of implementing corrective action that will establish processes to ensure the Department's ability to comply with the Fiscal Control and Internal Auditing Act. Upon taking office the new administration learned that the Department's Internal Auditor had chosen not to do any audits in the previous two years, so the new administration established a plan to ensure that all of the required audits will be completed. That Internal Auditor recently left the Department, and DCEO has prioritized recruiting a replacement auditor and is exploring a contract with outside auditors to conduct the required audits. Full implementation anticipated by 6/30/2020.

3. Ensure necessary information is collected and required reports are timely submitted to the Governor and General Assembly or seek legislative remedy from the statutory requirements. (Repeated-2010)

Finding: The Department did not submit or timely submit required reports in accordance with the mandates set forth in the State Law. During testing of statutes applicable to the Department, auditors noted the following:

- The Department did not submit a report on its evaluation of the effectiveness of the tax credit program to the Governor and the General Assembly as required by the Economic Development for a Growing Economy (EDGE) Tax Credit Act during the examination period.

  Department officials stated the failure to file the biennial report evaluating the effectiveness of the EDGE tax credit program was due to the Department's belief that the requirements were met when they included a summary of jobs created and potential capital investment for each program in their EDGE annual report filed on or before July 1.

- The Department did not timely submit the reports evaluating the effectiveness of the River Edge Redevelopment Zone Act to the Governor and General Assembly during the examination period. The calendar year reports for 2015 and 2016 were submitted 372 and 34 days late, respectively.

  Department officials stated the reports on the River Edge Redevelopment Zone Act were not submitted timely during the current examination period due to staff turnover and competing priorities.

- The Department could not verify whether the Task Force on Opportunities for At-Risk Women (Task Force) reported back to the Governor and General Assembly by January 1, 2018.

  Department officials stated the report from the Task Force on Opportunities for At-Risk Women was not submitted due to the time it took to make appointments to the Task Force and complete the administrative tasks involved with establishing the Task Force.

- The Department did not complete or submit a survey on business incentives based upon its contacts of businesses that are located in the State or have been identified as having left the State to the General Assembly by July 1, 2017 and 2018, respectively.

  Department officials stated the failure to file the surveys on business incentives were due to the Department's belief that the requirements were met through the Creating Opportunities for Retention & Expansion (CORE) program.

Updated Response: Accepted and partially implemented. The Department is in the process of implementing corrective action that will ensure that required reports are timely submitted to the Governor and General Assembly, but would like to note the following:

- It was the policy of the prior administration that the biennial evaluation of the EDGE program was duplicative of the program's annual report required of the Department and not necessary. Moving forward, the Department is fully committed to evaluating all programs administered by the Department and will submit the biennial report on EDGE by November 1, 2019 as required by statute.
- Regarding the Opportunities for At-Risk Women Task Force Report, three meetings did occur during 2018. However, despite numerous attempts to work with the General Assembly in the making of appointments, appointments from two caucuses have still not been made. The lack of support from the General Assembly, including sponsors of the enacting legislation, has made it difficult to

Accepted and Partially Implemented – continued

maintain support from the other two General Assembly appointments, as well as members of the Task Force. The Department supports the mission of the Task Force and will begin to reconvene the body, but believes it is important to note the challenges that have occurred due to the lack of engagement from the General Assembly.

- The Department supports the intent of the report required pursuant to 20 ILCS 605/605-456 (requires DCEO to conduct exit surveys of businesses leaving Illinois), but believes the statutory language is overly burdensome and is considering legislative options that would allow the Department a greater likelihood of full compliance with the intent of 20 ILCS 605/605-456.

4. Appoint the required designees and attend the meetings as mandated by statute to the applicable Boards, Commissions, Committees, and Councils; or, when applicable, continue to formally communicate to the Governor's Office the need to fill the vacancies to comply with the required membership in the mandated Boards, Commissions, Committees, and Councils. Further, when the Department deems it appropriate, seek legislative remedy from the statutory requirement. (Repeated-2012)

Finding: The Department did not ensure that certain boards, commissions, committees, or councils mandated to provide guidance to the Department had the required number of members or met as required during the examination period.

During testing of statutes applicable to the Department requiring various boards, commissions, committees, and councils, the auditors noted the following:

- The Department did not appoint a liaison to serve as ex-officio member on the Illinois Latino Family Commission.

- The Department did not appoint a liaison to serve as an ex-officio nonvoting member on the Older Adult Services Advisory Committee.

- The DCEO Director was appointed to the Mississippi River Coordinating Council. However, the Director or a designee only attended three of seven meetings during the examination period. Also, the Department could not support designating one employee to assist the Council, as required, due to the lack of central maintenance of supporting documentation. Department officials stated the supporting documentation was lost through staffing transitions.

- The Department did not formally appoint a liaison to serve ex-officio on the Illinois African-American Family Commission.

- The Department did not appoint a member or designate an employee to serve as a member on the Women's Business Ownership Council.

- The Department's Director was appointed to the 21st Century Workforce Development Fund Advisory Committee; however, the Department did not ensure the Committee met during the examination period.

- The Department did not appoint a representative to the Illinois Literacy Council.

- The Department's Director did not serve on the Interagency Council on the Bikeways Program.

- The Department appointed the Director to the Wabash and Ohio Rivers Coordinating Council. However, according to the minutes for the six meetings held by the Council during the examination period, the Director or his designee only attended three (50%) of the meetings.

- The Department did not appoint a representative to the Illinois Single Audit Commission (ILSAC) upon the existing representative's separation from the Department.

- The Department's Director was appointed a member of the Illinois Ethanol Research Advisory Board (Board); however, the Board did not meet during the examination period. Department officials stated the Board last met in 2012.

- The Department did not participate in the Illinois Muslim American Advisory Council.

- The Department's designee for the Military Economic Development Committee only attended four of eight (50%) of the quarterly meetings held by the Committee during the examination period.

In regard to the current examination period, Department officials stated that competing priorities prevented the Department from appointing a representative to the mandated Boards, Commissions, Committees, and Councils.

Updated Response: Accepted and partially implemented. The Department will make appointments, appointment recommendations, and recommendations for reductions of Boards, Commission, Committees and Councils to the Budgeting For Results Commission and the Governor's Office by 12/31/2019. DCEO is mandated to serve on over 80 Boards, Commissions, Committees and Councils, 9 of which specify that it must be the Director (no designee). For those that specify that it must be the Director, DCEO is working to permit a designee. The Department anticipates that our recommendation for the reductions of Boards, Commission, Committees and Councils can result in a cost savings to the Department of $50,000 annually.

Accepted and Partially Implemented – continued

5. Seek or allocate resources to comply with statutory requirements or seek a legislative remedy as appropriate. (Repeated-2012)

Finding: The Department did not comply with various statutory mandates. During testing, auditors noted the following:

- The Department did not administer the Illinois Industrial Coal Utilization Program and operate a revolving loan program aimed to partially finance new coal burning facilities or convert existing boilers to use coal located in Illinois during the examination period when the Illinois Industrial Coal Utilization Program was the responsibility of the Department. Executive Order 2017-03 moved the program to the Department of Natural Resources on July 1, 2017.

- The Department did not develop an engineering excellence program during the examination period. The Department is also mandated to adopt rules for the engineering excellence program.

- The Department did not administer the Illinois Renewable Fuels Development Program during the examination period when the Illinois Renewable Fuels Development Program was the responsibility of the Department. Executive Order 2017-03 moved the program to the Illinois EPA on July 1, 2017.

- The Department did not administer the Industrial Development Assistance Law which requires the Department to recognize industrial development agencies. In addition, the Department did not make grants to recognize industrial development agencies during the examination period, or develop the necessary rules and regulations and prescribe procedures in order to assure compliance by industrial development agencies in carrying out the purposes for which the grants were made.

- The Department did not comply with the Civil Administrative Code of Illinois which states the Department shall provide for liaison between the State and regional and local planning agencies and departments; perform state-wide planning as provided by law; provide assistance, counsel, and advice to local and regional planning agencies when so requested; and conduct research into local government problems as ordered by the Director.

- The Department did not comply with the Rural Economic Development Act which requires the Department to administer programs providing financial assistance to individuals and small businesses in rural areas served by rural electric cooperatives for weatherization and energy conservation purposes during the examination period. In addition, the Department did not administer a program demonstrating various alternative energy or energy conservation technologies appropriate for the rural areas of the State, nor did it provide educational materials, information, and technical assistance to support energy conservation education programs designed to assist

Illinois' rural population in dealing with economic problems due to high energy costs. Executive Order 2017-03 moved the program to the Illinois Environmental Protection Agency on July 1, 2017.

- The Department did not comply with the Civil Administrative Code of Illinois which requires the Department's official website to contain a comprehensive list of State, local, and federal economic benefits available to businesses in each of the State's counties and municipalities that the Department includes on its website.

- The Department maintained the website to help persons wishing to create new businesses or relocate businesses to Illinois; however, when auditors examined the website during fieldwork, the links to the hearing instrument dispenser license and the Illinois Environmental Protection Agency website were broken as of the date of testing. Also, the Department did not send requests to other State agencies to report any applicable application form changes during the examination period as required by the Code.

- The Department did not submit modifications of its strategic economic development plan to the Governor and General Assembly by July 1, 2017 and July 1, 2018. In addition, the Department did not annually submit necessary legislation to implement the plan.

Department officials stated the noncompliance with statutory mandates was due to lack of funding and the Department did not request funding to administer the various programs because of resource constraints and competing priorities.

Legislation passed during the examination period which repealed a requirement to establish a comprehensive community economic development project to provide technical assistance to communities for purposes specified in the Build Illinois Act.

Updated Response: Accepted and Partially Implemented. The Department is in the process of tracking compliance with all mandates including the nine cited by the Auditor General, of which three were transferred to DNR or EPA per E.O. 2017-003 on July 1, 2017.

Four mandates are before the BFR Commission for legislative remedy. The Economic Plan was released on October 9, 2019. The Department is exploring other option or making statutory language changed for (20 ILCS 605/605-456). Full implementation anticipated by 6/30/2020.

6. Improve policies and procedures for tax credit programs and include provisions to maintain all documentation required by statute. Additionally, submit reports to the General Assembly, which include all the statutorily required information or, when necessary, seek to clarify the statutory language.

Finding: The Department did not properly administer the following tax credit programs.

Accepted and Partially Implemented – continued

Angel Investment Credit Program

The Department was unable to provide documentation of the tax credit certificates for two of 40 investors (5%) tested. Additionally, the Department failed to maintain support that the claimant's investment had been made and remained in the business for three years for 12 of 40 (30%) employees tested.

Department officials stated the reason for inadequate documentation for the Angel Investment Credit Program was due to insufficient policies and procedures pertaining to maintenance of documentation for the program.

Film Production Services Tax Credit Act of 2008

The following exceptions were noted concerning the Department's administration of the Film Production Services Tax Act of 2008:

- The FY17 and FY18 quarterly reports did not indicate whether the jobs created were entry-level, management, talent-related, vendor-related, or production related.
- The annual report for FY16 and FY17 did not include all the required vendor information. It did not contain a statement as to whether the vendor is a minority owned business or a women owned business.

Department officials stated that noncompliance with the reporting requirements in the Film Production Services Tax Credit Act was due to ambiguity and discrepancies in the statutory language. The statute requires that the Department classify jobs created into categories that are not germane to the film production services industry. In order to provide more transparency on the quarterly report, the Department chose to classify the jobs created in industry relevant categories. Lastly, the Department did not report whether vendors listed in the annual report were a minority owned business or a women owned business.

Live Theater Production Tax Credit Act

The following exceptions were noted concerning the Department's administration of the Live Theater Production Tax Credit Act:

- The FY17 and FY18 quarterly reports did not indicate whether the jobs created were entry-level, management, vendor, or production related.

- The annual report for FY16 and FY17 did not include all the required vendor information. It did not contain a statement as to whether the vendors paid were minority-owned or women-owned business.

Department officials stated the noncompliance with the reporting requirements in the Live Theater Production Tax Credit Act was due to ambiguity and discrepancies in the statutory language. The statute requires that the Department classify jobs created into categories that are not germane to the live theater production industry. In order to provide more transparency on the quarterly report, the Department chose to classify the jobs created in industry relevant categories. Lastly, the Department did not report whether vendors listed in the annual report were a minority owned business or a women owned business as mandated because the Department was reviewing how the annual reporting requirement was impacted by the portion of the Act which stated "any documentary materials or data made available or received by any agency or employee of the Department are confidential and are not public records to the extent that the material or data consist of commercial or financial information regarding the operation of or the production of the applicant or recipient of any tax credit under this Act."

Economic Development for a Growing Economy Tax Credit Act

The following exceptions were noted concerning the Department's administration of the Economic Development for a Growing Economy (EDGE) Tax Credit Act:

- Seven of 10 (70%) EDGE Tax Agreements tested did not contain a detailed description of the number of new employees to be hired and the occupation and payroll of the full-time jobs to be created or retained as a result of the project.

- The Department was unable to provide support for the date the EDGE Tax Agreement was posted to its website for one of 10 EDGE Tax Agreements tested.

- The calendar year 2017 EDGE Tax Credit Program Annual Reports did not contain any relevant modifications to existing EDGE Tax Agreements and copies of the original EDGE Tax Agreements.

Department officials stated the noncompliance found related to the EDGE Tax Credit Act was due to insufficient policies and procedures.

<u>Updated Response:</u> Accepted and partially implemented. The Department of Commerce and Economic Opportunity accepts and has partially implemented the recommendation as it relates to the exceptions found with the EDGE and Angel Tax Credits. The Department is committed and on track to submit the CY2018-2019 EDGE Tax Credit Evaluation report to the Governor and General Assembly by November 1, 2019. Additionally, with a go-live date of 1/1/2020, the Angel and EDGE programs will utilize a technology when credits and exemptions are awarded to program participants. This will be completed through a technology platform for immediate access by Department of Revenue and leadership at DCEO. A protocol will be implemented for a defined workflow and tracking method for all program awards. As it relates to the Film Production Services and Live Theater Production Tax Credits the Department accept the recommendation and will continue to explore options for making statutory changes that will allow the Department to report jobs in categories germane to the film and theater industries and allow the Department to comply with the intent of minority-owned and women-owned business reporting.

Accepted and Partially Implemented – continued

8. Timely complete employee performance evaluations and continue to monitor compliance with the Illinois Administrative Code and Department policy. (Repeated-2006)

Finding: The Department did not perform annual employee performance evaluations for all employees and did not perform certain employee performance evaluations on a timely basis. During testing of employee files for performance evaluations, auditors noted the following:

- Seventeen of 40 (43%) employees tested did not have annual performance evaluations completed for fiscal year FY17 and FY18.

- Evaluations for eight of 40 (20%) employees were completed nine to 398 days after they were due.

In the current examination, Department officials stated the failure to complete performance evaluations or timely complete performance evaluations were due to employees' and supervisors' competing priorities.

Updated Response: Accepted and Partially Implemented. The Department's Executive leadership is actively engaged in identifying opportunities to improve compliance with these requirements and is in the process of implementing a system to flag tardy evaluators. In addition, the Director prioritized two training sessions for DCEO managers on Human Resource policies and procedures with emphasis on managing employees and conducting timely evaluations. Full implementation anticipated by 6/30/2020.

9. Provide sufficient resources to adequately segregate conflicting duties when conducting inventories of State property. Also, improve controls over the recording and tracking of State property. Lastly, ensure that all hard drives are wiped of confidential information prior to disposal. (Repeated-2016)

Finding: The Department had weaknesses in controls over its State property. During review of the Department's compliance with State property requirements, auditors noted the following:

- The Department did not have an adequate segregation of duties when conducting its State property inventory. The Property Control Officer conducts a physical count of assets and maintains the property control records. During the current examination, Department officials stated the issue regarding segregation of duties is attributable to budget constraints and staffing allocations.
- The Department did not dispose of assets in accordance with the property control rules. The Department was unable to provide any information regarding the disposal of one asset with a cost of $130. Department officials stated the missing disposal

documentation was due to the property control unit not being more diligent in recording and tracking equipment. In addition, the Department disposed of 30 pieces of information technology (IT) equipment, including three items leased through the Department of Innovation and Technology (DoIT), totaling $59,426. The Department was unable to provide support showing the hard drives of the IT equipment had been wiped of confidential information for 17 of 30 (57%) pieces of IT equipment totaling $28,652. Department officials stated the absence of the support documenting the wiping of some IT equipment items was due to the Department's misunderstanding of these duties during the transition to the Department of Innovation and Technology.

Updated Response: Accepted and Partially Implemented. The Department is in the process of adequately segregating duties relative to inventorying State property, improve the reporting and tracking of State property, and ensure that confidential information is properly wiped from hard drives. Full implementation anticipated by 6/30/2020.

10. Strengthen controls and monitor the eTime system to ensure employees' time records are completed and submitted timely. (Repeated-2016)

Finding: The Department had weaknesses in controls over employee time reporting.

During testing of 111 timesheets, auditors noted thirty-three (30%) were not submitted by employees timely. The timesheets were submitted two to 38 business days late after the timesheet period end date.

In addition, auditors noted two of 40 (5%) employees tested did not submit leave request forms in a timely manner according to the Department's policies. The leave requests were submitted one to two business days late.

The Department stated its Executive Management would communicate an expectation of compliance to managers and supervisors.

Department officials stated timesheets and leave request forms were not submitted timely due to oversight.

Response: Accepted. The Department is taking steps to ensure compliance with these requirements. The Department's Executive Management will communicate an expectation of compliance to managers and supervisors. Furthermore, an update of the Employee Policy Manual to more closely align the Department's timekeeping practices to those of the Ethics Act is close to completion.

Updated Response: Accepted and partially implemented. The Department is staffing up the Office of Human Resources to fully implement the recommendation by 6/30/2020.

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 5 calendar 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 calendar days before the public hearing.

A chief procurement officer making such emergency purchases is required to file affidavits or statements with the Procurement Policy Board and the Auditor General setting forth the amount expended (or an estimate of the total cost), the name of the contractor involved, and the conditions and circumstances requiring the emergency purchase. The Code also allows for quick purchases. 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 filed no emergency purchase affidavits/statements in FY17 or FY18.

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.

The Department of Commerce and Economic Opportunity indicated as of July 11, 2018 that 63 employees had headquarters designated at a location other than that at which their duties require them to spend the largest part of their working time.

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DEPARTMENT OF COMMERCE AND ECONOMIC OPPORTUNITY
TWO YEARS ENDED JUNE 30, 2018

APPENDIX A

Summary of Appropriations and Expenditures By Fund

	FY18	FY17	FY16
Appropriations	**$ 1,364,646,617**	-	-
Expenditures			
General Revenue Fund	$ 12,777,197	$ 7,335,190	$ 8,335,740
Agricultural Premium Fund	160,000	-	-
Solid Waste Management Fund	-	215,218	600,000
Small Business Environmental Assistance Fund	326,531	363,605	399,986
State Small Business Credit Initiative Fund	6,730,579	12,096,759	12,906,972
Energy Efficiency Portfolio Standards Fund	-	116,815,026	22,682,754
Supplemental Low-Income Energy Assistance Fund	81,882,561	68,839,184	61,896,663
Workforce, Technology, & Economic Development Fund	-	166,744	1,476,393
International Tourism Fund	5,249,482	6,084,884	5,400,917
Commerce and Community Affairs Assistance Fund	5,069,602	4,439,669	4,339,570
Commitment to Human Services Fund	-	243,800	-
Historic Property Administrative Fund	74,974	44,163	59,727
Budget Stabilization Fund	-	500,000	-
Energy Administration Fund	10,823,953	13,536,595	11,720,131
Tourism Promotion Fund	26,948,011	37,572,228	19,455,777
Intermodal Facilities Promotion Fund	-	936,963	-
DCEO Energy Projects Fund	-	5,456,285	2,275,783
Federal Energy Fund	-	1,171,992	1,359,769
Low Income Home Energy Assist. Block Grant Fund	116,116,166	140,181,214	117,949,633
Community Services Block Grant Fund	34,545,593	26,149,231	31,695,139
Community Development/Small Cities Block Grant Fund	25,826,563	26,104,962	33,771,628
Intra-Agency Service Fund	9,240,502	7,752,204	8,148,412
Federal Workforce Training Fund	139,414,900	141,440,050	148,890,118
Coal Technology Development Assistance Fund	-	233,313	490,783
Local Tourism Fund	16,827,159	17,699,424	15,604,999
Build Illinois Bond Fund	4,674,467	2,914,601	1,857,913
Illinois Capital Revolving Loan Fund	456,930	988,500	997,486
International and Promotional Fund	12,035	-	-
TOTAL ALL FUNDS	**$ 497,157,205**	**$ 639,281,804**	**$ 512,316,293**

APPENDIX B

Comparison of Expenditures by Object

	FY18	FY17	FY16
Personal Services	$ 23,495,875	$ 25,669,719	$ 26,583,447
State Contributions to SERS	8,086,159	8,317,772	8,562,969
State Contribution to Social Security/Medicare	1,727,100	1,885,341	1,952,182
Employer Contributions to Group Ins.	3,790,321	4,526,254	4,856,877
Contractual Services	33,583,801	52,118,403	24,988,656
Travel	379,481	386,342	369,862
Purchase of Investments	6,674,488	11,910,547	12,640,015
Printing	26,107	117,849	171,900
Commodities	27,022	28,058	17,339
Equipment	16,658	19,282	5,070
Telecommunications	375,889	337,499	427,138
Operation of Auto Equipment	34,850	33,411	32,852
Interest - Prompt Payment Act	2,321,209	880	225,268
Interfund Cash Transfer	250,000	8,214,467	4,497,223
Awards and Grants	416,012,659	512,280,515	425,925,246
Refunds	355,586	13,435,465	1,060,249
Total Expenditures - Appropriated Funds	**$ 497,157,205**	**$ 639,281,804**	**$ 512,316,293**

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TWO YEARS ENDED JUNE 30, 2018

APPENDIX C

Cash Receipts

	FY18	FY17	FY16
Grand Total All Funds			
Federal grants	$ 364,943,711	$ 368,115,884	$ 366,834,936
State grants	-	66,293	112,825
Private donor	37,543,879	104,889,556	16,370,463
Licenses and fees	135,396,433	136,468,427	134,699,360
Loan repayments	20,604	80,893	228,511
Interest income	1,101,526	1,123,301	1,388,019
Sale of investments	12,799,284	10,939,639	6,600,338
Clean Air Act permit	425,000	800,380	-
Children and Family Services	41,704	50,000	-
Miscellaneous	19,698	109,436	27,727
Prior year refunds	3,658,438	10,570,033	9,471,337
Total Cash Receipts Per Department	**$ 555,950,277**	**$ 633,213,842**	**$ 535,733,516**

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DEPARTMENT OF COMMERCE AND ECONOMIC OPPORTUNITY

TWO YEARS ENDED JUNE 30, 2018

APPENDIX D

Schedule of Changes in State Property

	FY18	FY17
Balance, July 1	**$ 3,828,651**	**$ 4,096,636**
Additions	25,712	32,132
Deletions	(133,159)	(100,684)
Net Transfers	(142,228)	(199,433)
Balance, June 30	**$ 3,578,976**	**$ 3,828,651**