



STATE OF ILLINOIS
**OFFICE OF THE
 AUDITOR GENERAL**

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF COMMERCE AND ECONOMIC OPPORTUNITY

Compliance Examination
 For the Two Years Ended June 30, 2016

Release Date: April 27, 2017

FINDINGS THIS AUDIT: 12	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	2014		16-7, 16-8, 16-9	
Category 2:	3	9	12	2012		16-2, 16-4, 16-5	
Category 3:	<u>0</u>	<u>0</u>	<u>0</u>	2010		16-3	
TOTAL	3	9	12	2008		16-1	
				2006		16-10	
FINDINGS LAST AUDIT: 11							

SYNOPSIS

- (16-1) The Department did not ensure adequate controls were established in the administration of grant programs.
- (16-2) The Department's internal auditing program did not fully comply with the Fiscal Control and Internal Auditing Act.
- (16-3) The Department did not submit or timely submit required reports in accordance with the mandates set forth in the State Law.
- (16-5) The Department did not comply with various statutory mandates.
- (16-6) The Department did not fully comply with the Employment and Economic Opportunity for Persons with Disabilities Task Force Act and the Illinois Employment First Act.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).

Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.

Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Expenditures and Activity Measures are summarized on next page.}

**DEPARTMENT OF COMMERCE AND ECONOMIC OPPORTUNITY
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016**

EXPENDITURE STATISTICS	FY 2016	FY 2015	FY 2014
Total Expenditures (All Funds).....	\$ 512,513,234	\$ 995,259,819	\$ 1,051,761,271
OPERATIONS TOTAL.....	\$ 85,330,798	\$ 114,828,199	\$ 119,963,156
% of Total Expenditures.....	16.7%	11.5%	11.4%
Personal Services.....	26,583,447	30,236,236	31,148,141
Other Payroll Costs (FICA, Retirement, Group Insurance).....	15,372,028	16,500,757	16,890,200
Contractual Services.....	24,988,656	50,341,798	46,483,290
Transfers.....	4,497,223	6,000,000	5,500,000
Purchase of Investments.....	12,640,015	10,184,761	17,987,592
All Other Operating Expenditures.....	1,249,429	1,564,647	1,953,933
AWARDS AND GRANTS.....	\$ 425,925,246	\$ 879,853,026	\$ 931,167,223
% of Total Expenditures.....	83.1%	88.4%	88.5%
REFUNDS TOTAL.....	\$ 1,257,190	\$ 578,594	\$ 630,892
% of Total Expenditures.....	0.2%	0.1%	0.1%
Average Number of Employees (not examined).....	293	315	364
CASH RECEIPTS	FY 2016	FY 2015	FY 2014
Federal Grants.....	\$ 366,834,936	\$ 446,001,033	\$ 475,652,608
License and Fees.....	134,699,360	139,395,191	122,381,023
Private Donor.....	16,370,463	68,173,546	77,071,324
Prior Year Refunds.....	9,471,337	3,980,390	8,430,631
Sale of Investments and Interest Income.....	7,988,357	8,506,031	5,821,085
Loan Repayments.....	228,511	80,738	402,925
State Grants.....	112,825	6,077,690	1,105,728
Other.....	27,727	427,869	439,941
Total.....	<u>\$ 535,733,516</u>	<u>\$ 672,642,488</u>	<u>\$ 691,305,265</u>
SELECTED ACTIVITY MEASURES (not examined)	2016 (target / projected)	2015	2014
Business Development projected jobs created.....	3,750	3,804	5,022
Business Development projected jobs retained.....	N/A	6,167	7,708
Business Information Center customers assisted.....	7,550	6,714	6,012
Actual jobs created attributable to SBDC assistance.....	3,300	2,504	2,360
Actual jobs retained attributable to SBDC assistance.....	4,400	3,114	2,712
Jobs added from foreign companies locating in IL.....	352	213	396
LIHEAP households that received heating assistance.....	250,000	343,310	394,695
Job training trainees receiving employment.....	280	221	95
Job training trainees retaining employment.....	432	214	236
Materials diverted from solid waste stream (tons).....	N/A	34,933	79,024
Domestic & international travel expenditures (billions). \$	37.5	\$ 36.3	\$ 34.6
AGENCY DIRECTOR			
During Examination Period: Adam Pollet (through 1/19/15); Andria Winters (Acting 1/20/15 to 2/15/15); James Schultz (2/16/15 to 3/31/16); Sean McCarthy (effective 4/1/16)			
Currently: Sean McCarthy			

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**WEAKNESSES IN CONTROLS OVER GRANT
ADMINISTRATION**

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

Department expended \$1.3 billion in grants during the examination period

The Department expended \$1,305,778,270 for awards and grants during the examination period. Expenditures for awards and grants accounted for 87% of the Department's total expenditures of \$1,507,773,053. We tested 60 grant agreements spread across the various bureaus within the Department.

During the examination of 60 awards and grants, the following issues were noted:

Grant payments made before required reports were received and approved

- Seven (12%) awards tested disclosed the Department did not ensure payments to grantees were only made after required reports were received and approved by the Department as required in the grant agreement. The Department disbursed funds totaling \$31,247,325 of these awards prior to approving required reports that would allow for the disbursement of funds.

Grant applications missing or incomplete

- Four (7%) awards tested disclosed certain grant records were not properly maintained. The grant application evaluations completed by the Department for 3 awards tested were not found on file. One award had incomplete grantee application evaluation documentation.

Grants not adequately monitored

- Two (3%) awards tested disclosed grantees were not adequately monitored during the audit period. The Department did not perform the required onsite review/visits on 2 awards with funds disbursed totalling \$12.5 million during Fiscal Years 2015 and 2016.

Refund returned 316 days late

- The Department did not return 1 of 8 (13%) refund vouchers tested totalling \$24,606 to the contractor timely. The refund was returned to the contractor 316 days after the date the unspent funds were required to be returned to the contractor. (Finding 1, pages 12-13)
This finding has been repeated since 2008.

We recommended the Department strengthen its controls over the grant administration process including controls over disbursement of grant funds, maintaining grant documentation, grant monitoring and returning of unspent funds to grantors/contractors.

Department officials accepted auditor's recommendation

Department officials accepted our recommendation and stated they continue to assess the efficiency and effectiveness of their current controls over the grant administration process, and have already 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, they indicated the Department's Office of Accountability will ensure that grant monitoring will occur per the conditions of the grant agreements for those programs that lack monitors. *(For the previous Department response, see Digest Footnote #1.)*

NONCOMPLIANCE WITH THE FISCAL CONTROL AND INTERNAL AUDITING ACT

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

The Department did not conduct internal audits of major systems of internal accounting and administrative control as required

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 Fiscal Year 2015, the OIA did not conduct and complete any audits. During Fiscal Year 2016, the OIA completed two audits. In addition, the Department installed a new electronic data processing system during Fiscal Year 2015; however, no internal audit review of the system design and controls was conducted prior to installation. (Finding 2, pages 14-15) **This finding has been repeated since 2012.**

No review of new electronic data processing system design and controls

We recommended the OIA 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 also include review of major electronic systems installed or review of major modifications to the existing electronic systems.

Department officials accepted auditor's recommendation

Department officials accepted our recommendation and stated they continue 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. *(For the previous Department response, see Digest Footnote #2.)*

FAILURE TO SUBMIT OR TIMELY SUBMIT REQUIRED REPORTS

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:

**Report evaluating the effectiveness
of the EDGE tax credit program was
not submitted**

- 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. The last evaluation report submitted by the Department was on November 1, 2005.

**Reports evaluating the effectiveness
of the River Edge Redevelopment
Zone Act were submitted late**

- 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 Fiscal Years 2015 and 2016. The reports were submitted 16 and 209 days after they were due. (Finding 3, pages 16-17) **This finding has been repeated since 2010.**

We recommended the Department revisit the statute that requires an evaluation of the EDGE Tax Credit Program to determine its effectiveness in creating new jobs and revenue impact to the State or seek legislative remedy as appropriate. In addition, we recommended the Department allocate sufficient resources to ensure necessary information is collected and required reports are timely submitted to the Governor and General Assembly.

**Department officials accepted
auditor's recommendation**

Department officials accepted our recommendation and stated they will continue to strive for timely submission of all required reports or, when appropriate, seek statutory changes. *(For the previous Department response, see Digest Footnote #3.)*

NONCOMPLIANCE WITH STATUTORY MANDATES

The Department did not comply with various statutory mandates.

During testing, auditors noted the following:

**Comprehensive community
economic development project not
established**

- The Department did not establish a comprehensive community economic development project to provide technical assistance to communities for purposes specified in the Build Illinois Act.

Required vendor information not included in Film Production Services Tax Credit annual reports

- The Department's Film Production Services Tax Credit annual report for both Fiscal Year 2015 and 2016 did not include all the required vendor information as enumerated in subsection (c) of the Film Production Services Tax Credit Act of 2008.

The Department did not administer the Illinois Industrial Coal Utilization Program

- 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.

Annual modifications to State strategic economic development plan not completed

- The Department developed the State strategic economic development plan (plan) which was submitted to the Governor and the General Assembly on July 1, 2014 in accordance with the statute. However, the Department did not complete and submit annual modifications to the plan which were due on July 1, 2015 and July 1, 2016. In addition, the Department did not submit necessary legislation to implement the Plan.

Department designee did not regularly participate as a member of Council

- The Department's designee did not regularly participate as a member on the Business Enterprise Council for Minorities, Females, and Persons with Disabilities (Council). During review of the meeting minutes of the Council, auditors noted the designee of the Department did not attend 11 of the 19 (58%) meetings of the Council held during Fiscal Years 2015 and 2016. (Finding 5, pages 22-25) **This finding has been repeated since 2012.**

We recommended the Department allocate resources to comply with the statutory requirements or seek a legislative remedy as appropriate.

Department officials accepted auditor's recommendation

Department officials accepted our recommendation and stated they are taking steps to ensure compliance with these requirements; or, where appropriate, they were seeking statutory changes. (*For the previous Department response, see Digest Footnote #4.*)

NONCOMPLIANCE WITH THE EMPLOYMENT AND ECONOMIC OPPORTUNITY WITH DISABILITIES TASK FORCE ACT AND ILLINOIS EMPLOYMENT FIRST ACT

The Department did not fully comply with the Employment and Economic Opportunity for Persons with Disabilities Task Force Act and the Illinois Employment First Act.

During testing of the Department's compliance with the Economic Opportunity for Persons with Disabilities Task Force Act and the Illinois Employment First Act, auditors noted the following:

Task force did not produce an annual report

- The Economic Opportunity for Persons with Disabilities Task Force (Task Force) did not produce an annual report of its activities and recommendations that should be issued no later than May 1st of each year.

Task force did not finalize measurable goals and objectives

- The Task Force had not finalized the measurable goals and objectives for the State to ensure implementation and monitor measured progress towards implementation of the Illinois Employment First Act.

Task force did not submit the final five-year strategic report

- The Task Force did not submit the final five-year strategic report due on June 30, 2015 to the Governor. As of September 2016, the final strategic plan has not yet been submitted by the Task Force. (Finding 6, pages 26-27)

We recommended the Department together with other member State agencies of the Task Force comply with the requirements of the Economic Opportunity for Persons with Disabilities Task Force Act, the Illinois Employment First Act, and the Executive Order implementing the Illinois Employment First Act.

Department officials accepted auditor's recommendation

Department officials accepted our recommendation and stated that in December of 2014, the Economic Opportunity for Persons with Disabilities Task Force created workgroups charged with development of the strategic plan. From that time, through July of 2016 when a draft plan was posted for public comment, Department staff participated on the workgroups and submitted feedback related to workforce development. Once the Economic Opportunity for Persons with Disabilities Task Force becomes active again, the Department will continue to contribute.

OTHER FINDINGS

The remaining findings pertain to not fully staffing boards, and commissions, noncompliance with the Retailers' Occupation Tax Act and the Public Utilities Act, failure to complete performance evaluations timely, exceptions identified with interagency agreements, and weaknesses in controls over State property and with employee time reporting. We will review the Department's progress towards the implementation of our recommendations in our next compliance examination.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the Department for the two years ended June 30, 2016, as required by the Illinois State Auditing Act. The accountants stated the Department complied, in all material respects, with the requirements described in the report.

This compliance examination was conducted by E.C. Ortiz & Co. LLP.

SIGNED ORIGINAL ON FILE

BRUCE L. BULLARD
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:JAF

DIGEST FOOTNOTES

#1 – WEAKNESSES IN CONTROLS OVER GRANT ADMINISTRATION

DCEO accepts the recommendation and will work with grant program offices to ensure adequate training is available to grant management staff. Accessible information should include proper adherence to grant agreement provisions and requirements, procedures for the review and approval of grantee reports, and basic grant monitoring techniques specific to the grant program. Additionally, the Department will ensure any subsequent refunds received from grantees on expired grant programs are submitted back to the grantor timely.

#2 – NONCOMPLIANCE WITH THE FISCAL CONTROL AND INTERNAL AUDITING ACT

DCEO accepts the recommendation and will seek to fill the now-vacant Chief Internal Auditor position, as well as the Deputy Chief Internal Auditor position, to help ensure future compliance with the Act.

#3 – FAILURE TO SUBMIT, OR TIMELY SUBMIT REQUIRED REPORTS

DCEO accepts the recommendation and will re-emphasize the importance of required reporting to the Governor and General Assembly. Additionally, the Department will periodically test the tracking system to ensure its functionality and ability to remind staff of upcoming report preparation and submittal dates.

#4 – NONCOMPLIANCE WITH STATUTORY MANDATES

The Department accepts the recommendation and acknowledges certain statutes require action by the Department to address mandates that are no longer relevant, were never funded, or for which we are implementing controls to ensure compliance. The Department utilizes a mandate database to assist in identifying and prioritizing corrective actions needed to ensure compliance with the requirements of the statutes. The Department will take necessary actions for the mandates identified in this finding or will seek legislative action if necessary.