

**STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
COMPLIANCE EXAMINATION**

For the Year Ended June 30, 2010

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
COMPLIANCE EXAMINATION  
For the Year Ended June 30, 2010

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## AGENCY OFFICIALS

### DEPARTMENT OF REVENUE

<b>Director</b>	Brian A. Hamer
<b>Assistant Director</b>	Vacant
<b>Associate Director</b>	Jodie Winnett
<b>Chief of Staff</b>	Lainie Krozel
<b>Chief Fiscal Officer</b>	David Hunt
<b>Lottery</b>	Jodie Winnett (Acting)
<b>Liquor Control Commission</b>	Gloria Materre (03/21/2011 – Current) Lainie Krozel (07/01/2009 – 03/20/2011)
<b>Program Administrators:</b>	
Administrative Services	Angela Oxley
Account Processing	O. Wayne Richie
Information Technology	Rebecca Moore
Tax Enforcement	John Chambers
Audit	Dan Hall
Policy and Communications Office	Michael Klemens
<b>General Counsel</b>	John McCaffrey
<b>Chief Internal Auditor</b>	Douglas Hathhorn (08/02/2010 – Current)
<b>Managers:</b>	
Financial Control Bureau	Vacant (09/01/2010 – Current) Larry Lascody, Jr. (07/01/2009 – 08/31/2010) Patti Walbaum
Returns and Deposit	
<b>Administrative and Regulatory Shared Services Center:</b>	
Director	Vacant (06/16/2010 – Current) Anne McElroy (12/01/2009 – 06/15/2010) David Hunt (07/01/2009 – 11/30/2009)
Chief Fiscal Officer	David Hunt (Acting, 02/16/2011 – Current) Marvin Becker (07/01/2009 – 02/15/2011)
Customer Service Liaison	Vacant
Human Resources Director	Jeanine Hamm
Administrative Director	Vacant (12/01/2009 – Current) Angela Oxley (07/01/2009 – 11/30/2009)
<b>Lottery Control Board Members</b> (as of June 30, 2010)	Irv Smith Jonathan Stein Vacant Vacant Vacant
<b>Liquor Control Board Members</b> (as of June 30, 2010)	Stephen Schnorf Sam Esteban Amy Kurson Michael F. McMahon Donald G. O'Connell James Pandolfi Charles Scholz

**Agency offices are located at:**

**Springfield, Illinois**

Willard Ice Building  
101 W. Jefferson Street  
Springfield, Illinois 62702

**Des Plaines, Illinois**

Maine North Regional Building  
9511 Harrison Avenue  
Des Plaines, Illinois 60016

**Marion, Illinois**

2309 W. Main Street, Suite 114  
Marion, Illinois 62959

**Paramus, New Jersey**

45 Eisenhower Drive, Suite 2  
Paramus, New Jersey 07652

**Chicago, Illinois**

James R. Thompson Center  
100 W. Randolph Street  
Chicago, Illinois 60601

**Fairview Heights, Illinois**

15 Executive Drive, Suite 2  
Fairview Heights, Illinois 62208

**Rockford, Illinois**

200 S. Wyman Street  
Rockford, Illinois 61101



STATE OF ILLINOIS

**DEPARTMENT OF REVENUE**

101 WEST JEFFERSON STREET  
SPRINGFIELD, ILLINOIS 62702

Springfield Office: 217 785-7570

Chicago Office: 312 814-3190

**BRIAN HAMER**  
Director

**PAT QUINN**  
Governor

June 15, 2011

Honorable William G. Holland  
State of Illinois Auditor General  
Hes Park Plaza  
740 East Ash  
Springfield, IL 62703-3154

Dear Auditor General Holland:

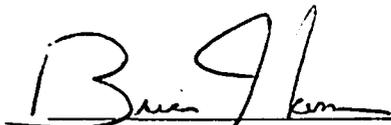
We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Department of Revenue. We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the Department's compliance with the following assertions during the year ended June 30, 2010. Based on this evaluation, we assert that during the year ended June 30, 2010, the Department has materially complied with the assertions below.

- A. The Department has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Department has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Department has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Department are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

E. Money or negotiable securities or similar assets handled by the Department on behalf of the State or held in trust by the Department have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

Department of Revenue

  
Brian Hamer, Director

  
David Hunt, Chief Fiscal Officer

  
John McCaffrey, General Counsel

## COMPLIANCE REPORT

### SUMMARY

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

### ACCOUNTANTS' REPORTS

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

### SUMMARY OF FINDINGS

<u>Number of</u>	<u>Current</u>	<u>Prior</u>
Findings	<u>Report</u>	<u>Report</u>
Repeated findings	37	21
Prior recommendations implemented or not repeated	10	11
	11	7

Details of findings are presented in the separately tabbed report section of this report.

### SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS (STATE COMPLIANCE)			
10-1	14	Fund Balance Deficit Exceeding \$2 Billion	Material Weakness and Material Noncompliance
10-2	18	Year-end Reporting Procedures for Receivables Not Followed	Material Weakness and Material Noncompliance
10-3	20	Year-end Accounting Estimate Not Prepared Accurately	Material Weakness and Material Noncompliance

10-4	23	Year-end Receivable Not Properly Allocated	Material Weakness and Material Noncompliance
10-5	25	Certain Year-end Receivables Not Valid	Material Weakness and Material Noncompliance
10-6	28	SAS 70 Reports Not Obtained	Significant Deficiency and Noncompliance
10-7	30	Inadequate Control over Hotel Operators' Occupation Tax Allocations	Material Weakness and Material Noncompliance
10-8	34	Inadequate Control over State Sales Tax Allocations	Material Weakness and Material Noncompliance
10-9	39	Inadequate Controls over Receipt Processing and Taxpayer Information	Material Weakness and Material Noncompliance
10-10	43	Noncompliance with the Public Utilities Revenue Act	Material Weakness and Material Noncompliance
10-11	45	Inadequate Control over Illinois Sports Facilities Authority Funds	Material Weakness and Material Noncompliance
10-12	48	Inadequate Controls over Taxes Collected for Local Governments	Significant Deficiency and Noncompliance
	53	Timeline for the Illinois Lottery Private Manager Procurement	
10-13	55	Lottery Private Manager Procurement - Use of Financial Advisor	Material Weakness and Material Noncompliance
10-14	60	Lottery Private Manager Procurement - Documentation to Support Payment to Transaction Advisor	Material Weakness and Material Noncompliance
10-15	66	Lottery Private Manager Procurement - Evaluation Team Diligence	Significant Deficiency and Noncompliance
10-16	71	Lottery Private Manager Procurement - Evaluation Clarification Process	Significant Deficiency and Noncompliance

10-17	75	Lottery Private Manager Procurement - Scoring Evaluation Irregularities	Material Weakness and Material Noncompliance
10-18	78	Lottery Private Manager Procurement - Probity Investigations	Significant Deficiency and Noncompliance
10-19	82	Lottery Private Manager Procurement - Protest Process	Significant Deficiency and Noncompliance
10-20	86	Lottery Private Manager Procurement - Private Manager Agreement	Significant Deficiency and Noncompliance
10-21	89	Lack of Contract Monitoring	Material Weakness and Material Noncompliance
10-22	92	Weaknesses in the Development of GenTax	Significant Deficiency and Noncompliance
10-23	95	Inadequate Security over GenTax	Significant Deficiency and Noncompliance
10-24	97	Inadequate Change Control Process	Significant Deficiency and Noncompliance
10-25	99	Inadequate Controls over Confidential Information	Material Weakness and Material Noncompliance
10-26	102	Failure to Timely Distribute Local Government Tax Collections	Significant Deficiency and Noncompliance
10-27	105	Failure to Pay Personal Property Replacement Tax Refunds Created a Statutory Excess	Material Weakness and Material Noncompliance
10-28	109	Noncompliance with Statutory Expenditure Limitations	Significant Deficiency and Noncompliance
10-29	110	Lack of Controls over the Tire User Fee	Significant Deficiency and Noncompliance
10-30	113	Inadequate Controls over Liquor Retailer Licenses	Significant Deficiency and Noncompliance

10-31	116	Improper Fiscal Year Expenditures	Material Weakness and Material Noncompliance
10-32	119	Inadequate Control over Distributions of Hotel Operators' Occupation Tax	Significant Deficiency and Noncompliance
10-33	121	Distributions to Counties in Violation of the Tennessee Valley Authority Payment Act	Significant Deficiency and Noncompliance
10-34	123	Lack of Adequate Disaster Contingency Planning or Testing to Ensure Recovery of Applications and Data	Significant Deficiency and Noncompliance
10-35	125	Inadequate Controls over Contractual, Interagency, and Grant Agreements	Significant Deficiency and Noncompliance
10-36	127	Inadequate Controls over Personal Services	Significant Deficiency and Noncompliance
10-37	130	Payments to County Officials	Significant Deficiency and Noncompliance

**PRIOR FINDINGS NOT REPEATED**

- A 133 Inaccurate Calculation of Year-End Liability
- B 133 Inadequate Controls over Refunds
- C 133 Lack of Formal Business Rules
- D 133 Unrecorded Interest Amounts
- E 134 Deficiencies in GenTax
- F 134 Inaccurate Cigarette Tax Allocations
- G 134 Failure to Provide Timely Motor Fuel Tax Information to IDOT
- H 134 Inadequate Control over the Personal Use of State Vehicles

- I 135 Noncompliance with the Illinois Lottery Law
- J 135 Noncompliance with Statutory Mandates
- K 135 The Department Did Not Ensure GAAP Packages and Draft Financial Statements were Complete and Accurate

**EXIT CONFERENCE**

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on May 19, 2011. Attending were:

**Department of Revenue**

Brian A. Hamer	Director
Jodie Winnett	Associate Director
John McCaffrey	General Counsel
Dave Hunt	Chief Fiscal Officer
Melinda Westwater	Chief Fiscal Officer, Shared Services
Rebecca Moore	Chief Information Officer
Douglas Hathhorn	Chief Internal Auditor
Jose Borjon	Audit Liaison
Angela Oxley	Administrative Services
Mike Klemens	Policy and Communications Office
Wayne Ritchie	Account Processing
Dan Hall	Audit Bureau

**McGladrey and Pullen, LLP**

Linda Abernethy	Partner
Sean Hickey	Audit Manager
William Sarb	Senior Associate

**Office of the Auditor General**

Candice Long	Audit Manager
Kathy Lovejoy	Audit Manager
Mike Maziarz	Audit Manager
Joe Butcher	Audit Manager
Jennifer Cicci	Audit Supervisor
Daniel Nugent	Audit Supervisor
Chase Kailer	State Auditor

Responses to the recommendations were provided by Doug Hathhorn, Chief Internal Auditor, in two correspondences dated May 27, 2011 and May 31, 2011.

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OFFICE OF THE AUDITOR GENERAL  
WILLIAM G. HOLLAND

INDEPENDENT ACCOUNTANTS' REPORT ON STATE COMPLIANCE,  
ON INTERNAL CONTROL OVER COMPLIANCE, AND ON  
SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

Honorable William G. Holland  
Auditor General  
State of Illinois

Compliance

We have examined the State of Illinois, Department of Revenue's compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2010. The management of the State of Illinois, Department of Revenue is responsible for compliance with these requirements. Our responsibility is to express an opinion on the State of Illinois, Department of Revenue's compliance based on our examination.

- A. The State of Illinois, Department of Revenue has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The State of Illinois, Department of Revenue has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The State of Illinois, Department of Revenue has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the State of Illinois, Department of Revenue are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the State of Illinois, Department of Revenue on behalf of the State or held in trust by the State of Illinois, Department of Revenue have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor

General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the State of Illinois, Department of Revenue's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the State of Illinois, Department of Revenue's compliance with specified requirements.

As described in findings 10-27 and 10-31 in the accompanying schedule of findings, the State of Illinois, Department of Revenue did not comply with requirements regarding the use of public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law. As described in findings 10-9, 10-10, 10-13, 10-14, 10-17, 10-21, and 10-25 in the accompanying schedule of findings, the State of Illinois, Department of Revenue did not comply with requirements regarding the use of public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such use. As described in findings 10-1 through 10-5 in the accompanying schedule of findings, the State of Illinois, Department of Revenue did not comply with requirements regarding applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations. As described in findings 10-7, 10-8, and 10-11 in the accompanying schedule of findings, the State of Illinois, Department of Revenue did not comply with requirements regarding ensuring State revenues and receipts collected were in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law. Compliance with such requirements is necessary, in our opinion, for the State of Illinois, Department of Revenue to comply with the requirements listed in the first paragraph of this report.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Illinois, Department of Revenue complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the year ended June 30, 2010. However, the results of our procedures disclosed other instances of noncompliance, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as items 10-6, 10-12, 10-15, 10-16, 10-18 through 10-20, 10-22 through 10-24, 10-26, 10-28 through 10-30, and 10-32 through 10-37.

### **Internal Control**

The management of the State of Illinois, Department of Revenue is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the State of Illinois, Department of Revenue's internal control over compliance with the requirements listed in the first paragraph of this report as a basis for designing our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Department of Revenue's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*A deficiency* in an entity's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with the requirements listed in the first paragraph of this report on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance as described in the accompanying schedule of findings as items 10-1 through 10-5, 10-7 through 10-11, 10-13, 10-14, 10-17, 10-21, 10-25, 10-27, and 10-31 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 10-2 through 10-6, 10-12, 10-15, 10-16, 10-18 through 10-20, 10-22 through 10-24, 10-26, 10-28 through 10-30, and 10-32 through 10-37 to be significant deficiencies.

As required by the Audit Guide, immaterial findings excluded from this report have been reported in a separate letter.

The State of Illinois, Department of Revenue's responses to the findings identified in our examination are described in the accompanying schedule of findings. We did not examine the State of Illinois, Department of Revenue's responses and, accordingly, we express no opinion on the responses.

### **Supplementary Information for State Compliance Purposes**

Our examination was conducted for the purpose of forming an opinion on compliance with the requirements listed in the first paragraph of this report. The accompanying supplementary information as listed in the table of contents as Supplementary Information for State Compliance Purposes is presented for purposes of additional analysis. We have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the 2010 Supplementary Information for State Compliance Purposes, except for the Comparative Analysis of the Income Tax Refund Fund, the Schedule of Aged Refunds Payable, the Audit Collections Statistics, and the Service Efforts and Accomplishments on which we did not perform any procedures. However, we do not express an opinion on the supplementary information.

We have not applied procedures to the 2009 Supplementary Information for State Compliance Purposes, and accordingly, we do not express an opinion thereon.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, agency management, and is not intended to be and should not be used by anyone other than these specified parties.



BRUCE L. BULLARD, CPA

Director of Financial and Compliance Audits

June 15, 2011

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**SCHEDULE OF FINDINGS**  
For the Year Ended June 30, 2010

10-1. **FINDING** (Fund Balance Deficit Exceeding \$2 Billion)

The Department of Revenue (Department) has a \$2.13 billion deficit in the General Fund's fund balance as of June 30, 2010 principally because the State did not allocate sufficient income tax revenues to the Income Tax Refund Fund, a subaccount of the General Fund reported by the Department.

As of June 30, 2010, on an accrual basis the Department owes the taxpayers of Illinois approximately \$1.5 billion representing income tax overpayments that will need to be refunded. The \$1.5 consists of \$735 million in approved refunds for perfected returns and an additional estimate of \$724 million for returns that are not yet filed or not yet perfected, and is based on historical data. Approximately 6% of the total liability is owed to individuals (IIT) and approximately 94% is owed to businesses (BIT). Additionally, without a significant increase in deposits into the 278 Fund, the liability to taxpayers, and the fund deficit, will continue to increase.

The Income Tax Refund Fund (278) was established by 30 ILCS 105/5.249 for the following purpose as stated in the State Comptroller's Fund Description "To record a percentage of individual and corporate income tax collections." Expenditures from the fund for refunds to individuals and corporations are made from a continuing appropriation, as provided by 35 ILCS 5/901(d) of the Illinois Income Tax Act.

Under the present system, created by the State statute referenced above, a percentage of income tax receipts (predominantly business and individual income taxes) are deposited into the 278 Fund for the purpose of paying refunds to those taxpayers who overpaid their tax liability each year. The percentage of income tax dollars to be deposited into this fund each year is established by the statute. Additionally, under the statute, the Department's Director is to determine the annual percentage necessary, using a predetermined formula defined in the statute, and is to certify this percentage to the State Comptroller no later than June 30th of each year preceding the fiscal year for which it is to be effective.

The formula is based on refunds approved for payment in the preceding fiscal year (AR), plus approved but unpaid refunds as of the end of the preceding fiscal year (UR), less amounts transferred to Fund 278 from the Tobacco Settlement Fund (TS) divided by income tax collections under the Act during the preceding fiscal year (C):

$$\frac{AR + UR - TS}{C}$$

Essentially the purpose of this formula is to determine the portion of total income tax refunds that are ultimately refunded back to taxpayers so that adequate funds can be set aside as collected, to ensure income tax refunds are paid to taxpayers in a timely fashion. Refunds that are not paid in a timely fashion (within 90 days of Department's receipt of the return), must be paid with interest.

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**SCHEDULE OF FINDINGS**  
For the Year Ended June 30, 2010

The Department is required to calculate the “Rate as Certified” by June 30th each year only if there are no Rates set by law prior to June 30th (Rate per Statute). Enacted budget bills with Refund Fund Percentages (“Rates per Statute”) override any “Rate as Certified” calculated using the statutory formula. If a budget bill is enacted prior to June 30th, the Department does not calculate the percentages using the formula above (Rate as Certified).

Under the Illinois Income Tax Act (35 ILCS 5/901), the formula based percentage (referred to as the “Rate as Certified” in the table below) is used only when a different rate is not defined in the Statute (referred to as the “Rate per Statute” in the table below). A comparison of the “Rates per Statute” and the “Rate as Certified” since FY 2002 is as follows:

State Fiscal Year	Individual Income Tax		Business Income Tax		278 Fund Fund Balance (Deficit), in thousands
	Rate per Statute	Rate as Certified	Rate per Statute	Rate as Certified	
2002	7.60%	7.60%	23.00%	23.00%	\$ (1,091,619)
2003	8.00%	8.00%	27.00%	27.00%	(1,308,642)
2004	11.70%	11.70%	32.00%	32.00%	(745,086)
2005	10.00%	11.20%	24.00%	36.80%	(530,317)
2006	9.75%	*	20.00%	*	(622,628)
2007	9.75%	*	17.50%	*	(731,784)
2008	7.75%	*	15.50%	*	(854,829)
2009	9.75%	9.62%	17.50%	8.75%	(949,386)
2010	9.75%	11.99%	17.50%	17.14%	(1,380,161)
2011	8.75%	14.60%	17.50%	26.00%	not available

\* In the table above, the “Rate per Statute” was enacted prior to June 30th for the following fiscal years 2006, 2007, and 2008. As such, there was no formula based rate calculation performed (“Rate as Certified”).

As can be seen from the table, the amounts deposited in the 278 Fund for 2002 through 2004 were based on the “Rate as Certified”, and the 278 Fund deficit was reduced over those years. Since that time, the “Rate as Certified” has been overridden and the deficit has been gradually increasing. The underfunding of the 278 Fund is the major contributor to the significant deficit that has accumulated in this fund through June 30, 2010.

As a result of the significant deficit in the 278 Fund, which increased significantly since 2009, the auditors inquired with management of the Department as to their plans for reducing or eliminating the deficit. In 2009, the plans to reduce the then \$949 million deficit were stated in the financial statements as follows: “The fund deficit in the General Fund (Refund Fund) will be eliminated through the collection and allocation of future State revenues to the Department.”

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**SCHEDULE OF FINDINGS**  
For the Year Ended June 30, 2010

Despite this plan as reported in the 2009 financial statements, the Department was unable to increase the amount deposited in the 278 Fund for FY2010, which remained at 9.75% of income tax collections for IIT and 17.5% for BIT. As can be seen in the table above, the amount to be deposited in the 278 Fund for FY 2011 has not increased, but was instead decreased to 8.75% (a 10.3% decrease in the rate) for the 2011 fiscal year. Department management has not provided the auditors a detailed plan for eliminating the deficit as of the date of the auditor's report. Although the Department is hopeful that the recent increase in the state income tax rate will provide the additional funds needed for the payment of income tax refunds, there has been no evidence presented to support the assertion that it will be sufficient.

In accordance with sound financial management practices, the Department should ensure an adequate amount of cash, for refunding income tax overpayments, is reserved and maintained in the fund designated to make such refund payments (Fund 278). These financial resources (tax overpayments) are not revenues of the State and every effort should be made to estimate the necessary cash reserve requirements for the purposes of making refunds, and such amounts should be deposited into the Income Tax Refund Fund (Fund 278) and made available to those taxpayers that request refunds.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Department management stated that they fulfilled the statutory obligation by calculating the "Rate as Certified" to appropriately fund the 278 Refund Fund. However, as noted by the auditor, the 'Rate as Certified' has been overridden and the deficit has been continually increasing over the past several years.

As of June 30, 2010, the Department has recorded a liability of approximately \$1.5 billion for refunds payable to taxpayers. Without a significant increase in deposits into the 278 Fund, the existing liability to taxpayers and future liabilities will not be liquidated timely, and the fund deficit, will continue to increase. (Finding Code No. 10-1)

**RECOMMENDATION**

We recommend the Department work with the Governor and the General Assembly and Illinois Legislators to increase the percentage of deposits into the 278 Fund.

**DEPARTMENT RESPONSE**

The Department agrees with the recommendation that the Refund Fund be fully funded. In the last year the Department has taken steps to make all parties – taxpayers, tax

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**SCHEDULE OF FINDINGS**  
For the Year Ended June 30, 2010

professionals, the public, the media, the governor's office and legislators- aware of the issue. However, fully funding the Refund Fund can only be accomplished through legislative action. The Governor's office has proposed to include eliminating the backlog of business refunds in the borrowing plan it has submitted to the General Assembly, a plan that has yet to win approval.

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10-2. **FINDING** (Year-end Reporting Procedures for Receivables Not Followed)

The Department of Revenue (Department) did not follow its established procedures for determining the accuracy of its billed accounts receivable for financial reporting purposes. This led to the overstatement of balances initially reported in the GAAP packages for business income tax, individual income tax, withholding income tax and sales tax (BIT, IIT, WIT and ROT).

During our audit of the billed portion of taxes receivable from GenTax (BIT, IIT, WIT, ROT), we noted the Department did not thoroughly review certain accounts according to their established procedures. This oversight resulted in an overstatement of accounts receivable in the GAAP Packages initially submitted to the Comptroller. The receivable balance in the originally submitted GAAP packages totaling \$2 billion (\$1.3 billion net of the allowance) included billed receivables totaling \$1.06 billion (\$296 million net of the allowance), for all tax types (BIT, IIT, WIT, ROT and Excise). After the oversight was detected, the review procedure was performed and the GAAP packages and financial statements were adjusted to reduce the net receivables by \$17.6 million (refer to table in finding 10-5), to reflect the estimated (projected) differences based on the Department's review.

The Department has developed a policy for the review of billed accounts receivable recorded in GenTax. The review is to determine if all "significant" taxpayer accounts are valid accounts receivable for financial reporting purposes. Additionally, as part of the review, a sample of all other accounts that individually exceed \$1,000 are selected and analyzed to estimate the necessary adjustment amount for the remainder of the population. This review methodology and resulting policy were developed as a workaround to ensure accounts receivable are not materially misstated in the financial statements. The Department's GenTax system was designed to track all activity for taxpayer accounts. Certain charges, adjustments and payments are applied differently for this purpose than the treatment that would be given to report in accordance with the accrual basis of accounting. The Department's review process is intended to bridge the gap.

Per the Department's Policy titled "*Methodology for Arriving at Quarterly Accounts Receivable Report & Year-End Financial Statements/GAAP Receivables Balances*" states "In addition to the previously described reviews, an additional population consisting of all accounts greater than \$1,000.00 and less than the amount of the dollar range identified above for the associated tax will be sampled to arrive at the amount expected to be collected in cash. The amount of receivables determined to be invalid will be divided by the total dollar amount of the sample population to determine a percentage of receivables determined to be invalid."

The Department did not completely follow its policy in that it did not timely perform an analysis of the account balances that were not significant, yet individually exceeded \$1,000, as described above.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) states all State agencies shall establish and maintain a system, or systems, of internal fiscal and administrative controls,

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which shall provide assurance that revenues applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

According to Department management, the error was discovered by the Department after issues came up during the auditors' testing.

The GAAP packages initially filed with the Comptroller were misstated. Accounts receivable and deferred revenue were overstated by approximately \$17.6 million, as determined by the Department. The amounts were subsequently adjusted and reported to the Comptroller and the adjusted amounts are reported in the financial statements. (Finding Code No. 10-2)

**RECOMMENDATION**

Due to the manual nature of the year-end reporting process and the numerous accounts that must be manually adjusted, we recommend the Department prepare a year-end closing checklist that details all the required year-end adjustments, the source documents used to prepare the adjustments, the related accounting policy (if any) and any other helpful information. After the year-end adjustments are completed, the reviewer(s) should examine the adjustments against the checklist to make sure there are no missing entries, the correct source information was used, the policies and procedures were followed, and that other information noted on the checklist, if any, was considered. The supervisor should initial next to each item he or she is responsible for on the checklist to indicate the adjustment has been accurately prepared and recorded.

Additionally, we recommend the Department allocate sufficient personnel to the year-end reporting process to ensure all stated policies and procedures for properly reporting accounts receivable balances at year-end are followed and performed prior to preparation and submission of the GAAP packages to the Comptroller.

**DEPARTMENT RESPONSE**

The Department agrees that because of the manual nature of preparing year-end reports in a tight timeframe it did not follow its established procedures, resulting in the estimate of receivables being overstated by 1.7 percent. The Department notes that this affected only year-end financial statements and not tax collections or deposits. The Department concurs with the auditors, as noted in 10-5, that the GAAP packages were materially correct and in accordance with GAAP requirements.

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10-3. **FINDING** (Year-end Accounting Estimate Not Prepared Accurately)

The Department of Revenue (Department) does not have sufficient procedures and controls in place to ensure that the amount reported for deferred revenue relating to income tax credit-carry forwards is determined based on all available information on hand.

The Department's original calculation for the estimate of deferred revenue associated with credit carry forwards (\$521 million) is based on a three year average, but was not prepared using all current information available. During our review of the credit calculation, we noted the Department performed its analysis using data which did not reflect the activity of the entire fiscal year for the most recent year used in their 3 year average (2009 returns for BIT and 2008 returns for IIT). Instead, the underlying data used in the calculation was initially extracted in May 2010, one month before year end. Upon recommendation from auditors, the Department re-analyzed data as of fiscal year-end (June 30, 2010) which led to an adjustment of the credit carry forward accrual (deferred revenue). Auditors proposed a \$14.5 million credit adjustment to deferred revenue to reflect the results of the updated calculation (\$536 million as adjusted). This adjustment was recorded by the Department.

In order to test the most recent year used in the three year average, we selected a random sample of 45 income tax deferred revenue accounts totaling \$241,856,603, from a population of 103,869 accounts totaling \$583 million. The population from which we selected our sample consisted only of 2009 tax returns for business income taxpayers, and 2008 tax returns for individual income taxpayers. The other two years of data used in the three year average were tested in prior audits. We noted errors in the calculation of deferred revenue for 9 of the 45 (20%) individual/business accounts sampled from the 2009 (BIT) and 2008(IIT) tax periods as detailed below:

<u>Description of error noted:</u>	<u>\$ Amount</u>
1 of 45 - taxpayer requested refund was incorrectly included as a carry forward which overstated the calculation of deferred revenue for this account in the 2009 (BIT) population.	\$ 1,569,565
1 of 45 - Department calculated amended tax return was not picked up in the query which understated the calculation of deferred revenue for this account in the 2009 (BIT) population.	\$ (133,248)
1 of 45 - A data entry error in GenTax caused the calculation of deferred revenue to be overstated for this account in the 2008 (IIT) population.	\$ 99,000
6 of 45 - Corrected returns were not considered causing the calculation of deferred revenue to be overstated for this account in the 2008 (IIT) population.	\$ 5,852
<b>Total Errors Noted</b>	<b>\$ 1,541,169</b>

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The above errors were projected to the population (2009 BIT and 2008 IIT) and averaged with the previous 2 years used in the three year average. As a result of the errors above, deferred revenue as reported in the financial statements is overstated by approximately \$475,000. This amount was deemed immaterial and was not adjusted in the financial statements.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) states all State agencies shall establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that revenues applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Additionally, because the amounts reported as deferred revenue are significant estimates, the Department should use all information on hand through the end of the fiscal year, plus any information that comes to light through the report issuance date, that pertains to any significant year-end estimates.

Good internal controls over financial reporting would require that the estimate methodologies and calculations be monitored at year-end to detect errors and irregularities. In addition, these balances must be properly determined and adjusted at year-end in order to ensure amounts are accurately reported in the Department's financial statements.

Department management stated they were following the Accounting Policy in place as of fiscal year-end. Due to the large volume of credit carry forward accounts and the fact that 2008 (IIT) and 2009 (BIT) credit carry forwards are the last information available it was assumed that there would be insignificant changes in accounts from May to June 30. The Department management felt the additional time to review a larger sample of accounts to ensure the accuracy was more significant than any changes that might occur mid-May to June 30.

Using information that is not current can lead to significant errors in the estimation process. In this case, the original estimation of deferred revenue was understated by approximately \$14,500,000. (Finding Code No. 10-3)

**RECOMMENDATION**

Due to the manual nature of the year-end reporting process and the numerous accounts that must be manually adjusted, we recommend the Department prepare a year-end closing checklist that details all the required year-end adjustments, the source documents used to prepare the adjustments, the related accounting policy (if any) and any other helpful information. After the year-end adjustments are completed, the reviewer(s) should examine the adjustments against the checklist to make sure there are no missing entries, the correct source information was used, the policies and procedures were followed, and that other information noted on the checklist, if any, was considered. The supervisor should initial next to each item he or she is responsible for on the checklist to indicate the adjustment has been accurately prepared and recorded.

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Additionally, we recommend the Department revise its policy for estimating deferred revenue pertaining to credit-carry forwards. The policy should require that information through June 30th of each fiscal year is used in the calculation and that any additional information received after year-end that could significantly impact the estimate be examined and utilized in the estimation process.

**DEPARTMENT RESPONSE**

The Department notes that the original estimate of deferred revenue associated with credit carry forwards, an issue that affects year-end financial statements not collection of taxes, was more than 97 percent accurate. The Department will review the current checklist used for GAAP preparation, supervisor review process, and the checklist used by the outside consultant review of all large GAAP packages and make adjustments if warranted. The Department has also initiated a SQR to automate the credit carry forward information and deferred revenue calculation. This will be implemented for FY11.

The Department has changed its credit carry forward accounting policy to require information through June 30. Based on the short time frames for GAAP and financial statement reporting and the volume of credit carry forward accounts, it is impractical for the Department to continually review additional returns and information filed on returns after year end to adjust our estimates.

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10-4. **FINDING** (Year-end Receivable Not Properly Allocated)

The Department of Revenue (Department) incorrectly allocated accrued taxes receivable for year-end financial reporting. A portion of the receivable pertaining to the Illinois Sports Facility's Fund (225) was recorded in error to the General Revenue Fund.

During our review of taxes receivable, auditors noted that hotel/motel taxes receivable within the Illinois Sports Facility's Fund was understated by approximately \$4.3 million. We noted that this amount was recorded in error to the General Revenue Fund. This adjustment was deemed immaterial and was not recorded to the financial statements.

In accordance with accounting principles generally accepted in the United States of America, and the principles of fund accounting, taxes receivable should be recorded within the appropriate fund to show the financial position of each fund individually. Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) states, "All State agencies shall establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that: ... 4) revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources."

Department management stated the Hotel Operators' Occupation Tax is collected and allocated to several funds on a daily basis using a spreadsheet. In completing the annual GAAP taxes receivable accrual, the Department used the same spreadsheet to allocate the receivable amount. When this has been completed, there should be a separate manual step to allocate an amount from the General Revenue Fund to the Illinois Sports Facilities Fund (225). This manual step was not completed so the balance remained in the General Revenue Fund (001) for year-end financial reporting.

By recording the receivable and related revenues within the General Revenue Fund, the Department has overstated taxes available for the State's general use and has understated amounts that must be used for the Illinois Sports Facility Fund. As a result of this error, receivables and intergovernmental liabilities are understated by approximately \$4.3 million in the Illinois Sports Facilities Fund and receivables and revenues are overstated by approximately \$4.3 million in the General Revenue Fund. (Finding Code No. 10-4)

**RECOMMENDATION**

Due to the manual nature of the year-end reporting process and the numerous accounts that must be manually adjusted, we recommend the Department prepare a year-end closing checklist that details all the required year-end adjustments, the source documents used to prepare the adjustments, the related accounting policy (if any) and any other helpful information. After the year-end adjustments are completed, the reviewer(s) should examine the adjustments against the checklist to make sure there are no missing entries, the correct source information was used, the policies and procedures were followed, and that other

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information noted on the checklist, if any, was considered. The supervisor should initial next to each item he or she is responsible for on the checklist to indicate the adjustment has been accurately prepared and recorded.

**DEPARTMENT RESPONSE**

The Department agrees that because of this oversight the year-end financials were inaccurate by the estimated receivable adjustment of \$4.3 million, which was an immaterial amount. The General Funds and the Sports Facility Fund did receive the proper amounts of money. The Department agrees that a year-end closing checklist that details all the required adjustments should be utilized. The Supervisor will review and initial spreadsheets used to allocate lapse period collections for Hotel Tax to ensure accurate allocation to appropriate funds.

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10-5. **FINDING** (Certain Year-end Receivables Not Valid)

The Department of Revenue (Department) included invalid taxes receivable accounts in the Department's accounts receivable calculation at June 30, 2010. During our testing of Sales Tax (ROT), Withholding Income Tax (WIT), Business Income Tax (BIT), and Individual Income Tax (IIT) accounts included in the Department's accounts receivable calculation at June 30, 2010, we noted the following:

<b>Information received but not worked at June 30, 2010</b>	<b># invalid</b>	<b># tested</b>	<b>\$ invalid</b>	<b>\$ tested</b>
Sales Taxes	1	33	\$ 38,989	\$ 27,072,092
Income Taxes	16	98	\$ 802,460	\$ 31,701,733

<b>Payment received but not applied correctly or processed by June 30, 2010</b>	<b># invalid</b>	<b># tested</b>	<b>\$ invalid</b>	<b>\$ tested</b>
Sales Taxes	1	33	\$ 1,659	\$ 27,072,092
Income Taxes	5	98	\$ 10,253	\$ 31,701,733

<b>Data Entry Error or Error on Account</b>	<b># invalid</b>	<b># tested</b>	<b>\$ invalid</b>	<b>\$ tested</b>
Income Taxes	4	98	\$ 647,207	\$ 31,701,733

<b>Grand Total</b>	<b># invalid</b>	<b># tested</b>	<b>\$ invalid</b>	<b>\$ tested</b>
Sales Taxes	2	33	\$ 40,648	\$ 27,072,092
Income Taxes	25	98	\$1,459,920	\$ 31,701,733

The errors noted above were projected to the entire billed sales and income tax receivable populations, and the projected estimated overstatement for the populations as a whole are noted in the following chart. In addition, the Department projected an error rate based on their own review and made the adjustments noted in the chart below. The difference between the auditor's projection and the Department's adjustments were deemed immaterial by the Department and were not recorded in the financial statements.

<b>Net A/R Expressed in millions</b>				
	<b>SALES</b>	<b>BIT</b>	<b>IIT</b>	<b>WIT</b>
Projected error	\$ 4.8	\$ 10.9	\$ 26.3	\$ 2.2
IDOR adjustment	\$ -	\$ 8.8	\$ 9.9	\$ 1.0
Difference	\$ 4.8	\$ 2.1	\$ 16.4	\$ 1.2

The Department's GenTax system is currently being used as a subsidiary ledger for billed receivables (BIT, IIT, WIT, ROT). This application does not have the required functionality to ensure that individual taxpayer balances per the system are valid receivables in accordance with the accrual basis of accounting. For example, if a taxpayer payment or other information is received prior to fiscal year-end, but processed and posted after fiscal year-end, the system does not allow the payment or adjustment to be applied to the previous fiscal year, which is necessary for financial reporting purposes. Additionally, the Department does not maintain a general ledger. As such, balances reported in GenTax

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(subsidiary ledger) cannot be reconciled to a general ledger to detect these types of occurrences.

Under a good system of internal control, detailed records supporting amounts recorded in the financial statements should be reconciled to a general ledger on a periodic basis, preferably monthly. The general ledger should be updated at this time to reflect any adjustments identified. In addition, subsidiary ledgers should reflect all activity of the reporting period, regardless of the date the transaction is processed.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system of fiscal and administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Department management wrote, "the noted invalid accounts were detected during their review process of accounts receivable performed in accordance with their stated review procedures (utilizing the sample selected by the internal audit office). These items were noted and the errors were extrapolated to the population and the amount was determined to be immaterial. Thus, the sales and income tax accounts receivable balance was materially correct as reported in the GAAP packages." However, the auditors point out that the invalid accounts were not selected by the Department's Internal Audit. The Department preaudited the samples selected by the auditors and found an issue with some of the accounts, specifically dealing with stop bill problems. The remaining invalid accounts were not previously identified by the Department.

As a result of these types of errors, sales and income tax receivables are overstated at June 30, 2010. The projected error for the population of sales and income tax receivables was approximately \$44.2 million, net of the estimated allowance. Additionally, under the present system, the risk of material errors is high for any period in which significant cash receipts are received in the last few days of the fiscal year, but processed after year-end. (Finding Code No. 10-5, 09-2, 08-2)

**RECOMMENDATION**

We recommend the Department continue to evaluate the controls over taxes receivable and implement the necessary edits and controls to better identify valid accounts receivables to report in the financial statements. In addition, we recommend the Department take action to ensure taxpayer information is timely considered or processed to ensure taxpayer's records and financial statement information reflects accurate information. In the long-term, the Department needs to enhance the capabilities of the GenTax system to permit the posting of transactions and adjustments to a previous period for financial reporting purposes.

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**DEPARTMENT RESPONSE**

The Department disagrees with the recommendation; our tax records are accurate, timely processed, and proper controls are in place over taxes receivable. The Department's estimate of year-end receivables was materially correct. The \$24.5 million adjustment determined by the auditor means that the estimate of year end receivables was 97.8 percent (\$24.5 million out of \$1.1 billion) accurate.

**AUDITOR'S COMMENT:** If, as the Department stated, "our tax records are accurate, timely processed, and proper controls are in place over taxes receivable," the auditors would not have reported a finding. The Department is responsible for financial reporting in accordance with Generally Accepted Accounting Principles (GAAP). Presently, the Department utilizes tax information from the GenTax system to estimate and record a portion of year-end taxes receivable. Until such a time as an alternative system is available to accumulate receivables for financial reporting, the Department must ensure the information extracted from GenTax is accurate for financial reporting purposes. Based on the sample of 131 items selected, the error occurrence was high. This year, 21% of the accounts selected contained an error in the receivable calculation. Although the total projected error remaining for these accounts stated in dollars (\$24.5 million) is not material to the financial statements, it is not insignificant. Additionally, under the present system, the potential for a material misstatement remains.

The Department has submitted a system change request to further identify unworked accounts at year end in order to track historical collection trends. We will also submit a system change request for tracking year end payments received prior to June 30th not yet posted to Gen Tax until early July (total of these receipts \$7 million). However, as Gen Tax is a tax processing system not an accounting system, it is not economically feasible to change the core tax processing system to backdate processing transactions for financial reporting purposes.

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10-6. **FINDING** (SAS 70 Reports Not Obtained)

The Department of Revenue (Department) did not obtain SAS 70 reports containing independent reviews of externally controlled service organizations used to process tax returns. Without these reviews, the Department did not have adequate assurance that the tax processing controls necessary to prevent errors or irregularities from occurring were established and operating effectively throughout the year.

The Department uses 3 external service providers that provide data entry services for many sales tax and business, individual and withholding income tax returns. The Department did not obtain SAS 70 reports from any of these service providers. Of the total returns processed by the Department, approximately 75% of the volume is processed by these 3 third party service providers.

It is important to obtain and review an independent review of each service provider's tax processing systems environment. Independent reviews provide a method of evaluating the systems in place at each service provider and helps the Department develop internal control processes that would complement those at the service providers. Based on the review, the Department would have better assurance that the internal controls are adequate to ensure the taxpayer account balances and revenue recorded from such returns are accurate and reliable.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Department management stated they did not obtain or require that SAS 70 reports be required by the contracts that are currently in place with data entry vendors. There is no procurement standard to require a SAS 70 from these vendors.

Under the present system, tax returns could be processed inaccurately, resulting in misstatement of the financial statements. (Finding Code No. 10-6, 09-13)

**RECOMMENDATION**

We recommend the Department obtain and adequately review copies of the independent reviews (SAS 70 reports) for tax processing services provided by all third-party service providers (Providers) on an annual basis. User controls delineated in these reports should be implemented and monitored by the Department. For those Providers that do not have a SAS 70 performed, the Department should perform sufficient procedures to obtain satisfaction that internal controls are adequate for safeguarding assets and accounting information, and that controls are operating effectively. Any procedures performed should be fully documented by the Department including exceptions noted, the disposition of exceptions, conclusions reached

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and corrective action taken by the vendor. This information should be maintained for review by the external auditors.

**DEPARTMENT RESPONSE**

The Department has in place a systematic review process for reviewing the work of data entry vendors. That process has detected and prevented problems. However, we agree with the auditors that this is an important area and plan to contract for independent review services subject to funding for FY 2012.

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10-7. **FINDING** (Inadequate Control over Hotel Operators' Occupation Tax Allocations)

The Department of Revenue (Department) did not exercise adequate control over Hotel Operators' Occupation Tax (HOOT) deposit allocations or reconciliations.

During testing, we noted the Department's allocations of HOOT collections on behalf of the Illinois Sports Facilities Authority, Metropolitan Pier and Exposition Authority, and a local government did not appear to be in compliance with statutory formulas. In following up on this exception, we determined the Department **does not perform a reconciliation** of deposit allocations to actual return information for all funds receiving HOOT collections. During FY10, the Department processed a total of \$250,774,221 in HOOT collections.

Although we were able to conclude that there were no material misallocations of HOOT receipts to the various funds in FY10, due to the limitations described above the Department could potentially misallocate HOOT collections among:

- **State Funds**, including the General Revenue Fund, the Build Illinois Fund, the Local Tourism Fund, and the International Tourism Fund; and,
- **Fiduciary Funds**, including the Sports Facilities Tax Trust Fund, the Metropolitan Pier and Exposition Authority Trust Fund, and the Illinois Tourism Tax Fund and not detect and correct it in a timely fashion.

The Hotel Operators' Occupation Tax Act (35 ILCS 145/6) specifies an allocation methodology for the disposition of State HOOT tax collections into various funds.

The Illinois Sports Facilities Authority Act (70 ILCS 3205/19), the Metropolitan Pier and Exposition Authority Act (70 ILCS 210/13(c)), and the Municipal Code (65 ILCS 5/8-3-13) require all taxes, penalties, and interest collected pursuant to each respective imposed tax be deposited into the Sports Facilities Tax Trust Fund, the Metropolitan Pier and Exposition Authority Trust Fund, and the Illinois Tourism Tax Fund, respectively.

In accordance with Generally Accepted Accounting Principles (GAAP), all assets, liabilities, revenues, and expenses should be properly recorded in the correct funds in the financial statements. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system of fiscal and administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Department personnel stated the Department does not perform reconciliations of actual return data after it is perfected to daily deposits because it is impractical in the current paper based tax processing environment. They further stated that human error caused the few minor deposit and transfer errors noted during the compliance testing of HOOT tax collections.

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Failure to reconcile deposit allocations of HOOT collections with actual return data leads to unreconciled deposit errors among funds within the State Treasury. (Finding Code No. 10-7)

**RECOMMENDATION**

We recommend the Department perform a monthly comparison of detailed data from the legacy system (perfected return data) to the previous month's cash detail per CAS. This information should be reviewed to ensure all noted differences in the data is reasonable and reflects an explainable timing difference between the date in which cash is collected for a HOOT return versus the date in which the collected cash has been associated with a perfected return. This information should be reviewed by a supervisor and unusual/unexpected differences should be investigated.

**DEPARTMENT RESPONSE**

The Department disagrees with the auditors' contention that it does not exercise adequate control over deposit allocations and reconciliations of State HOOT tax. The timely deposit of receipts and accurate distribution of funds is a critical mission for the Department of Revenue and a function that the Department takes seriously. The Department has used the same deposit and reconciliation process for at least 20 years without audit findings. The following is a brief outline of this process:

<p><b>AUDITOR'S COMMENT:</b> In regards to the Department stating they have "used the same deposit and reconciliation process for at least 20 years without audit findings," the Department did not, in our opinion, account for increases in the capability of technology allowing for the full reconciliation of receipts to deposits into the State Treasury or recognize significant statutory changes to the allocation of HOOT deposits in July 2001. As stated in both the <i>Independent Auditor's Report</i> and the <i>Independent Accountants' Report on State Compliance, on Internal Control over Compliance, and on Supplementary Information for State Compliance Purposes</i>, our examination is performed on a test basis, and as such, will not discover every instance of noncompliance in every audit period. The auditors select only a sample of statutory mandates in each audit cycle out of the several hundred imposed by State law on the Department.</p>
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Returns/Receipts received in house:

Daily:

1. Returns/receipts are received, separated by payment/tax type, batched by RPS or Check 21 or hand validation.
2. Batch file is balanced with actual deposit information.
3. Batch file is transferred to the Consolidated Accounting System (CAS) which accounts for all deposits by tax type and clearing account
4. Batch file is transferred to applicable tax system.

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5. Batch file is reconciled between applicable tax system and CAS.
6. Deposit is sent to Bank by clearing account (GL – we have 84 clearing accounts).
7. Deposit report from DC&D/Chicago
8. Verify deposit tickets to summary remittances (batch details) previous day's work.
9. Receive tax transfer/BMS fund transfer reports and return bank items, record in CAS.

Weekly:

1. Receive State Treasurer's Office (STO) GL 300 report of all deposits for the previous week.
2. Generate weekly CAS journals and verify deposits against the GL 300 reports.
3. Prepare the weekly automatic draft worksheet – calculating fund distribution.
4. Enter fund distribution information into CAS.
5. Shared Services balances CAS fund/receipt information to STO non negotiable documents.
6. Generate Receipt Deposit Transmittals (C-64s) and submit via disk/hardcopy to Comptroller.
7. FCB reconciles STO GL300 to CAS cash journals.

Monthly:

1. Reconcile monthly deposits to system reports
2. Shared Services reconciles all CAS deposits to STO GL 350 (monthly)
3. Shared Services reconciles all receipts to collections reconciliations (monthly in transit).
4. Shared Services performs a non-shared fund reconciliation – reconciles CAS C-64's receipts and AIS payments to IOC fund balance.
5. Shared Services performs a verification of fund distributions by comparing monthly fund splits per IOC to a recalculation of percentages.
6. FCB requests "pre-closing" information to compare return payments to CAS deposits to determine if all payments are posted for collection period. Anything not posted transfers to subsequent months.
7. Financial Control Personnel request closing report (perfected returns information for a specific CPE) for Excise taxes.
8. Shared Services receives monthly HOOT allocation reports. Transfers and vouchers as necessary to allocate HOOT funds based on report information.

While it is impractical to reconcile a total daily deposit batch to tax processing system totals after all returns are "perfected", we can trace any individual receipt to a deposit batch if required and vice versa. We also perform a myriad of reconciliations and reasonableness reviews to ensure that deposits are calculated and posted as intended per statutes and balance to daily and monthly deposit batch totals in Gen Tax and CAS to make adjustments for movement between tax types and funds, and perform a reasonable test of all deposits with statutory calculations.

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**AUDITOR'S COMMENT:** The Department's response only indicates reconciliations are completed between cash deposits from one system to cash deposits on another system, which means their cash deposits agree between the Department's various systems. The Department's response excludes any reconciliation of cash deposits to amounts that should have been deposited per fund, in accordance with statutory requirements, from return data to ensure deposits into the State Treasury were complete and accurate.

The Department agrees that some small deposits/transfers and allocations were not performed during this fiscal year due to human error, lack of sufficient funds, and a misinterpretation of statute. We agree to correct the deposit and transfer errors and to recommend statute changes.

**AUDITOR'S COMMENT:** The Department's process is to estimate the amounts to deposit into the funds; however, they do not reconcile these estimated deposits to actual return data to ensure the accuracy and completeness of HOOT deposits into the State Treasury. If the Department had performed a simple reconciliation of the moneys deposited into the three fiduciary funds that are for HOOT taxes only charged within the City of Chicago, the Department would have discovered deposit allocation errors, as noted in this finding. A full reconciliation would reveal deposit errors requiring an adjustment by the Department.

The Department is in the process of moving the Excise Taxes to the new Gen Tax system and has developed a checklist so that monthly transactions are reviewed and appropriate transfers and vouchers are processed based on actual return data as received which should eliminate the missing transactions and deposits not made as required. Any discrepancies noted will be processed as receipt adjustments. In addition, after GenTax rollout 4 is complete, the Department will research further enhancements to GenTax and a rewrite of the current Consolidated Accounting System/new general ledger in order to determine the feasibility and cost/benefit of reconciling detail return information with deposit information.

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10-8. **FINDING** (Inadequate Control over State Sales Tax Allocations)

The Department of Revenue (Department) did not exercise adequate control over the tax allocation process for State sales tax.

The Department is required by State statute, to allocate sales tax collections to local governments and various State funds based on legislated amounts and/or percentages. As cash is collected, the Department allocates it daily to the various State and local government funds based on estimates. Additionally, the first 2% of all collections are set aside (2% reserve) in order to have sufficient funds to “true-up” the various local government funds once the sales tax returns are perfected and the correct/final local government allocations are known. This is necessary because there is a delay of typically one month to process and approve (perfect) the sales tax return, from the date it is received by the Department.

The Department makes sales tax allocations to local governments monthly, based upon the batches of sales tax returns which were perfected during the previous month. These batches also include new cash receipts from previously perfected returns (collections on receivables), as well as other miscellaneous items. These perfected returns consist predominantly, but not exclusively, of sales tax amounts that were collected one month prior to the month in which the returns were perfected. Sales tax amounts collected for returns not yet perfected are not distributed to the local governments until after the perfection process, regardless of when the cash was collected. As such, there are always differences between the cash collected in the month prior to the measurement period (per CAS) when compared to the perfected returns (GenTax).

The monthly cash information associated with the perfected returns (obtained from the GenTax system) is used to determine the amount of sales tax distributed to the local governments. This distribution requirement is compared to the deposits made per CAS in the previous month (deposited in the local government funds based on the estimates - see explanation in paragraph two above). Any shortage (or excess) is allocated from/to the 2% reserve which has been set aside for this purpose. Amounts remaining in the 2% reserve after this “true-up” are then allocated to the various State funds. During FY10, the Department processed approximately \$12 billion in sales tax collections.

During testing, we noted the Department does not perform a **monthly** reconciliation or review of sales tax deposit records per their Consolidated Accounting System (CAS) to sales tax cash records in their GenTax system, for the perfected returns used to make sales tax distributions to the local governments. Although cash recorded in each of the systems is compared each day, with differences investigated, there is not a monthly reconciliation between the two systems to ensure all variances between the systems are legitimate, explainable timing differences.

Although we were able to conclude that there were no material misallocations of sales tax receipts to the various funds in FY2010, due to the limitations described above the Department could potentially misallocate sales tax collections among State funds, including the General

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Revenue Fund, the Special Account for the Common School Fund, the Illinois Tax Increment Fund, the Build Illinois Fund, and the various local government funds and not detect and correct it in a timely fashion.

The Use Tax Act (35 ILCS 105/9), Service Use Tax Act (35 ILCS 110/9), Service Occupation Tax Act (35 ILCS 115/9), and Retailers' Occupation Tax Act (35 ILCS 120/3) require the Department allocate State sales tax pursuant to the following methodology:

- Net Revenues Realized from State Sales Tax Collections
  - Less: Department's Estimation of Increased Tax Receipts from the Tax Increase on Soda, Candy, and Grooming Products to the Capital Projects Fund
    - Less: 5.55% of the Total Remaining Funds to the Build Illinois Fund
  - 0.27% of Net Revenues Realized to the Illinois Tax Increment Fund
  - Specified Monthly Installment (determined by the State Treasurer), up to a yearly maximum of \$139 million, to the McCormick Place Expansion Project Fund
- Funds Remaining after Previous Allocations
  - For Collections from the Use Tax Act and Retailers' Occupation Tax Act
    - 25% to the Special Account for the Common School Fund
    - 75% to the General Revenue Fund
  - For Collections from the Service Use Tax Act and Service Occupation Tax Act
    - 100% to the General Revenue Fund

In accordance with Generally Accepted Accounting Principles (GAAP), all assets, liabilities, revenues, and expenses should be properly recorded in the proper fund in the financial statements. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system of fiscal and administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Department management said that while it does not perform reconciliations of actual processed return data to daily deposits because it is not practical, the Department does perform a litany of reconciliations to ensure that the funds are deposited and recorded accurately by tax type and in aggregate.

Failure to identify and analyze differences between fund deposits of sales tax collections per CAS with perfected return data from GenTax could lead to significant unidentified deposit and other errors, increasing the likelihood that cash is not allocated properly to State funds, local government funds, and fiduciary funds. (Finding Code No. 10-8)

**RECOMMENDATION**

We recommend the Department perform a monthly comparison of detailed data from the GenTax system (perfected return data) to the previous month's cash detail per CAS. This

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information should be reviewed to ensure all noted differences in the data is reasonable and reflects an explainable timing difference between the date in which cash is collected for a sales tax return versus the date in which the collected cash has been associated with a perfected return. This information should be reviewed by a supervisor and unusual/unexpected differences should be investigated. Any material differences should also be reviewed to determine if they impact the allocation of the 2% reserve funds for sales tax.

**DEPARTMENT RESPONSE**

The Department disagrees with the auditor's assertion that we did not exercise adequate control over deposit allocations and reconciliations of state sales tax. We conduct multiple reconciliations to assure that we are recording and depositing the correct amount of tax. The timely deposit of receipts and accurate distribution of funds is a critical mission for the Department of Revenue and a function that the Department takes seriously. The Department has used the same deposit and reconciliation process for at least 20 years adapting to the new Gen Tax system as necessary. The Department processed \$29 billion in total receipts with 19.2 million documents following this process during FY10. The following is a brief outline of this process:

<p><b>AUDITOR'S COMMENT:</b> As per the Department, they "processed \$29 billion in total receipts with 19.2 million documents following this process during FY10," making the reconciliation of State sales tax, approximating \$12 billion, a material and significant revenue source that should, in our opinion, be reconciled to tax return data for proper fund allocation and deposit. Additionally, under the present system, the potential for a material misstatement in financial reporting remains. In regards to the Department stating they have "used the same deposit and reconciliation process for at least 20 years adapting to the new Gen Tax system as necessary," the Department did not, in our opinion, account for increases in the capability of technology allowing for the full reconciliation of receipts to deposits into the State Treasury or recognize significant statutory changes to the allocation of Sales Tax deposits in <b>October 2009</b>. As stated in both the <i>Independent Auditor's Report</i> and the <i>Independent Accountants' Report on State Compliance, on Internal Control over Compliance, and on Supplementary Information for State Compliance Purposes</i>, our examination is performed on a test basis, and as such, will not discover every instance of noncompliance in every audit period. The auditors select only a sample of statutory mandates in each audit cycle out of the several hundred imposed by State law on the Department.</p>
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Returns/Receipts received in house:

Daily:

1. Returns/receipts are received, separated by payment/tax type, batched by RPS or Check 21 or hand validation.
2. Batch file is balanced with actual deposit information.

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3. Batch file is transferred to the Consolidated Accounting System (CAS) which accounts for all deposits by tax type and clearing account
4. Batch file is transferred to applicable tax system.
5. Batch file is reconciled between applicable tax system and CAS.
6. Deposit is sent to Bank by clearing account (GL – we have 84 clearing accounts).
7. Deposit report from all deposit institutions (DC&D, Chicago, EFT, lock box,)
8. Verify deposit tickets to summary remittances (batch details) previous days work.
9. Receive tax adjustment/BMS fund transfer reports, return bank items, record in CAS.
10. Perform daily draft function and request non negotiable from STO (demand draft vs automatic draft in Excise Taxes).
11. Enter fund distribution information into CAS.
12. Shared Services balances CAS fund/receipt information to STO non negotiable documents.
13. Generate Receipt Deposit Transmittals (C-64s) and submit via disk/hardcopy to Comptroller.

Weekly:

1. Receive STO GL 300 report of all deposits for the previous week.
2. Generate weekly CAS journals and verify deposits against the GL 300 reports.
3. FCB reconciles STO GL300 to CAS cash journals.

Monthly:

1. Reconcile monthly deposits to Gen Tax reports (comparing batch to batch)
2. Shared Services reconciles all CAS deposits to STO GL 350 (monthly)
3. Shared Services reconciles all receipts to collections reconciliations (monthly in transit).
4. Shared Services performs a non-shared fund reconciliation – reconciles CAS C-64's receipts and AIS payments to IOC fund balance.
5. Shared Services performs a verification of fund distributions by comparing monthly fund splits per IOC to a recalculation of percentages.
6. LTAD prepares and forwards monthly allocation documentation to Shared Services personnel.
7. Shared Services uses CAS receipts report by clearing account to reconcile with allocations certified by LTAD for local government distributions.
8. 2% worksheets are used to determine availability of clearing account balance by bank to meet monthly distribution and 2% allocations worksheet is forwarded to FCB.
9. A monthly 2% draft worksheet is prepared deposit funds needed to meet distributions to local governments and state funds.

While it is not practical to reconcile a total daily deposit batch to our tax processing system in total after all returns are “perfected”, we can trace any individual receipt to a deposit batch if required and vice versa. We also perform a myriad of reconciliations and reasonableness reviews to ensure that deposits are calculated and posted as intended per

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statutes and balance to daily and monthly deposit batch totals in Gen Tax and CAS to make adjustments for movement between tax types and funds, and perform a reasonable test of all deposits with statutory calculations.

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10-9. **FINDING** (Inadequate Controls over Receipt Processing and Taxpayer Information)

The Department of Revenue (Department) has not implemented adequate controls and safeguards over tax receipt processing and taxpayer information. During FY10, the Department received and processed 3.4 million tax receipt documents, totaling over \$4.4 billion, at their Springfield and Chicago locations.

During testing, we noted several internal controls and physical safeguards were not in place to protect taxpayer receipts and taxpayer information. We specifically noted deficiencies in the following areas:

**Receipt Processing**

- All receipt documents were not received and processed with adequate monitoring and security controls. The Department receives the majority of the tax receipts through the Document Control and Deposit (DC&D) section. However, receipts were initially received and processed by various other areas within the Department. The DC&D section and the other areas receiving receipts did not have adequate controls in place to adequately monitor and safeguard receipt documents. Additionally, the Department hires various temporary employees throughout the year and both temporary and full-time employees are allowed to have mobile devices (cell phones with cameras) and other personal belongings while processing taxpayer receipts and information.
- Appropriate segregation of duties over taxpayer receipts received outside of DC&D did not exist. Individuals in the processing areas could receive payments and adjust accounts in GenTax. Additionally, all accounts do not require supervisory review and verification of adjustments.

**Monitoring**

- Management does not have a true tracking of receipts received in processing areas, specifically lacking the ability to identify the locations, dollar amount, or number of receipts processed at various locations throughout the Department. Without this information, the Department lacks the ability to monitor the receipt processing in the various areas for unusual trends, errors, or discrepancies.

**Physical Safeguards**

- Physical safeguards to control general public access to tax processing areas, including those accessing daycare and restaurant services, were not implemented. We noted the Department is unable to prevent undetected entry by unauthorized persons during duty and non-duty hours in the Tax Processing and Document Control and Deposit areas.
- Physical safeguards over tax returns and taxpayer information were lacking. We noted taxpayer files are stored on desks and open shelving units and are not locked or secured from other Department employees or other individuals who enter the building past the security checkpoints. Department personnel and the other individuals who enter the

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building past the security checkpoints should not have access to these areas if they are not authorized to access tax information.

- The Department's Document Control and Deposit area leaves checks and tax return information received out on tables or laying on vertical shelving units in unprotected areas. This information and documents are accessible (specifically, lacking access controlled barriers) to all Department employees, including Lottery employees and Liquor Control Commission employees, as well as Secretary of State and Department of Central Management Services employees.
- Taxpayer payments were stored in an open bin in a readily accessible hallway within a tax processing area.
- The Department lacked a fully functional security system to protect tax receipts and taxpayer information.

In contrast to the weak controls over State tax information, federal tax information was subject to strict physical security controls. These controls included:

- Physically maintaining tax returns in a secure area with limited access. Tax returns are maintained within secure cabinets and bins; the information was not left in the open.
- Employees are not allowed to have cameras or personal belongings within the secure area.

The Internal Revenue Service has determined the taxpayer's State tax information must be retained in the same strict requirements as the taxpayer's federal tax information where the federal tax information has been commingled with State tax information as defined in the Internal Revenue Service's Publication 1075, Tax Information Security Guidelines for Federal, State, and Local Agencies and Entities, Safeguards for Protecting Federal Tax Returns and Return Information. As such, the Department is required to ensure all commingled tax information is protected in accordance with the Internal Revenue Service's Publication 1075. Publication 1075, Section 4.1, requires the adequate protection of tax information from unauthorized disclosure. Specifically, "security may be provided for a document, an item, or an area in a number of ways. These include, but are not limited to, locked containers of various types, vaults, locked rooms, locked rooms that have reinforced perimeters, locked buildings, guards, electronic security systems."

Generally accepted audit guidance endorses the development of adequate internal control procedures to ensure proper segregation of duties and supervisory review. In addition, well-designed and well-managed controls to protect physical facilities and sensitive information should be implemented. Also, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system of fiscal and administrative controls to provide assurance that "funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation."

Department officials stated that when the Willard Ice Building was designed with an open architecture floor plan 30 years ago, the IRS Publication 1075 did not exist as it does today. The Department has established guards and restricted access to the building to ensure that the public and unapproved State employees are not gaining access to their buildings. The modern

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floor plans and consolidations of agencies over the last 8 years (CMS IT consolidation, Lottery, Liquor Control Commission, Shared Services and CMS Print Shop) has compounded the issue and has resulted in a review of security by the Department.

The Department has the responsibility to ensure only authorized individuals have access to taxpayer information and taxpayer receipts. Failure to establish adequate security controls could result in taxpayer identity theft or unintended use and the misappropriation of taxpayer payments. (Finding Code No. 10-9)

**RECOMMENDATION**

We recommend the Department implement controls to ensure:

- Receipt processing is received and processed in a centralized location with adequate monitoring and security controls. Management should also monitor the receipt process for errors or irregularities and any necessary improvements.
- Segregation of duties exist over the receipt and recording of taxpayer payments and information.
- Tax processing and payment areas are adequately secured and limited to authorized individuals by eliminating unnecessary traffic through critical areas and thereby reducing the opportunity for unauthorized disclosure or theft.
- Taxpayer information is adequately stored and protected during both duty and non-duty hours from unauthorized access.
- Individuals authorized to access taxpayer information are restricted from bringing personal items and mobile devices into the tax processing areas.

**DEPARTMENT RESPONSE**

The Department disagrees with the finding that it does not have adequate controls and protections in place, but it agrees that safeguarding of receipts and taxpayer information is critical and can always be improved. The Department is in the process of hiring a Chief Information Security Officer to oversee assuring that taxpayer information is protected.

<p><b>AUDITOR'S COMMENT:</b> While the Department disagrees with the finding that it does not have adequate controls and protections in place over taxpayer receipts, the bullets in the finding depict significant deficiencies in their internal controls over receipt processing and taxpayer information. Internal Revenue Service Publication 1075 details strict security and processing controls over taxpayer information the Department does not currently have in place.</p>
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Specifically:

- We disagree all receipts can be processed in a centralized area without drastically slowing the process of resolving taxpayer issues. The Department directs taxpayers to send payments to the Document Control & Deposit section (DC&D). However, taxpayers responding to general correspondence occasionally send payments

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elsewhere in the Department. In essence, the auditor's issue involves roughly 0.1% of payments received through correspondence with taxpayers. Without slowing the resolution of taxpayer accounts (see finding 10-5 that involves needs to resolve accounts very quickly), all mail cannot be directed through DC&D.

**AUDITOR'S COMMENT:** The auditor's concerns address all \$4.4 billion received at the Chicago and Springfield locations, and not just payments received from correspondence. The Department needs to review their transaction process flows, including the Document Control and Deposit Area, for necessary improvements in security and controls. The Department needs a centralized location for the receipt, processing, and protection of all receipts received to ensure they are deposited into the State Treasury. During the exit conference, we discussed past incidents where employees left the Department and taxpayer checks were found in their desk drawers at later dates.

The Department of Revenue utilizes a minimum of **65 different addresses** to direct payments, correspondence, and general mail. In FY2010, the Department processed 19.2 million tax documents and deposited \$28.5 billion. Of this amount the majority of the receipts are **deposited immediately** through various electronic commerce processes totaling \$21.1 billion (74% of total receipts). The Department agrees it can improve reporting and monitoring of receipts for the tiny fraction of payments received outside of DC&D.

- The Department agrees to see whether further segregation of duties is needed for employees who both adjust accounts and occasionally receive a check.

**AUDITOR'S COMMENT:** The Department agreed to see whether further segregation of duties is needed for employees who can adjust accounts and receive checks. Good internal controls would not allow one individual to have the authority to both receive taxpayer payments and adjust the taxpayer's account. The auditors noted the Department reported that three processing areas received 5,086 payments, totaling \$9.4 million. The auditors deem these transactions as more than "occasionally receiv[ing] a check."

- The Department plans to work to further enhance the security of the tax environment – beyond the currently secure building with security guards, badge requirements, and employee training – as part of its efforts to comply with IRS Publication 1075.
- The Department agrees to review and discuss with the bargaining unit restricting from the workplace personal items that could erode security.

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10-10. **FINDING** (Noncompliance with the Public Utilities Revenue Act)

The Department of Revenue (Department) did not calculate and timely issue the invested capital tax on the distribution of electricity credit (tax credit), leading to an unrecorded \$18.7 million liability in the Department's June 30, 2010 financial statements.

During testing, we noted the following:

- The Department did not timely compute the tax credit.

<b>Tax Year</b>	<b>Statutory Due Date</b>	<b>Date Calculated</b>	<b>Days Late</b>	<b>Credit Amount</b>
2007	December 1, 2008	March 4, 2010	458	\$21,948,112
2008	December 1, 2009	January 24, 2011	419	\$18,705,689

- The Department did not record the corresponding liability of \$18.7 million for the tax year 2008 tax credit in the Department's Personal Property Tax Replacement Fund (Fund 802) GAAP package at June 30, 2010.
- The Department did not have adequate procedures governing the computation or issuance of the tax credit to ensure it was done on an annual basis.

The Public Utilities Revenue Act (35 ILCS 620/2a.1(c)) requires the Department to calculate the tax credit for all taxpayers who paid invested capital tax on the distribution of electricity during the preceding tax year by December 1 and adopt reasonable regulations to implement the law. Further, the Department is mandated to calculate the tax credit pursuant to the following statutory formula:

- 1) Invested Capital Tax on the Distribution of Electricity Receipts for the Year
- 2) Less: The lesser value from the calculations below:
  - a) \$145,279,553 plus 5%; or,
  - b) \$145,279,553 plus the Consumer Price Index's percentage increase during the year.
- 3) Total: Aggregate Excess Amount to be Issued as Credit Memoranda to Taxpayers

The Department distributes the aggregate excess amount to taxpayers in proportion to the amount of taxes paid by the taxpayer in proportion to the total amount paid by all taxpayers, after removing the effects of any tax credit utilized during the tax period.

In accordance with Generally Accepted Accounting Principles (GAAP), all assets, liabilities, revenues, and expenses should be recorded in the financial statements. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system of fiscal and administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

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Department personnel stated this was an oversight that these tax credits were not issued in a timely manner.

Failure to timely calculate and issue the tax credit to taxpayers pursuant to regulations adopted by the Department is noncompliance with the Public Utilities Revenue Act and resulted in an unrecorded liability in the Department's financial statements. (Finding Code No. 10-10)

**RECOMMENDATION**

We recommend the Department:

- prepare a year-end closing checklist that details all the required year-end adjustments, the source documents used to prepare the adjustments, the related accounting policy (if any) and any other helpful information;
- implement controls to ensure all statutory tax credits are timely calculated and issued to taxpayers in accordance with State law; and,
- record liabilities from tax credits in the Department's financial statements.

**DEPARTMENT RESPONSE**

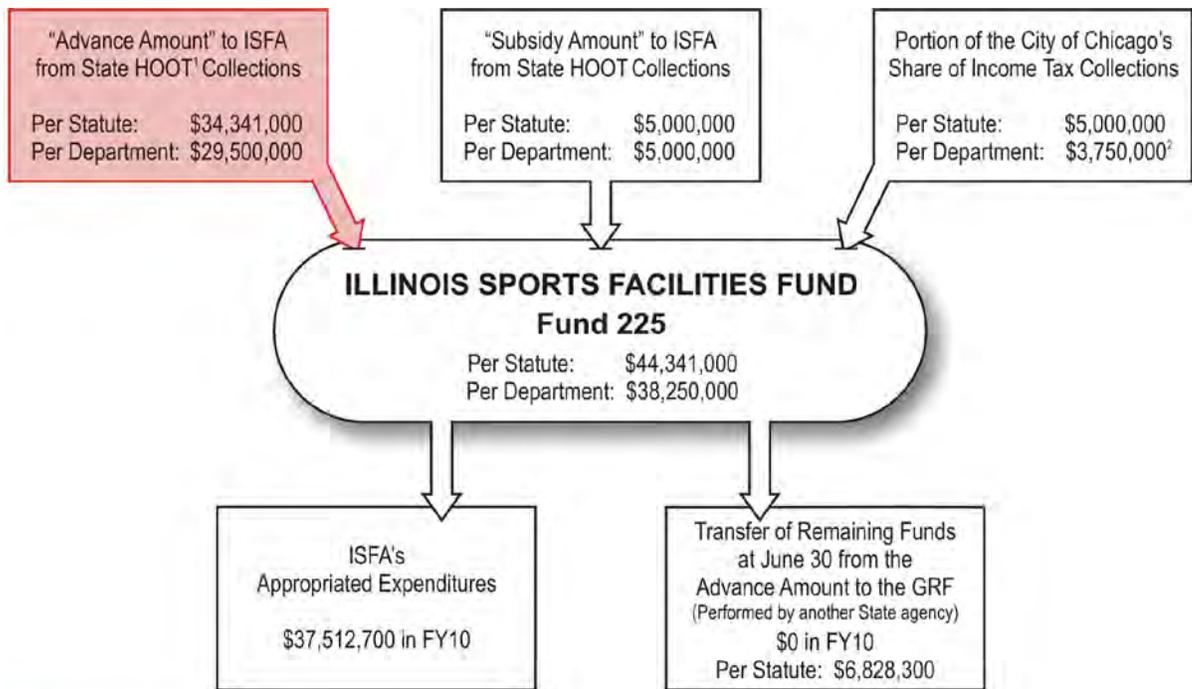
The Department agrees that a checklist should be maintained to identify year-end adjustments and record the appropriate liabilities in the financial statements. The manual process of calculating the tax credits will become systemic when excise taxes are brought into the new GenTax system in June 2011.

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10-11. **FINDING** (Inadequate Control over Illinois Sports Facilities Authority Funds)

The Department of Revenue (Department) did not exercise adequate control over the Illinois Sports Facilities Fund or the Sports Facilities Tax Trust Fund.

During testing, we noted the Department did not deposit the entire statutory “advance amount” into the Illinois Sports Facilities Fund from the State’s share of Hotel Operators’ Occupation Tax (HOOT) receipts. During FY10, the Department deposited only \$29,500,000 of the \$34,341,000 statutorily required advance. The mandated amounts and the Department’s amounts are depicted graphically below:



■ Shading indicates noncompliance

<sup>1</sup> Hotel Operators' Occupation Tax

<sup>2</sup> The receipt of the City of Chicago's share of income tax collections was delayed due to cash flow issues in the General Revenue Fund  
• OAG analysis of the Hotel Operators' Occupation Tax (35 ILCS 145/6) and the State Finance Act (30 ILCS 105/8.25-4)

The Hotel Operators’ Occupation Tax Act (35 ILCS 145/6) requires the Department to deposit the annual “advance amount” from FY02 through FY32 pursuant to a statutory formula from the State’s share of Hotel Operators’ Occupation Tax. During FY10, the Department should have deposited \$34,341,000.

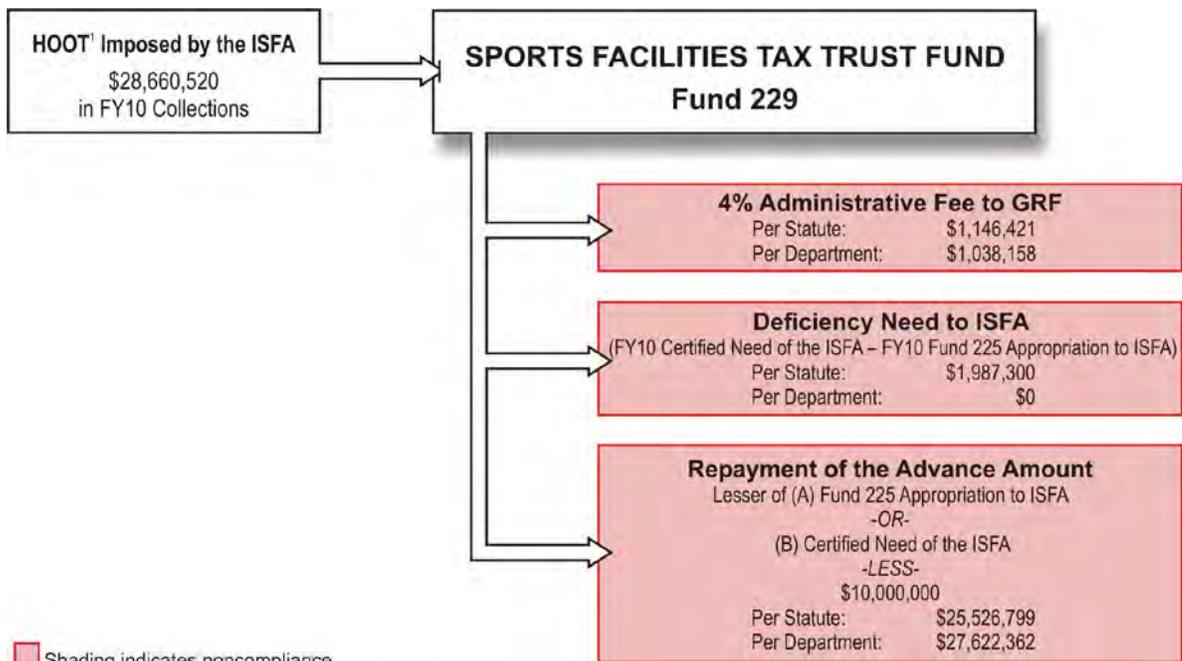
As a result of overstating the eliminating entries for the activity related to the advance amount, an adjustment of approximately \$6.2 million to increase revenues and expenditures in Fund 225 was proposed to the Department. The auditor’s adjustment was for the subsidy amount to the Illinois Sports Facilities Authority (ISFA) (\$5 million) and the unrecorded portion of the City of Chicago’s share (\$1.2 million) along with an adjustment of approximately \$1.2 million

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to increase taxes receivable and intergovernmental liabilities. These adjustments were deemed immaterial and were not recorded by the Department.

The adjustments were to gross up the amount of revenues and expenditures recorded in the fund which represented revenues earned and expenditures incurred, in accordance with generally accepted accounting principles.

During testing, we noted distribution errors of receipt collections from the Hotel Operators' Occupation Tax imposed by the ISFA deposited into the Sports Facilities Tax Trust Fund, as depicted graphically below:



■ Shading indicates noncompliance

<sup>1</sup> Hotel Operators' Occupation Tax

• OAG analysis of the Illinois Sports Facilities Act (70 ILCS 3205/19)

The Illinois Sports Facilities Authority Act (70 ILCS 3205/19) requires the Department:

- 1) retain 4% of receipts as an administrative fee for deposit into the General Revenue Fund;
- 2) distribute the deficit of the ISFA's certified need after removing appropriations to the ISFA from the Illinois Sports Facilities Fund;
- 3) repay the General Revenue Fund for the "advance amount" paid to the ISFA from the Illinois Sports Facilities Fund pursuant to a statutory formula; and,
- 4) distribute remaining funds to the ISFA.

Department personnel stated that staff has worked with ISFA for years to ensure that the Department deposited the advance payment based on the certified amount and then required repayment to GRF throughout the fiscal year until the advance payment was satisfied. The Department received confirmation from the ISFA CFO documenting their agreement with the Department's process and handling of the advance payments. Although the Department

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received a confirmation from IFSA, the auditors believe the Department was still obligated to comply with statutory requirements regarding deposits.

Failure to administer the Illinois Sports Facilities Fund and Sports Facilities Tax Trust Fund in accordance with statute led to deposit and distribution errors. (Finding Code No. 10-11)

**RECOMMENDATION**

We recommend the Department implement controls to ensure the Department's deposit and distribution activity from the Illinois Sports Facilities Fund and Sports Facilities Tax Trust Fund are performed accurately.

**DEPARTMENT RESPONSE**

The Department believes that it has implemented the law as it was intended and as all parties have agreed it should be implemented. We will – because we believe no one intended to have \$4.8 million sit in a fund for a year – work with the General Assembly and the Illinois Sports Facility Authority to clarify the language. The Department has implemented a monthly review checklist and reconciliation process that will ensure that all excess need/distributions to ISFA and administrative fees for GRF are processed timely.

<p><b>AUDITOR'S COMMENT:</b> Per the finding as noted, the General Assembly specified amounts to be paid into the Illinois Sports Facilities Authority Fund. It is unclear as to whom "all parties" are as referenced by the Department, or the relevancy to this statutory requirement. The primary responsibility of State agencies is to administer functions given to them by the General Assembly in accordance with State law as written. If the Department believes the statutes need to be amended, they should seek a legislative remedy.</p>
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10-12. **FINDING** (Inadequate Controls over Taxes Collected for Local Governments)

The Department of Revenue (Department) did not exercise adequate control over the deposit and allocation of locally-imposed School Facility Occupation Taxes (SFOT), Flood Prevention Occupation Taxes (FPOT), or Metro-East Mass Transit District fees.

During testing, we noted:

- The Department did not consider the cash basis effects of changing their deposit process for SFOT or FPOT, did not properly correct prior year cash deposit errors identified and reported during the FY09 examination, and did not correct deposit errors occurring during FY10.

The Counties Code (55 ILCS 5/5-1006.7(d)) requires the Department to **immediately** pay over all SFOT collections to the State Treasurer, depositing 98% into the School Facility Occupation Tax Fund and 2% into the Tax Compliance and Administration Fund. In addition, the Flood Prevention District Act (70 ILCS 750/25(f)) requires the Department to **immediately** pay over all FPOT collections to the State Treasurer, depositing 98% into the Flood Prevention Occupation Tax Fund and 2% into the Tax Compliance and Administration Fund.

- *Tax Compliance and Administration Fund (Fund 384)*: Four of 24 (17%) deposits of the 2% administration fee were not correctly deposited by the Department into Fund 384, as noted below:

<b>Tax Type</b>	<b>Distribution Month</b>	<b>Actual Department Deposits</b>	<b>Department Calculated Deposits</b>	<b>Over(Under) Deposit</b>
SFOT	August 2009	\$0	\$10,230	(\$10,230)
SFOT	March 2010	\$12,233	\$15,120	(\$2,887)
FPOT	August 2009	\$0	\$17,853	(\$17,853)
FPOT	March 2010	\$18,225	\$22,944	(\$4,719)
				(\$35,689)

- In addition, the Department did not correct FY09 deposit errors into Fund 384 from FPOT collections reported during the FY09 examination, totaling \$14,114. Further, the Department overcorrected FY09 deposit errors into Fund 384 from SFOT collections reported during the FY09 examination, totaling \$11,656.
- *School Facility Occupation Tax Fund (Fund 498) and Flood Prevention Occupation Tax Fund (Fund 558)*: Fund 498 and Fund 558 should have approximately two months of tax collections in the cash balance at June 30, 2010. The two months of collections represent tax collections paid by taxpayers to the Department in May and June 2010 that are not distributed to local governments until July and August 2010.

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In late June 2010, the Department changed the deposit process for SFOT and FPOT collections to align the deposit process to the same process used by the Department for other funds receiving allocations of sales taxes collected on behalf of local governments. Prior to the change, the Department only deposited the exact amount of cash due to local governments in the current month to cover cash collections received by the Department two months prior. After the change, the Department allocates 98% of sales tax collections to the various funds receiving sales tax collections and uses a 2% reserve to adjust fund balances to the perfected return data two months later. When the Department changed the deposit process, the Department did not continue to deposit the exact amount due to the local governments in July and August 2010 from cash collections in May and June 2010.

The net cash deficiency at June 30, 2010 as a result of these errors is as follows:

<b>Tax Compliance and Administration Fund (Fund 384)</b>		
	<b>SFOT</b>	<b>FPOT</b>
Error Due to Change in Deposit Process	\$85,026	\$38,917
FY10 Deposit Errors (August 2009 and March 2010)	\$13,117	\$22,572
FY09 Deposit Errors (February 2009 and April 2009)	\$8,552	\$14,114
FY10 Department Correction (May 2010)	(\$20,208)	\$0
Cash Deficiency at June 30, 2010	\$86,487	\$75,603

<b>School Facility Occupation Tax Fund (Fund 498)</b>	
Error Due to Change in Deposit Process	\$3,861,444
Cash Deficiency at June 30, 2010	\$3,861,444

<b>Flood Prevention Occupation Tax Fund (Fund 558)</b>	
Error Due to Change in Deposit Process	\$1,500,480
Cash Deficiency at June 30, 2010	\$1,500,480

In discussing this exception with Department management, they stated the local governments received the correct disbursements and the cash balances would have been correct by September 2010. The Office of the State Comptroller's SB05 Cash Reports for the month ending October 2010 do not reflect a cash balance of approximately two months of cash collections in either fund, as detailed below:

<b>October 2010 Cash Transactions</b>				
Fund	Beginning Balance	October Collections	August Distribution	Ending Balance
498	\$935,054	\$1,973,349	\$2,092,623	\$815,780
558	\$993,184	\$764,465	\$895,275	\$862,374

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- During testing, we noted the Department did not retain any administration fee receipts from the fee imposed on tangible personal property that is titled or registered with a State agency within the Metro-East Mass Transit District. Since the imposition of the fee in FY05, the Department should have deposited \$63,080 on a cash basis into the Tax Compliance and Administration Fund.

The Local Mass Transit District Act (70 ILCS 3610/5.01(d-7.1)) requires the Department to retain 2% of receipts (4% for the first 12 months) from the fee imposed on tangible personal property that is titled or registered with a State agency for deposit into the Tax Compliance and Administration Fund.

Department personnel stated the failure to retain the administrative fee for the Metro-East Mass Transit District was an oversight.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system of fiscal and administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Failure to exercise adequate control over the deposit and allocation of local tax collections led to deposit errors among several funds. (Finding Code No. 10-12, 09-10)

**RECOMMENDATION**

We recommend the Department implement controls to ensure the Department complies with statutory requirements regarding the allocation of tax receipts and fees into various funds.

**DEPARTMENT RESPONSE**

The Department agrees with deposit errors as noted by the auditors in the Tax Administration and Compliance Fund. The Department notes that local governments received the proper amounts of School Facility and Flood Prevention Occupation Tax. The Department has developed a checklist so that monthly transactions are reviewed and appropriate transfers/deposits and vouchers are processed based on actual return data as received. Any discrepancies noted will be processed as receipt adjustments. The Department also agrees that it neglected to retain the administrative fees for the MED fees.

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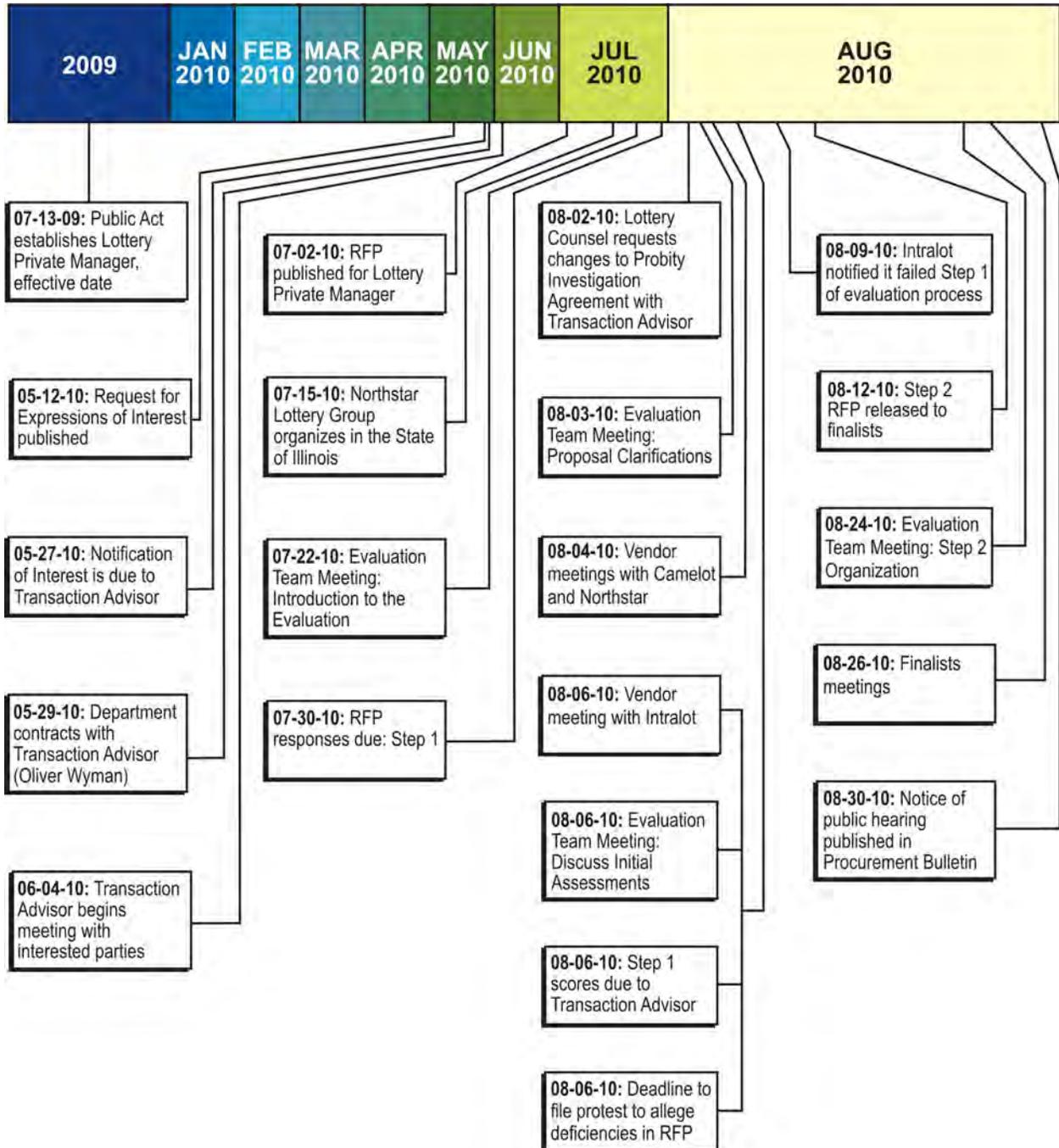
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The following two pages outline the timeline related to the Lottery Private Manager procurement.

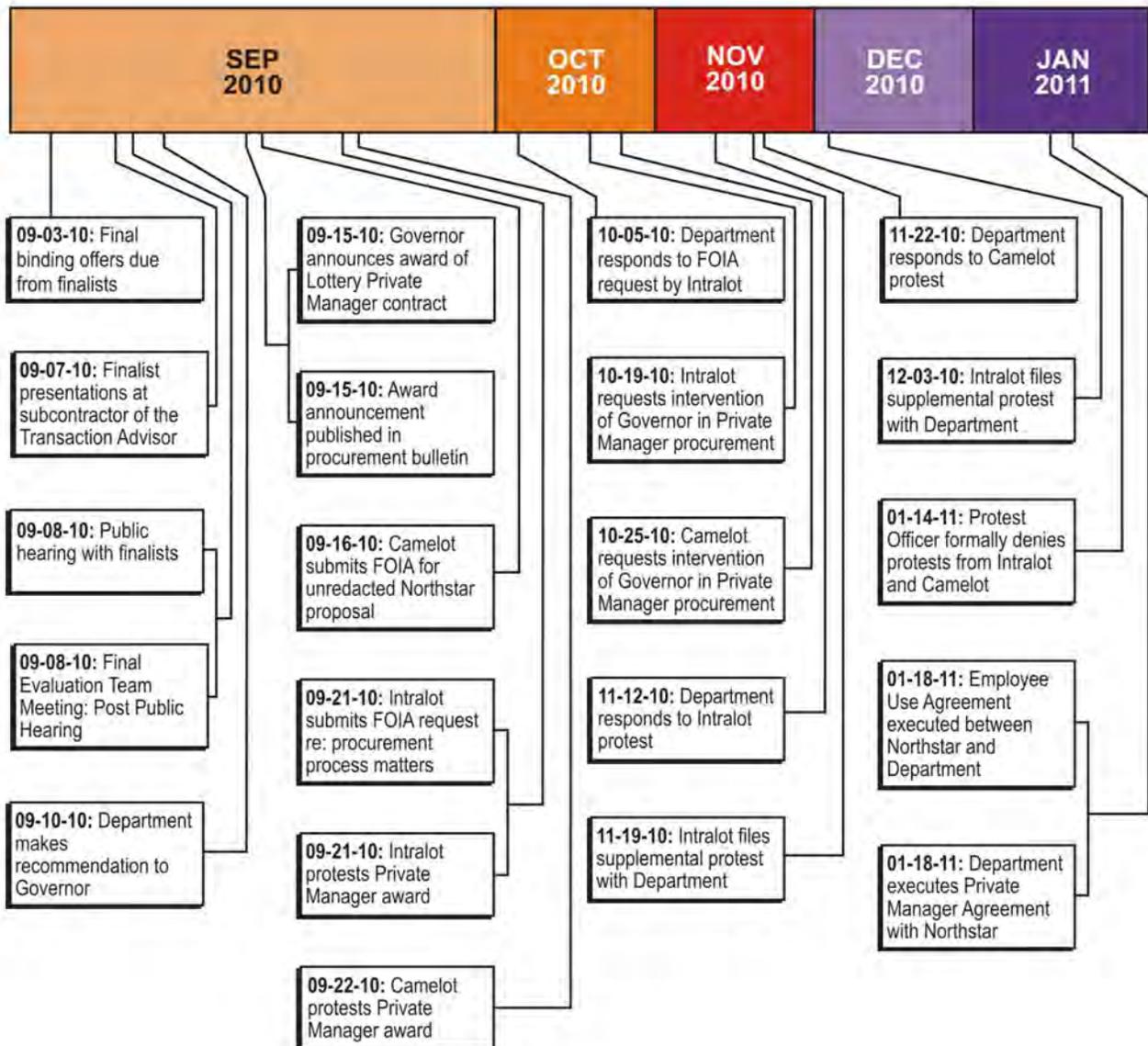
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**ILLINOIS LOTTERY PRIVATE MANAGER PROCUREMENT**

In July 2009, the Illinois General Assembly amended the Illinois Lottery Law (20 ILCS 1605/9.1) to direct the Department to procure a private manager to manage the day-to-day operations of the Illinois Lottery. As part of the compliance examination of the Department, the Auditor General reviewed the procurement. A timeline of activities for the procurement, and the findings developed from this audit work follows in Findings 10-13 through 10-20.



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10-13. **FINDING** (Lottery Private Manager Procurement-Use of Transaction Advisor)

The Illinois Department of Revenue (Department) allowed the transaction advisor hired to assist in the procurement of a Private Manager for the Lottery: to work without an executed contract; to not meet contractual milestone dates; to subcontract with an entity which may have had a perceived objectivity issue; and, paid for services in violation of the contractual arrangement with the advisor.

During our review of the procurement process utilized by the Department in selecting a vendor to provide Private Management of the Illinois Lottery, we examined the procurement files and other documentation maintained by the Department. Additionally, we reviewed the contract executed with Oliver Wyman to provide advisory services for this procurement. The following items are noted:

- **Subcontractors:**
  - The Wyman contract identified four subcontractors to be utilized in the performance of the contract: Scott Balice Strategies, Christiansen Capital Advisors, Kroll Associates, and DLA Piper. The contract estimated payment to these subcontractors at \$2.15 million.
- **Contract Execution Date:**
  - The final party to sign the contract was a representative for the Department's General Counsel. That signature was dated May 29, 2010 and thus became the execution date for the contract. The Comptroller's date stamp showed the contract was filed with the obligations section on June 15, 2010.
- **Work Prior to Executing Contract:**
  - The Department allowed the advisor and its subcontractors to work without an executed contract. On May 12, 2010, 17 days prior to executing a contract with Wyman, a Request for Expressions of Interest (RFEI) was issued to identify parties interested in serving as the Lottery private manager.
  - Responses were due May 27, 2010, 2 days prior to executing a contract with Wyman, to a managing director of one of the subcontractors, Scott Balice Strategies.
  - The RFEI noted that all "questions or requests for information regarding this RFEI should only be directed to the representative of the Transaction Advisor" – Scott Balice Strategies.
  - It would appear that Wyman and/or its subcontractors also assisted in the development of the RFEI, which would have been classified as work prior to the issue on May 12, 2010.
- **Failure to Meet Contractual Timelines:** Section 2.2 of the Wyman contract with the Department lists the services required to be performed by Wyman under the contract.
  - The Initial Review of the Lottery Industry and Economic and Non-Economic Factors Impacting the Transaction (section 2.2.1) was to be completed by May 17, 2010 unless otherwise agreed to by the parties. This date was 12 days prior to executing the Wyman contract. There was no indication, through a contract amendment, that this activity was completed by the due date. Wyman was to be paid \$400,000 for these activities.

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- The Development of the RFP (section 2.2.2) was to be completed by June 7, 2010 unless otherwise agreed to by the parties. The Advisor was still meeting with prospective, interested bidders during this time period to ascertain how the RFP and Private Management Agreement should be structured. It would appear that Wyman would not have met this milestone date nor was there indication, through a contract amendment, that the Department allowed this date to be extended. Wyman was to be paid \$800,000 for these activities. The RFP for Step 1 was issued July 2, 2010.
- **Appearance of Objectivity Issue of Subcontractor:**
  - A Wyman subcontractor, Kroll Associates, appears to have had a relationship with one of the two entities that combined to form NorthStar, Scientific Games.
  - According to Kroll, they were “*retained to oversee the integrity of the process and to provide investigative and consulting services.*” Further, a Kroll employee was “*responsible for ensuring the RFP process was fair and open.*”
  - Two Scientific Games board members at the time of proposing as part of NorthStar had previously been on the board at Kroll (from 2002 through 2006). Kroll had been retained as counsel to Scientific Games’ predecessor in 2002.
  - The procurement files contained no indication that the Department was aware of these relationships or documentation to show that the Department deemed them to not be an impairment.
- **Payments Made in Violation of Contract:** The Department paid Wyman for activities conducted prior to the execution of its contract with the vendor. As of April 8, 2011, the Department could produce only summary level billing invoices from Wyman, not the detailed support to show when the work billed was actually conducted.

The Illinois Lottery Law (20 ILCS 1605/9.1(f)) states the Department “*may retain the services of an advisor or advisors with significant experience in financial services...to assist in the preparation of the terms of the request for qualifications and selection of the private manager....The Department shall not select any prospective advisor with a substantial business or financial relationship that the Department deems to impair the objectivity of the services provided by the prospective advisor.*” Section 1.1 of the contract with the transaction advisor stated that the term of the contract “*shall commence on the last dated signature of the Parties.*” Contract payment terms and conditions (section 3.7.3) indicated the State “*shall not be liable to pay for supplies provided or services rendered, including related expenses incurred prior to the execution of this Contract by the Parties and the beginning of the term of this Contract.*”

Department personnel stated the “*Department’s position is that although it understands that having Wyman begin work before the contract was fully executed is not ‘best practice,’ there were no potential contractual risks undertaken to the detriment of the State. Instead, Wyman began work at its own risk and peril, which ultimately benefited the State when it met the September 15, 2010 [deadline] and timely identified Lottery’s private manager. The contract between Wyman and the Department was also based on milestones and deliverables, which made performance before contract execution irrelevant.*” Auditors note above that it appears that not all milestone dates would have been met by Wyman.

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The Department reported it was faced with concluding the selection of a private manager for the Lottery in a tight time frame and its contractor agreed to start work before a signed contract was in place. No payments were authorized prior to execution of the contract. At no time did the Department authorize any payments prior to the full execution of the contract.

Failure to develop the RFP by the contractual deadline provided less time for the evaluation team to review, analyze and score the Step 1 RFP responses. The Department should seek to maintain transparency and avoid the appearance of potential conflicts of interest in procuring the services of a Private Manager for the Illinois Lottery. Allowing a vendor to work without an executed contract does not protect State interests and increases the likelihood that State goals are not accomplished. (Finding Code No. 10-13)

**RECOMMENDATION**

The Department should protect State interests and not allow vendors to work without an executed contract in place. Additionally, the Department should enforce contract milestones or amend the contract to reflect updated priorities and time frames. Further, the Department should ensure that all subcontractors disclose any relationships that may, even if only in appearance, impair the integrity of the procurement process. Finally, the Department should comply with its own contractual document and not pay for services performed prior to the execution of a final contract.

**DEPARTMENT RESPONSE**

The Department disagrees with the finding that it did not protect the state's interest by allowing vendors, at their own risk, to begin work before an executed contract was in place. The Department agrees that it is "best practice" to have a signed contract in place before beginning work. However, with the task of developing a completely new business model for the lottery under strict time constraints, it was also in the best interest of the State to start work as soon as possible. The contractor did so with the understanding that they were assuming risk, but continued out of dedication to a productive and positive outcome for the State.

<p><b>AUDITOR'S COMMENT:</b> The Department refers to the "strict time constraints" that was part of the rationale for allowing Wyman to work without a signed contract. The changes to the Lottery Law passed the General Assembly and were signed into law <b>almost one year before</b> the RFP was issued for the Private Manager procurement. We would also disagree that allowing Wyman to work and represent the State without an executed agreement best protects the State's interest.</p>
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The Transaction Advisor was hired to lend expertise and experience in structuring a process for selecting a private manager for the state lottery, as well as crafting the business terms of the agreement. The project was bid fixed-price, based on milestone deliverables,

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which are clearly outlined in the Transaction Advisor RFP, the Wyman response and the resulting contract. The State paid only for the deliverables as stated in the contract. The milestone dates in the contract were in place to illustrate that the work could be accomplished in the time allowed by the legislation. It was fully expected that dates would shift as the project got underway and the business strategy was developed. The contract allows for modifications for the timeline by “mutual agreement of the parties.” The Department believes that a contract amendment was not warranted, since the scope of the deliverables did not change.

**AUDITOR’S COMMENT:** While the Department indicates that timelines could be modified by “mutual agreement of the parties”, no such modification was maintained in the procurement file or memorialized in the contract on file with the Comptroller. Failure to meet deliverable deadlines may have contributed to State evaluators **having less than one week** to evaluate the RFP responses in Step 1 of the process, a process that eventually would turn over a \$2 billion State asset for private management.

The Transaction Advisor Request for Proposal and contract had extensive disclosure and conflict of interest requirements. Section 5 of the RFP required a bidder to disclose with its offer any and all financial interests, potential conflicts of interest and contract information as a condition of receiving an award or contract in accordance with 30 ILCS 500/50-13 and 50-35. Section 4 of the Conflict of Interest Disclosures required a vendor to identify any material financial or business relationship it has had during the **last three years**.

Oliver Wyman, on its own and on behalf of its subcontractors, filed extensive disclosures with the State. These disclosures were reviewed by counsel and no objectionable relationships were found.

**AUDITOR’S COMMENT:** While the Department indicates no objectionable relationships were found, that was **not documented** in the procurement file. Further, the Department did not provide auditors **any** documentation to show the relationship detailed in the finding was reported by Wyman in its submission.

With respect to the alleged objectivity issue of Kroll Associates, the Department believes this allegation is without merit. Wyman retained certain subcontractors in order to provide the services set out by the contract. It retained Kroll Associates to assist in the probity investigation of prospective bidders. The qualifications and experience of Wyman and Kroll are not at issue. Both parties were very qualified to do the work required. The allegation involves two board members (Mr. Cohen and Mr. Wright) who served on the boards of both Kroll Inc. and Scientific Games. Mr. Cohen left the board of Kroll in 2006 but continues on the board of Scientific Games. Mr. Wright served on the board and was the CEO of Scientific Games until December 31, 2009 and is no longer connected to Scientific Games. Mr. Wright also served on the Kroll board until 2004 when Kroll was

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sold to Marsh and McClennan. Because these relationships, service on the boards of Kroll and Scientific Games, were over three years prior to the services rendered by Kroll, no disclosures of these relationships were required to be made under Section 4 of the Financial Advisor RFP. It is important to note that the investigation performed by Kroll was conducted by Jeffrey Cramer, a former Assistant U.S. Attorney for the Northern District of Illinois. He had more than 10 years of experience in investigating and prosecuting cases in New York and Illinois. The OAG cited no examples of questionable findings or conclusions in any of Kroll's or Wyman's reports.

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10-14. **FINDING** (Lottery Private Manager Procurement-Documentation to Support Payment to Transaction Advisor)

The Department of Revenue (Department) failed to adequately monitor and review the payments made to the Transaction Advisor for services provided by the Advisor and its subcontractors. Additionally, an increase to the legal fees cap was not timely memorialized in the contract with the Transaction Advisor.

During our review of the procurement process utilized by the Department in selecting a vendor to provide Private Management of the Illinois Lottery, we examined the procurement files and other documentation maintained by the Department. Additionally, we requested billing invoices for the Transaction Advisor (Oliver Wyman) and supporting documentation once the invoices revealed only brief summaries of the charges. The Department responded on April 8, 2011 that they had provided all documentation to support the Wyman payments. From the Department's perspective, the invoices were approved by either the Lottery General Counsel and/or the Acting Superintendent of the Lottery. The following items are noted:

- **Lack of Billing Detail:** According to Comptroller records, the Department has paid Wyman \$4.94 million for the services it and its subcontractors performed since the beginning of the contract through the end of March 2011.
  - **33 percent** of the payments (\$1,613,951.87 of \$4,941,084.24) made to Wyman were on two invoices (#BR27607 and BR27976) that the Department did not produce for the auditors. The Department did provide a summary document that gave an invoice date, services, amount and comments for the payments. An April 11, 2011 memo from internal audit, in response to our questioning the detailed support for Wyman payments, indicated that the *“budget office, generated a document that cross-referenced the RFP and contract to the modules, so management can follow which modules were being completed.”* Unfortunately, the two invoices noted above were not included on the document created by the budget office. However, there were payments both before and after the payments we question in this bullet point. This would appear to make it very difficult for management to follow which modules were being completed.

After our draft findings were submitted to the Department, we received the 2 invoices detailed above on May 9, 2011. This was 31 days after the Department told us, on April 8, 2011, that they had provided all documentation to support the Wyman payments. The new information was summary billings with no detail to support what legal services were provided, or when the professional services were rendered for the State funds.

- **85 percent** of the payments (\$4,213,951.87 of \$4,941,084.24) made to Wyman were for non-legal services. These billing invoices listed a dollar amount and a brief description of what services were provided. No other support was provided. For instance, Invoice #BR27118 states the work performed was the *“First invoice for professional services upon completion of Modules 3.3.1 & 3.3.2A.”* The invoice was for \$1.15 million and was dated July 29, 2010. The problem with the lack of detail is based on the following:
  - **Contract Differences:** The budget office document noted in the bullet above references this to Section 2.2.1 of the contract with Wyman. The contract lists a

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compensation structure that showed that Wyman would be paid “\$400,000 upon completion of tasks and services outlined in Section 2.2.1.” There was no support provided by the Department to show why this difference in payment amount was necessitated. This is but one instance of many discrepancies between the budget office document that was to be used by “management” and the contractual compensation schedule.

- **Timing:** An additional concern is that the contract with Wyman lists milestone dates that Wyman needed to complete the different tasks by. For example, Section 2.2.1 referenced in the above bullet was to “be completed by May 17, 2010, unless otherwise agreed to by the parties.” There was no indication that this milestone date had changed; the invoice did not state when the activities were performed; only a billing date of July 29, 2010 appears to apply to these activities.
- **Legal Services:** Our review of what support the Department did have for the \$4.94 million in payments to Wyman included the legal services subcontracting work performed by DLA Piper. In total, there was \$727,132.37 in payments to Wyman for legal services performed by the subcontractor. This was 15 percent of the total payments made through March 2011. We note:
  - **Lack of Detail:** The legal services invoices were submitted by the subcontractor to Wyman, who signed off and submitted them to the Department, who also approved the invoices for payment. The subcontractor did provide detail as to who performed certain activities and when those activities were performed. Unfortunately, this was only for \$9,700 of the over \$727,000 in legal services billed (1 percent). Without support, we were unable to determine what activities were completed or who provided the billed services to determine whether they were appropriate.
  - **Billing Rates:** The summary billing statement on the invoices did list a number of individuals that were charging time to the project being paid by the Department, the number of hours billed and total dollar value of the billing by person. As explained above there was little support as to what activities these individuals were involved in. The State was billed between \$251.25 per hour and \$648.75 per hour for legal work by the subcontractor. There were 10 different billing rates on the summary invoices; some within the same title. We were unable to verify if those were correct billing rates.
  - **Legal Cap:** The Wyman contract filed with the Comptroller on June 15, 2010 had a cap for legal services at \$550,000. Given the rates charged by the subcontractor, that cap was met and exceeded. In October 2010, the Lottery General Counsel requested, and was granted by the Governor’s Office, an extension of that cap amount to \$1,000,000. While the Governor’s Office approved this increase on October 29, 2010, the Director did not sign the amendment for over two months, on January 7, 2011. The amendment indicated that the supplies or services to be provided will “stay the same.” Given the lack of detailed legal billings provided and the amendment indicating no additional services were to be provided, we question why the increase was necessary. Additionally, the Lottery General Counsel indicated that “\$300,000 of the \$450,000 increase will be paid from fees due from the selected final offeror, Northstar Lottery Group, for reimbursement of lottery costs related to probity and the private manager procurement.” It was our understanding that the \$300,000 would be an offset to the

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total charges the State was to pay to another subcontractor, Kroll, for probity work under the contract.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies, including the Department, to establish and maintain a system, or systems, of internal fiscal and administrative controls. These controls should provide assurance that: (1) resources are utilized efficiently, effectively, and in compliance with applicable law; and (2) obligations and costs are in compliance with applicable law. These controls should include procedures that require the Department to seek and maintain supporting documentation that supports the expenditure of State funds. Additionally, the contract between the Department and Transaction Advisor details the compensation schedule (section 3.3.1) and supplies and services to be provided (section 2.2).

In an April 11, 2011 memo from internal audit the Department stated, *“In all aspects of the Oliver Wyman invoices, the OAG has been given access to all available documentation needed to verify that the vendor provided the services that were outlined in the contract.”* Additionally, Department personnel stated *“The OAG has been given access to requests for proposals, contracts, amendment, invoices and a list of related deliverables.”* However, as stated in the finding, numerous control weaknesses were apparent and given the deficiencies noted above, and the fact that the Department approved the invoices with the same documentation we received, we disagree.

Absent detailed billing support, it is impossible to know whether the Department paid for items that were a waste of State taxpayer funds. Failure to file an amendment to the contract with the Transaction Advisor decreases the transparency in how the procurement is viewed. Failure by the Department to have the Transaction Advisor complete contract activities by certain dates stated in the contract decreases the ability of the Department’s evaluators for the RFP to have sufficient time to review and score the proposals. In fact, one evaluator told auditors that he did not have enough time to properly score the Step 1 proposals given the tight time frame. The evaluator informed the Transaction Advisor and Acting Superintendent of the Lottery and he was told “duly noted.” The amount paid out to the Transaction Advisor, over \$4.94 million, is a significant sum of taxpayer dollars. (Finding Code No. 10-14)

**RECOMMENDATION**

The Department should take steps to ensure that its Transaction Advisor submits the necessary supporting documentation to allow the Department to review and monitor the contract with the Advisor. Additionally, the Department should enforce provisions of the contract with respect to payments after services have been completed. Finally, if the need for increasing the legal services is justified, the Department should file a timely amendment to the contract so that State interests are publicly known and protected.

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**DEPARTMENT RESPONSE**

The Department disagrees with the finding that it did not monitor and review payments made to the Transaction Advisor, and provided that support to the auditor. The Department has adequate support and monitoring for the payment of this contract. As our attached chart shows (see below) the Transaction Advisor RFP, Oliver Wyman's response and the resulting contract, detailed set deliverables for a fixed price, broken up into milestone payments were the basis for reviewing and authorizing payment to the vendor. There is complete transparency around the activities covered by the contract and compensation. In most instances the deliverables were part of a public process and their completion evident to all. The activities and deliverables detailed in the contract enabled the Governor to make a Private Manager selection by September 15, 2010, as directed by Statute.

**AUDITOR'S COMMENT:** The Department states there was "complete transparency" in the activities covered by the contract and compensation. The hourly legal rates are not detailed in the State contract with Wyman. Lack of detail for these legal activities does not appear to reflect any heightened level of transparency. To the contrary, it raises the **skepticism** level for the activities and the procurement in general.

As to the legal subcontractor, the invoices are typical of legal services billing. They detail the number of hours each team member worked on the project. The various billing rates are a substantial discount from the firm's standard rates and reflect the various experience levels of the professionals involved. Again, as is typical, law partners are billed at a higher rate than paralegals. These invoices were verified and authorized by someone at the Department knowledgeable about the work and the individuals involved. Once the project got underway, it was clear that the complexity of the deal structure and the necessary legal documents was greater than anticipated. The Department sought to amend the contract at the same time that new procurement rules, processes and personnel were being put in place. It took an inordinate amount of time for the amendment to receive approval through this new process, but every required step was completed.

**AUDITOR'S COMMENT:** The Department indicated the lack of detail in the legal invoices was "typical" for this type of work. Recently, the Auditor General reviewed over 60 legal contracts the Governor's Office maintained and these contract invoices **did have detailed billing activities**. Without this detail, the Department would not have been able to ascertain if the billed activities were in line with the State activities for which services were apparently being completed. Finally, the need for additional legal expenses may not have been from any new activities but the fact that the State was paying as much as almost \$650 per hour for some legal services.

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**DEPARTMENT RESPONSE (Continued)**

Oliver Wyman Invoice Reference to Contract

Invoice No.	Amount Paid	Milestones/ Deliverables X-reference	Corresponding Contract Section	Milestone per Invoice	Deliverable	Delivered	Approved
BR27118	\$1,150,000	3.3.1 Industry Analysis and Lottery Valuation (1 month)	2.2.1 Initial Review of the Lottery Industry and Economic and Non-Economic Factors Impacting the Transaction	3.3.1 & 3.3.2A	Report & analysis describing potential value and strategic opportunities for the Lottery; Supporting models	Series of reports on valuation and strategic opportunities - summarized in evaluation team briefing delivered 7/22; Valuation model and training delivered to IDOR Research Unit	8/9/2010
BR27365	\$850,000	3.3.2 Draft of Request for Proposal, Sample Contract and Evaluation Criteria & Tools (approx. 2 to 3 months)	2.2.2 Development of the Request for Proposal (RFP)	3.3.2B	Request for Proposal, Evaluation Criteria, Scoring Methodology, Supporting Models and Scoring Tools	Step 1 & 2 RFPs, Instructions to Evaluators, Scoring Methodology, Scoring Tool - Award made 9/15/10	9/19/2010
BR27366	\$400,000	3.3.3 Pre-proposal Process (approx. 4 months)	2.2.3 Procurement & Selection Process	3.3.3	Pre-proposal process; Responses to offeror questions	REFI process; Data room management and summary of questions/responses - Award made 9/15/10	9/20/2010
BR27976	\$1,350,000	3.3.4 Response Evaluation & Award (approx. 2 months)	2.2.4 Probity Investigations	3.3.4A & 3.3.4B	Financial Valuation of Proposals & Probity	Financial valuation described in Step 2 RFP; Valuation conducted 9/3 in concert with Agency SPO; Probity report on Northstar delivered	12/10/2010
BR28563	\$200,000	3.3.5 Contract Negotiation (1 to 2 months)	2.2.5 Negotiation, Contracting and Implementation	3.3.5	Analysis of negotiated contract terms	Contract signed 1/18/11	2/7/2011
<b>TOTAL Deliverables</b>	<b>\$3,950,000</b>						
BR27149	\$281,586		2.2.6 Legal Services		DLA Piper, during the period of June 1, 2010 through June 30, 2010 for the Lottery Private Management Contract.	Legal services provided	8/6/2010
BR27607	\$263,952		2.2.6 Legal Services		DLA Piper, during the period of July 1, 2010 through July 28, 2010 for the Lottery Private Management Contract.	Legal services provided	10/22/2010
BR28295	\$435,875		2.2.6 Legal Services		DLA Piper, during the period of August 1, 2010 through November 30, 2010 for the Lottery Private Management Contract.	Legal services provided	1/7/2011
BR28879	\$9,672		2.2.6 Legal Services		DLA Piper, during the period of December 1, 2010 through December 31, 2010 for the Lottery Private Management Contract.	Legal services provided	3/15/2011
<b>TOTAL Legal Services</b>	<b>\$991,084</b>						
<b>TOTAL CONTRACT</b>	<b>\$4,941,084</b>						

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**AUDITOR'S COMMENT:** The Department's chart, which was submitted with its responses to the audit, is undated so it is impossible for auditors to know when the document was created. We can note that the invoice for probity (contract section 2.2.4) work indicates a payment of \$1.35 million that was approved December 10, 2010. The **amount is inconsistent** with what the Wyman contract indicated the subcontractor (Kroll) would be paid under the agreement (\$675,000) for probity. The approval of the invoice is also 38 days **prior to** when Wyman submitted the final probity report on Northstar, according to Department counsel.

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10-15. **FINDING** (Lottery Private Manager Procurement-Evaluation Team Diligence)

Evaluation team members for the procurement of a Private Manager for the Illinois Lottery failed to attend all evaluation meetings and meetings and/or presentations by the vendors proposing on the procurement.

During our review of the procurement process utilized by the Department in selecting a vendor to provide Private Management of the Illinois Lottery, we examined the procurement files and other documentation maintained by the Department. Additionally, we examined all protest information submitted by proposers and the Department response to those protests. The following items are noted:

- **Evaluation Team Meetings:** Not all team members attended all of the meetings where evaluation procedures were discussed.
  - July 22, 2010 Evaluation Team Meeting: Purpose was for the Transaction Advisor to present *An Introduction to the Evaluation*. There was no documentation to show that **33 percent** (3 of 9) of the evaluation team members attended this meeting. Two evaluation team members had not been assigned when the meeting occurred. The third evaluator was not included on the meeting log, although the member thought she “was there by phone.” Auditors did note that another member that attended the meeting by phone was recorded as present on the log. While there was no formal documentation assigning the evaluation team to this procurement, Conflict of Interest Disclosures for two of the team members that missed this meeting were dated 8 and 12 days after the meeting. There was no documentation in the procurement file to explain how those team members that missed the meeting were provided the information disseminated at the meeting.
  - August 3, 2010 Evaluation Team Meeting: Purpose was to offer clarification on any proposal. Documentation indicated that **22 percent** (2 of 9) of the evaluation team members did not attend this meeting. There was no documentation in the procurement file to explain how those team members that missed the meeting were provided the information disseminated at the meeting. On May 9, 2011, the Department provided documents from the two evaluators stating that they were “pretty sure” they were at the meeting and “Nothing definitive on this one, but I really do think I was there (again by phone).” One of the members was listed in the staffing plan for the Northstar proposal. When questioned by auditors, this evaluator stated he had not seen the document referenced. The document where his name appears is the Step 2 Northstar proposal, a document he surely should have seen since he should have evaluated the proposals.
  - August 6, 2010 Evaluation Team Meeting: Purpose was to discuss with one another and the Transaction Advisor the initial assessments to ensure consistency and accuracy of scoring. An additional purpose was to verify any significant scoring discrepancies. These meeting minutes, unlike the handwritten notes from the Department’s SPO at all other evaluation team meetings, were in typed form. The minutes indicated that all team members were present. This meeting took place immediately after the Intralot meeting, a meeting where meeting documentation shows that two team members did not attend, although one of the two team members states he was there. Additionally,

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- one of those two team members submitted his scores for Step 1 the day before this team meeting.
- August 24, 2010 Evaluation Team Meeting: Purpose was to document any questions the team wanted to ask the two finalists. **Eleven percent** (1 of 9) of the team did not attend this meeting. There was no documentation in the procurement file to explain how the team member that missed the meeting was provided the information disseminated at the meeting.
  - September 8, 2010 Evaluation Team Meeting: Post Public Hearing/Post Vendors Presentation meeting. Attended by all members.
  - **Proposer Meeting/Presentations:** Not all team members attended all the instances where there was interaction with the proposers.
    - August 4, 2010 Vendor Meeting with Camelot: The purpose of this meeting was to clarify any issues the team had with the vendors Step 1 proposal. **Twenty-two percent** (2 of 9) of the team did not attend this meeting. There was no documentation in the procurement file to explain how these team members that missed the meeting were provided the information disseminated at the meeting. The two team members did attend the Northstar meeting on that same day.
    - August 6, 2010 Vendor Meeting with Intralot: The purpose of this meeting was to clarify any issues the team had with the vendors Step 1 proposal. Documentation showed that **22 percent** (2 of 9) of the team did not attend this meeting. There was no documentation in the procurement file to explain how these team members that missed the meeting were provided the information disseminated at the meeting. The two team members did attend the evaluation team meeting on that same day, according to the typed minutes.
    - September 7, 2010 Finalist Presentation by Camelot: **Eleven percent** (1 of 9) of the team did not attend this meeting. There was no documentation in the procurement file to explain how the team member that missed the meeting was provided the information disseminated at the meeting.
    - September 7, 2010 Finalist Presentation by Northstar: **Eleven percent** (1 of 9) of the team did not attend this meeting. There was no documentation in the procurement file to explain how the team member that missed the meeting was provided the information disseminated at the meeting. The Acting Superintendent of the Lottery, a member of the Evaluation Team, told the member that did not attend the finalist presentations, "Your eval will be based on the written material. You probably shouldn't attend the second presentation if you can't make the first. No worries."
  - **Turnaround Time for Review and Scoring:** With respect to scoring on proposals:
    - On August 3, 2010, one evaluator received the three Step 1 proposals, proposals that were submitted 5 days earlier (on July 30, 2010) and contained over 2,600 pages that needed to be scored in 3 days (by August 6, 2010).
    - One evaluator picked up the Step 2 proposals on September 8, 2010, the day of the Public Hearing. The evaluator then signed and dated the Step 2 scoring evaluations the next day, on September 9, 2010. Each of the two proposals was in excess of 800 pages and contained the Final Business Plans on how the proposer would manage the \$2 billion State Lottery.

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The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies, including the Department, to establish and maintain a system, or systems, of internal fiscal and administrative controls. These controls should provide assurance that: (1) resources are utilized efficiently, effectively, and in compliance with applicable law; and (2) obligations and costs are in compliance with applicable law. These controls should include procedures that require members of evaluation teams to attend team meetings and meeting and/or presentations by proposers. The Acting Superintendent of the Lottery told auditors that the evaluation committee knew the timeframe and they were told this was going to have to be their singular focus. However, the exceptions noted above do not indicate such an understanding. For example:

- One evaluator asked the Acting Superintendent if she could attend a luncheon on August 4, 2010, during the Step 1 evaluation process, when two vendor presentations were given and the Acting Superintendent replied, “Your luncheon shouldn’t be a problem.” Also, the same evaluator told the Acting Superintendent she may have to leave early on August 6<sup>th</sup>, when scores were due and when Intralot ended up presenting. The Acting Superintendent responded, “I don’t think leaving early on Friday will be a problem.” Meeting minutes from the team meeting on August 6, 2010 described above indicated that the evaluator was in attendance. This was the same evaluator that missed the vendor presentations in Step 2 and did not pick up the Step 2 proposals until the day of the Public Hearing. It is unclear how the private manager procurement process would have been the singular focus for this evaluator.
- Another evaluator explained that he has mandated times that he has to transfer money, etc. He did his job duties that could not wait, and then went back to the evaluations. This evaluator did miss a meeting with a proposer.

The Evaluation Team was put together in a non-formalized manner, most members designated by the Department and another by the Governor’s Office. One member actually joined the evaluation process in the middle of the Step 1 evaluation process.

Department personnel stated that given the time constraints set by legislation, individual schedules could not always be accommodated. When agreeing to join the Evaluation Team, each member was made aware of the strict time schedule and the need to be available at certain intervals over the summer. But, as with any project involving multiple members, unforeseen scheduling conflicts arose. For example there was a summer storm that delayed travel for two team members from Springfield to Chicago for the August 3, 2010 meeting.

Given the complexity and volume of materials submitted, attendance at clarification meetings with proposers and team meetings helps to ensure that all evaluators have the same information on which to base their scoring. Failure of evaluators to attend these meetings increases the possibility that the procurement was not conducted in a fair and transparent manner. Additionally, in its November 12, 2010 response to the Intralot protest, the Department’s General Counsel indicated, “The primary purpose of the consensus meeting was to ensure that no Evaluator had overlooked any part of the proposals that required a score.” It is difficult for a consensus to be achieved when 22 percent of the team did not attend that meeting on August 6, 2010. Given that the Lottery Private Manager procurement

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was unique and unlike any other arrangement in the country, evaluators should have been required to conduct due diligence when deciding on to whom to turn over a \$2 billion State asset. (Finding Code No. 10-15)

**RECOMMENDATION**

The Department should ensure all evaluation team members attend all team meetings and vendor presentations or document how those who could not attend were provided the information disseminated at the meetings.

**DEPARTMENT RESPONSE**

The Department agrees that best practice would be to have everyone at all meetings, but recognizes that there will be exceptions particularly in a process as intense and time-compressed as this selection. However, the Department disagrees with any suggestion that the evaluation team was not attentive to their duties and that the process did not assure due diligence in determining which bidder offered the best benefit to State taxpayers. The Department assembled a diverse, 9-member team for this important assignment. It even took the unusual step of selecting members from outside the Department to ensure a well-rounded set of perspectives. The Department then hired a team of Transaction Advisors to develop the evaluation methodology and tools, and to work with the Evaluation Team, both as a group and individually. The Transaction Advisors made themselves fully available to the Evaluation Team, both in-person and via telephone and e-mail. The Evaluation Team then held numerous meetings as checkpoints that the task was understood and progress was being made. While certain meetings were not attended by all members of the evaluation team, members had access to the information presented through the Transaction Advisors; had the training, tools and resources necessary to make an informed decision on the merits of each business plan; and they undertook their assignment seriously and diligently.

**AUDITOR'S COMMENT:** The Department appears to misrepresent the timeline in its response when it states the Transaction Advisors were **selected after** the evaluation team was assembled. The Department fails to point out that the evaluation team was **not finalized until August 3, 2010**, four days after the RFP responses were submitted and three days prior to the completion of the Step 1 evaluation process. As the finding indicates, the Governor's Office recommended one of the evaluation team members. It was the Acting Lottery Superintendent who indicated to auditors this procurement was to be the **singular focus** for the evaluation team. Given the lack of complete participation in the process we note in the finding, the Lottery official may have not communicated the importance as she stated. If the evaluation team was making the decision on awarding the Lottery to a private manager, the team members should have ensured their schedules could accommodate all evaluation commitments.

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The process used the Transaction Advisors to deal with those situations and to be sure all members had the information they needed. The Department disagrees with OAG's conclusion that the Department violated 30 ILCS 10/3001. The Department further believes the facts noted above demonstrate the Department met the express language of that statute and the fundamental view that everyone involved in the State's procurement has to proceed in the best interest of the State.

<p><b>AUDITOR'S COMMENT:</b> The Department did not provide documentation to show that this information was adequately disseminated to team members who did not attend meetings.</p>
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10-16. **FINDING** (Lottery Private Manager Procurement-Evaluation Clarification Process)

The Department of Revenue (Department), in conducting the evaluation process for the procurement of a Private Manager for the Illinois Lottery, failed to document clarifications needed during the evaluation process.

During our review of the procurement process utilized by the Department in selecting a vendor to provide Private Management of the Illinois Lottery, we examined the procurement files and other documentation maintained by the Department. Additionally, we examined all protest information submitted by proposers and the Department responses to those protests. The following items are noted:

- **Evaluation Clarification Issues:** Team meetings, reviewed as part of auditors review of the procurement files, lacked documentation to show that questions of evaluation team members had been addressed and answered by the Transaction Advisor or proposing vendors. We found:
  - On August 6, 2010, an evaluation team meeting was held to discuss with one another and the Transaction Advisor the initial assessments to ensure consistency and accuracy of scoring. An additional purpose was to verify any significant scoring discrepancies. These meeting minutes, unlike the handwritten notes from the Department's SPO at all other evaluation team meetings, were in typed form. The minutes indicated that all team members were present. This meeting took place immediately after the Intralot clarification meeting, a meeting where there was no documentation showing that two team members attended. Additionally, one of those two team members submitted his scores for Step 1 the day before this team meeting.
- **Step 1 Evaluation Process:** One area of the evaluation process was "Past Performance." Past performance was worth 20 evaluation points in the process.
  - The Lottery Law (20 ILCS 1605/9.1(e)(4)) instructed the Department, while selecting a private manager, to take into account the offerors poor or inadequate past performance in servicing, equipping, operating or managing a lottery on behalf of Illinois, another State or foreign government and attracting persons who are not currently regular players of a lottery.
  - The RFP published by the Department instructed the proposers to "Report any instance in which it has been alleged that you (a) performed poorly or inadequately in servicing, operating...of a lottery. Please provide an explanation of the circumstances, and the actions you took to address the situation." (emphasis added)
  - The Acting Superintendent of the Lottery, who was on the evaluation team, was concerned about the scoring for "past performance" and in a July 27, 2010 correspondence with the Transaction Advisor noted, "*I think this is a tricky one that could land us in trouble, especially since it is widely believed that its inclusion as an evaluation criteria was directed at a certain bidder.*"
  - In a correspondence with the legal subcontractor for the Transaction Advisor on that same day, the Acting Superintendent explained, "*It is a tricky one to score on a scale of 1 to 20. Consider a bidder lists no issues (really?); a bidder describes a dozen issues over the past 10 years, none fatal, all lessons learned; a bidder lists a really big issue*

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*from 15 years ago; bidder lists a semi-serious issue from last year that they dealt with expeditiously. Furthermore, we believe this provision was purposely inserted to trip up a likely bidder. I think this is fertile protest territory.”*

- There was no documentation in the Department’s procurement files that showed the legal subcontractor answered this query by the Acting Superintendent.
- Another evaluator, who is an employee of the Lottery, also questioned the “past performance” issue. In an August 3, 2010 correspondence to 7 of the other 8 on the evaluation team and the Transaction Advisor, the following was detailed, *“I don’t know whether I can ask this question or not but here it is anyway. Northstar’s response to Past Performance indicates a belief that neither Northstar or any of its members have been guilty of any performance issues. Camelot for instance, referred to many similar instances that we have experienced with GTECH. Like Camelot, GTECH identified the problem, formulated a solution, fixed it, and things have been fine ever since. Did Camelot go too far because they didn’t understand the requirement or did Northstar not go far enough?”* The Transaction Advisor thanked the evaluator for the question and indicated they would get clarity at the meeting tomorrow. There was no documentation to show whether this was discussed with the Northstar team at the meeting on August 4, 2010.
- **Step 2 Evaluation Process:** One area of the evaluation process was “Compliance with applicable laws and regulations.”
  - On September 3, 2010, one member of the evaluation team emailed the Transaction Advisor and the rest of the team with the question *“For the first part of the evaluation, compliance with applicable laws and regulations, should we simply consider the laws and regulations that we are each aware of that apply to this project?”*
  - Also on September 3, 2010, the Advisor responded *“Yes please – no need to head to the law library this weekend! Just the laws and regulations that you are each aware of.”*
  - Not all members of the evaluation team were employees of the Illinois Lottery. One evaluator worked for the Department of Commerce and Economic Opportunity and at the time of this procurement evaluation had been with the State for approximately 5 years and had worked on 1 RFP evaluation. This individual told auditors that he was familiar to some extent with the laws, but that he does not have in depth knowledge of lottery laws.
  - Another evaluator, who had also been with the State 5 years at the time of the evaluation process, works for the Department of Public Health but had previously been detailed to the Governor’s Office under a previous administration. This evaluator told auditors that her knowledge of the applicable laws would have been in the RFP and in the orientation meetings and anything that would have come from group discussions. Documentation showed that this evaluator missed evaluation team meetings on July 22, 2010 and August 24, 2010.
  - The third evaluator that was not a Lottery employee worked for the Tourism Bureau and had been with the State for about 8 years when the evaluation process was completed. This evaluator reported having substantial experience with procurements in the past and that she was familiar with the basic, boilerplate laws that have to be

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followed. The evaluator also told auditors that she was familiar with Illinois Lottery laws because they (Tourism Bureau) have done work with the Lottery before. It should be noted that this evaluator did not even pick up the Step 2 proposals to evaluate the “Applicable Laws” until September 8, 2010, the day of the Public Hearing. The evaluator then signed and dated the Step 2 scoring evaluations the next day, on September 9, 2010.

- An evaluator who did work for the Lottery told auditors that he essentially punted on this evaluation criteria. His comment on the evaluation was “*I am not an expert in lottery law, but to the best of my knowledge, this proposal is compliant (sic) with existing laws and regulations.*” The evaluator told auditors, “*It became a criteria that was impossible to score.*”
- Given the complexity and volume of the proposals submitted for this procurement, the response from the Transaction Advisor may not have clarified the scoring issue for the evaluators.
- **Timing of Vendor Contacts:** Our review of documentation showed an email from an evaluator to the Transaction Advisor with questions relative to Northstar. When we did not see a response we asked the evaluator if one was provided. The evaluator told auditors that he submitted his questions to the Acting Superintendent of the Lottery and they were supposed to be forwarded to the Transaction Advisor and the questions got addressed only to the extent they were included in the questions for the vendors to answer at the vendor presentations. The evaluator reported that sometimes there were no answers back to his questions. The evaluator thought that was an effort to keep the vendor presentations at the same length, but that doesn’t mean that the Transaction Advisor shouldn’t have gone outside of the presentations to get answers. The Acting Superintendent confirmed the vendor meetings were kept to the same time limit because they wanted to treat all proposers the same.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies, including the Department, to establish and maintain a system, or systems, of internal fiscal and administrative controls. These controls should provide assurance that: (1) resources are utilized efficiently, effectively, and in compliance with applicable law; and (2) obligations and costs are in compliance with applicable law. These controls should include procedures where evaluators are provided all pertinent information to be able to make appropriate scoring decisions for procurement opportunities. The Illinois Lottery Law (20 ILCS 1605/9.1(e)(4)) instructed the Department, while selecting a private manager, to take into account the offerors poor or inadequate past performance in servicing, equipping, operating or managing a lottery on behalf of Illinois, another State or foreign government and attracting persons who are not currently regular players of the lottery. The Step 1 RFP, section 3.2.3, requires the offeror to report any instance relative to allegations of poor performance. Finally, the Transaction Advisor contract, Section 2.2.3.3 requires the vendor to review proposals submitted in response to the RFP and verify and confirm information proposed by the offeror.

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Department personnel stated the level of attention paid to fairness, transparency and bidder engagement during the Private Manager transaction process is unprecedented. The State hired a team of experts in lottery economics, procurement law, contract law, deal structures, and probity to ensure a process that was robust and rigorous.

Failure to provide evaluators with all information needed to understand the proposals being scored increases the possibility that errors would be made and the State of Illinois' \$2 billion Lottery operation would be turned over to the wrong vendor. Additionally, failure to provide responses to all evaluator questions is a violation of the agreement between the Advisor and the Department. Limiting vendor contact times may appear to treat all proposers fairly but may not provide enough time to get answers to all issues posed by evaluators. Finally, failure to obtain all information needed sheds doubt that the process was conducted in a fair and competitive manner, increasing the likelihood that the State may be forced into legal action. (Finding Code No. 10-16)

**RECOMMENDATION**

The Department should ensure all information needed to evaluate proposals is collected, documented and provided to members of the evaluation team.

**DEPARTMENT RESPONSE**

The Department agrees and ensured that all information needed to evaluate proposals was collected, documented and provided to members of the evaluation team. The Department disagrees with the finding. The very emails and communications that the auditor cites are evidence of the full and robust dialogue that occurred between the Evaluation Team and the Transaction Advisors over the course of the evaluation.

The level of attention paid to fairness, transparency and bidder engagement during the Private Manager transaction process was unprecedented in State procurement. The State hired a team of experts in lottery economics, procurement law, contract law, deal structures, and probity to ensure a process that was robust and rigorous. The process was in fact complimented by the Interested Parties with several noting the professionalism of the deal team as an indication of the seriousness with which the State undertook this endeavor.

<p><b>AUDITOR'S COMMENT:</b> The Department's assertion that dialog was "full and robust" would carry merit had the questions raised by the evaluation team had documented answers in all cases, <b>documentation that we did not see</b>. This conclusion was confirmed by a member of the evaluation team. We would also note that the losing proposers protested the award of this contract which was the <b>end result of the procurement process</b> that was followed.</p>
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10-17. **FINDING** (Lottery Private Manager Procurement-Scoring Evaluation Irregularities)

Evaluation Team members for the procurement of a Private Manager for the Illinois Lottery failed to certify scores in all cases and some scores were submitted after decisions had been made and publicly reported.

During our review of the procurement process utilized by the Department in selecting a vendor to provide Private Management of the Illinois Lottery, we examined the procurement files and other documentation maintained by the Department. Additionally, we examined all protest information submitted by proposers and the Department response to those protests. The following items are noted:

- **Scoring Tool Irregularities:** After initial review of the procurement files and auditors questioning the certification (signing/dating) of evaluations, the Department provided additional evaluations. The following exceptions are still noted:
  - One evaluator failed to date his evaluation certification of Intralot in Step 1. It is also noted that the correspondence from the Transaction Advisor detailing the due date and time for Step 1 evaluations was not sent to this evaluator.
  - One evaluator dated her evaluation certifications for Step 1 on August 9, 2010, 3 days after they were due and the same day the letters were sent to the proposers notifying them if they qualified for further consideration in Step 2.
  - One evaluator dated her evaluation certifications for Step 1 for two vendors (Intralot and Northstar) after the proposers had been notified that “The Department has now completed its review and evaluation of Step 1 proposals consistent with the scoring criteria set forth in the RFP.”
  - One evaluator dated his Step 1 evaluation certifications on August 5, 2010, which was the day before the clarification meeting with Intralot. This evaluator did not attend the Intralot meeting on August 6, 2010, a meeting described by other evaluation team members as important to clarify questions the team had of the vendor.
  - One evaluator dated her Step 2 evaluations on September 9, 2010, the day after the Public Hearing conducted on this procurement. The evaluator attended the Public Hearing. The submission of scores after the Hearing was counter to direction given by the Transaction Advisor. In an email correspondence to the evaluation team, the Advisor explained that if the team member wanted to attend the Hearing their scores needed to be submitted prior to the Hearing and stated, “*Comments made at the Public Hearing cannot influence your evaluation of the business plans as the veracity or relevance of comments cannot be confirmed in time.*”
  - One evaluator completed and dated his Step 2 evaluations on September 15, 2010, the same day the Governor announced the award in favor of Northstar. The evaluator told us that the day he signed the forms was the day he completed the forms. It appears that from the documentation and testimonial evidence presented, this evaluator completed his Step 2 evaluations 5 days after the Department Director and Acting Superintendent of the Lottery sent their recommendation to the Governor that Northstar be given the Private Manager award.

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The Evaluation and Scoring instruments for both Step 1 and Step 2 contain a declaration reading, "I hereby certify that my evaluation of this proposal was made independently, and free of outside influence. I further certify that neither I nor any members of my immediate family have a material, personal, financial or fiduciary interest that would affect my evaluation of this proposal." Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies, including the Department, to establish and maintain a system, or systems, of internal fiscal and administrative controls. These controls should provide assurance that: (1) resources are utilized efficiently, effectively, and in compliance with applicable law; and (2) obligations and costs are in compliance with applicable law. These controls should include evidence to support that the individual members of the evaluation team signed and dated the evaluations to not only create an audit trail but assure that the scores were actually completed by the members of the evaluation team. A September 2, 2010 email to members of the Evaluation Committee from the Transaction Advisor indicated that all scoring for Step 2 "*will need to have completed and submitted*" before the Public Hearing, which was held on September 8, 2010, if the committee member wanted to attend the Hearing. Finally, on August 6, 2010 (12:24 pm) the Transaction Advisor notified most members of the Evaluation Team (except one individual) that Step 1 scores were due by 3 pm on August 6, 2010. He instructed the Evaluation Team to "send the electronic versions of your final scores to me" and to the Department's SPO.

Department officials and documentation provided by the Department indicated that the procurement of a Private Manager for the Illinois Lottery was exempt from the Procurement Code pursuant to the enabling legislation (Lottery Law (20 ILCS 1605/9.1)). Additionally, the Department reported that its own Procurement Checklist was not utilized in the conduct of this project. However, the Lottery Law (20 ILCS 1605/9.1(e)) did require the Department to follow the competitive selection procedures set forth in Section 20-35 of the Procurement Code.

Department personnel stated the "*discrepancy in dates was a result of electronic transmissions of scoring sheets, which were done prior to the hard copy being sent*" to the SPO. The Department, on May 10, 2011, provided support for the electronic submissions. Our review noted:

- One evaluator, noted in sub-bullet 3 above, submitted her Step 1 electronic scores to the SPO on August 16, 2010 – **7 days after** the proposers had been notified of who had either moved on or failed to move on to Step 2 of the process. The Department did not provide any electronic file to show when this evaluator submitted Step 2 scores. This was the same evaluator that missed the vendor presentations in Step 2 and did not pick up the Step 2 proposals until the day of the Public Hearing.
- Another evaluator, noted in sub-bullet 5 above, submitted her Step 2 scores to the SPO electronically on September 10, 2010 – **2 days after** the Public Hearing. This same evaluator submitted her Northstar scores for Step 1, according to Department documentation, on August 11, 2010 – **2 days after** the Department notified Northstar that they had moved on to Step 2 of the process.
- For a third evaluator, the SPO requested his Step 2 electronic scores on September 15, 2010 – the **same day** the Governor announced the private manager award.

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Failure to follow any statutory or administrative processes for a procurement that involves a \$2 billion State asset, the Illinois Lottery, increases the possibility that the procurement was not conducted in a fair and transparent manner. Evaluations not being certified by the members of the evaluation team increase the likelihood that the results of the scoring could be considered arbitrary and potentially open the State to legal action by non-winning proposers. When scoring is certified after decisions to eliminate proposers or not until the day an award announcement is made, it sheds a poor light on the overall procurement process and creates skepticism as to the adequacy of the procurement process. (Finding Code No. 10-17)

**RECOMMENDATION**

The Department should ensure that all scoring tools are appropriately and timely completed.

**DEPARTMENT RESPONSE**

The Department agrees with the Auditor General's recommendation that scoring instruments be timely filed, and has documented that this standard was met as it relates to the Lottery Private Manager Transaction. Otherwise, the Department disagrees with the finding. The Department can document that all scoring instruments were timely filed via e-mail to the Department SPO and/or the Transaction Advisor as directed by the Evaluation Instructions. These e-mails have been provided to the Auditor General. It was on the basis of these e-mails that the results were tabulated. The Finding is relying on the dates the hard copies of the Evaluation and Scoring Instrument were signed by each member. These hard copies exist only to document the declaration contained in the Evaluation and Scoring Instrument regarding the evaluator's independence and freedom from outside influence.

<p><b>AUDITOR'S COMMENT:</b> The Department's response appears to want it both ways. They say auditors relied on the hardcopy evaluations which we note <b>were not timely</b>. This is factual. Then the Department wants us to utilize emails, which we also considered. However, as we note in the finding, these too showed the electronic submissions <b>were not timely</b>. The only constant was that all the discrepancies noted in the finding are from Department documentation, whether hardcopy or electronic.</p>
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10-18. **FINDING** (Lottery Private Manager Procurement-Probity Investigations)

The Illinois Department of Revenue (Department) increased the scope of the probity investigations utilized in the procurement of a Private Manager for the Lottery without documentation to support who made the decision or why the decision was made. This decision increased the cost to taxpayers. Additionally, while the probity contractor conducted 6 investigations, only 2 were reduced to writing and neither was dated, a condition that violated its contract with the Department. Finally, it appears the Department utilized the probity investigation of one non-finalist, by releasing it to the public, due to the fact the vendor had protested the award of the contract.

During our review of the procurement process utilized by the Department in selecting a vendor to provide Private Management of the Illinois Lottery, we examined the procurement files and other documentation maintained by the Department. Additionally, we followed up with the Department relative to the change in scope of the use of probity investigations. The following items are noted:

- The Department **expanded** the number of probity investigations conducted by Kroll Associates to include a proposer that **did not achieve** the status of a finalist for the Lottery Private Manager procurement.
- The procurement file **did not contain** any documentation to support who made this decision or why the decision was made.
- In the Department's November 12, 2010 response to a FOIA from Intralot, there is an August 2, 2010 correspondence from the Lottery General Counsel to the General Counsel of Oliver Wyman to clarify the understanding of the probity section of the contract. The Lottery Counsel wrote, *"It now appears that there will be a need for only one comprehensive source investigation, and three preliminary investigations. We have discussed the revised schedule with Kroll, and it is our understanding that Kroll will now be conducting preliminary public records investigations of all three offerors, related companies, and key executives, as well as a comprehensive source investigation of the final offeror."*
- While the Department filed a number of revisions related to the increasing or decreasing of the obligation amount to the Comptroller for the Wyman contract, **none of the issues** detailed in the Lottery Counsel's August 2, 2010 correspondence was amended to the contract.
- Intralot was notified on August 9, 2010 – 7 days after the Lottery Counsel's correspondence – that it **failed to become a finalist** in the procurement.
- While the correspondence indicated that Kroll would conduct three preliminary investigations, we were only provided with the investigation conducted on **one proposer**, Intralot, a non-finalist. This **report was undated** so we could not determine when the report was actually prepared. In a FOIA response, the Department's General Counsel indicated that the Kroll report on Intralot was sent to the Department on October 27, 2010. This was:
  - 79 days **after** Intralot had been ruled out as a finalist for the procurement,
  - 36 days **after** Intralot protested the award of the Lottery Private Manager procurement,

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- 8 days **after** Intralot requested intervention by the Governor on the procurement, and
- 16 days **before** the Department's General Counsel responded to the Intralot protest.
- The Department reported to us "*The Illinois Lottery received **oral presentations** on the preliminary background probity investigations on all three Offerors. The Intralot investigation was reduced to written form in response to Intralot's FOIA and subsequent protest of the Private Manager award.*" (emphasis added) Oral presentations were **reportedly** made to the Lottery General Counsel and Acting Superintendent, Department General Counsel and members of the Governor's staff. However, there was **no documented minutes** or other documentation to support when these oral presentations were made. **No one from the evaluation team**, other than the Acting Lottery Superintendent, was part of the presentations.
- This written report on Intralot was **subsequently released** to the public.
- A December 3, 2010 protest from Intralot alleges that the Department's General Counsel "*told a representative of Intralot that if Intralot continued to pursue its protest, the Department would release damaging allegations about Intralot S.A.*" The protest goes on to explain that on November 12, 2010 the threat was executed when the Department released its response to the Intralot protest. The Department's Procurement Manual states that only the SPO or PIO shall release information on any protest.
- The Department appears to have treated Intralot different than the other proposers. A finalist, Camelot, also protested the award yet the Department did not reduce the oral presentation on Camelot to writing.
- According to the Department, Kroll was paid **\$675,000** for the probity investigations. Given that only one undated report was documented on the 3 proposers for Step 1, it is impossible to determine whether the taxpayer funds were appropriately expended.
- Kroll did issue a written report on the award winner, Northstar. However, this too was **undated** which precludes us from knowing when the report was compiled.
- We inquired, on February 16, 2011, whether Northstar had paid the State the \$300,000 for the probity investigation as required by the RFP. The Department provided a copy of a check, dated 8 days after our request on February 24, 2011, from Northstar for the \$300,000.
- The recommendation from the Department Director and Acting Superintendent of the Lottery to the Governor on September 10, 2010 was "made in advance of completion of full probity investigations."

Section 3.6 of the Step 1 RFP, issued to potential proposers on July 2, 2010, states "The Department, through its Transaction Advisor and Chief Probity Officer, will conduct a full background investigation of the Final Offeror prior to entering into a PMA. The Department, through its Transaction Advisor and Chief Probity Officer, **may** also conduct preliminary background investigations of **all Finalists.**" (emphasis added) Section 5 of the Step 2 RFP, issued to the two finalists on August 12, 2010, states "The selected Final Offeror will be required to pay the Department a fee of up to \$300,000 to cover investigation cost." Section 2.2.4 of the Department's contract with the Transaction Advisor details probity investigations. The Advisor, through one of its subcontractors was to conduct comprehensive "probity investigations of two selected offerors, on a national and international level." Additionally, the vendor was responsible for "Preparation and presentation of interim and final reports to the

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Illinois Lottery on the results of the investigations.” Finally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies, including the Department, to establish and maintain a system, or systems, of internal fiscal and administrative controls. These controls should provide assurance that: (1) resources are utilized efficiently, effectively, and in compliance with applicable law; and (2) obligations and costs are in compliance with applicable law. These controls should include the maintenance of documentation to support decisions on why scope changes are made to existing contracts.

The Department stated it emphasized the importance of the character and credibility of the firm with which it would have a long-term gaming relationship.

Failure to receive written probity reports violates the State contract with the Transaction Advisor and makes it impossible to determine if such work was actually completed. Changing the scope of the probity investigations without amending the Transaction Advisor contract decreases procurement transparency and increases the risk that State taxpayer funds are wasted. Producing and releasing a probity report on a vendor that was not determined to be a finalist for the procurement almost 80 days after being deemed not a finalist creates the impression that the Department was utilizing taxpayer funds for a purpose other than the contractual uses delineated in the Transaction Advisor agreement. Failing to maintain documentation to support decisions to expend taxpayer funds on additional probity investigations shows a weakness in internal controls. (Finding Code No. 10-18)

**RECOMMENDATION**

The Department should adequately document when scope changes are needed to State contracts and memorialize those changes in the contract document. Additionally, the Department should enforce contractual provisions and require contractors to produce written reports when taxpayer funds are expended for such purposes. Finally, the Department should utilize probity investigations only for stated evaluative purposes for vendors being considered for an award and not because a losing vendor has protested the procurement process and award.

**DEPARTMENT RESPONSE**

The Department disagrees with the finding and, as it has told the auditor, believes that the thoroughness of the probity review was an important tool in protecting the taxpayers of Illinois’ interest in the Lottery.

The Oliver Wyman team was chosen as Transaction Advisor in part because of the inclusion of Kroll, a respected risk management and investigation firm. In its response to the Transaction Advisor RFP, Kroll outlined a detailed, multi-phased approach to the probity investigation process. In order to price the scope of work in its proposal, not knowing how many bidders would respond, Kroll limited initial probity to three bidders and in-depth investigation to two Finalists.

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In the Step 1 response, Bidders were required to submit Multi Jurisdictional Disclosure Forms for “each corporate officer and director of the Offeror.” This form is standard in the gaming industry.

As there were only three respondents in Step 1, the Lottery’s General Counsel clarified that initial probity should be conducted on all three bidders. There was no scope change and no additional fee paid. Initial probity included reviewing that Multi Jurisdictional Disclosure Forms were included for each person required and verifying that the information contained in those Forms were complete and accurate using publically available sources. The State was completely within its rights to verify the fitness of the firms and individuals who submitted themselves as responsible Bidders.

The results of the initial probity review had no bearing on the Step 1 evaluation or the qualification of any Bidder for Step 2 consideration.

The lottery industry is a global, highly-competitive industry, dominated by a few large players. The Department’s initial plan was not to allow its initial probity review to be used as leverage by one firm over another in other jurisdictions’ proceedings, as such, all briefings on the initial probity results were conducted orally, and none of the initial probity reports were reduced to written documents. Only the final probity report on the Awarded Finalist, Northstar, would be (and was) reduced to writing.

However, in responding to the protest of one of the bidders, Intralot, the probity investigative report had to be memorialized in writing in order to properly and timely preserve and not waive the State’s right to subsequently raise the issue of Intralot’s standing to protest or sue in a court of law. In determining if a party has standing to bring a protest action, one needs to assert that “but for the actions complained of in the protest, the party bringing the protest action would have been awarded the contract.” Intralot’s initial probity report contained negative information that would have prevented Intralot from being awarded the contract. Camelot’s initial probity report did not contain any such negative information. Thus, in the Camelot protest, standing was not an issue and Camelot’s initial probity results did not have to be memorialized in writing. Thus, a written report of the Intralot probity investigation – and only Intralot’s - had to be prepared and included in the Department’s response to Intralot’s protest in order to preserve and not waive the issue in future proceedings.

<p><b>AUDITOR’S COMMENT:</b> Absent a written report, auditors could not determine that State funds were <b>appropriately expended</b>. Further, absent dates on the reports <b>that were reduced to writing</b>, the auditors could not determine the use or usefulness of the probity information.</p>
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10-19. **FINDING** (Lottery Private Manager Procurement-Protest Process)

The Illinois Department of Revenue (Department) utilized an unconventional protest process for the procurement of a Private Manager. This process may not have allowed proposers the necessary opportunity to gather all information necessary to submit a substantive protest of the process. Additionally, the process resulted in the final decisions on the protests not being provided until over 100 days after the protests were filed.

During our review of the procurement process utilized by the Department in selecting a vendor to provide Private Management of the Illinois Lottery, we examined the procurement files and other documentation maintained by the Department. Additionally, we examined all protest information submitted by proposers and the Department response to those protests. The following items are noted:

- Section 5.8.1 of the Step 1 RFP details that “Any and all actions, protests, or challenges regarding any alleged improprieties, ambiguities, or defects regarding this RFP, any of the procedures or requirements herein, or any other terms or conditions whatsoever stated herein or contemplated thereby must be asserted, on or before 11:59PM CDT August 6, 2010. Failure to file such actions, protests, or challenges on or before 11:59PM CDT August 6, 2010 shall constitute a full and absolute waiver to take action against, protest, or challenge any and all alleged improprieties, ambiguities, or defects regarding the RFP, any of the procedures or requirements herein, or any other terms or conditions whatsoever stated herein or contemplated thereby.”
- Part of the Step 1 RFP detailed the evaluation process utilized to score the proposals (section 3.3). It would be **impossible** for the proposers to know problems with evaluation issues (i.e., such as evaluation team members not attending presentations/meetings with vendors or not submitting evaluation scores until after the vendors had already been notified of the results to Step 1) by the time designated in the RFP. For instance, information on the evaluation scores and the public information maintained in the procurement files would not have been available for the proposers until after the award was announced **40 days later** when the Governor announced the award on September 15, 2010.
- The protests, according to Step 1, needed to be submitted by August 6, 2010, which was **3 days prior** to the Department informing the proposers who were finalists and who did not qualify for Step 2 of the process on August 9, 2010.
- Two vendors (Intralot on September 21, 2010 and Camelot on September 22, 2010) protested the award decision within the 7 days following the announcement on September 15, 2010. The protests were directed to the protest officer delineated in the RFP documents.
- The Department implemented an **unconventional method** to respond to the protests that is not outlined in the RFP, Illinois Procurement Code, or Standard Procurement Rules.
- The Department’s General Counsel, along with a subcontractor (DLA Piper) to the Transaction Advisor completed responses to the Intralot protest on November 12, 2010 and the Camelot protest on November 22, 2010. The General Counsel and subcontractor were party to the procurement process.

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- The **conclusion** to these responses by the Department’s General Counsel stated that for *“the reasons set forth above, the Department respectfully requests”* that the protest be denied in its entirety. It would be safe to assume the *“request”* was being made to the protest officer named in the RFP.
- The protest officer is an attorney that reports to the Department’s General Counsel who was making the *“request.”*
- The Lottery General Counsel told a representative for Camelot on October 15, 2010 that *“With regard to protest rules, as you recall, I mentioned that because this procurement is statutorily exempted from the Procurement Code, there are no specific protest rules which govern. However, I trust that the Department will conduct the protest process consistent with the spirit of 44 Ill. Adm. Code 1.5550 and 30 ILCS 500/20-70 and 20-75.”* The process utilized by the Department did not appear to be in the *“spirit”* of that criteria.
- While the Lottery counsel states the procurement is *“exempt”* from the Procurement Code, the Lottery Law (20 ILCS 1605/9.1) does not set forth a specific process for how protests are to be processed for the Private Manager procurement.
- This unconventional process slowed the protest review process. The protest officer denied the Intralot and Camelot protests on January 14, 2011, **over 100 days after** the protests were submitted by the vendors.

The Illinois Lottery Law (20 ILCS 1605/9.1(i)) states that *“any action to contest the private manager selected by the Governor under this Section must be brought within 7 calendar days after the publication of the notice of the designation of the private manager as provided in subsection (h) of this Section.”* (emphasis added) The Illinois Procurement Code (30 ILCS 500/20-75) states that the chief procurement officers shall by rule establish procedures to be followed in resolving protested solicitations and awards and contract controversies, for debarment or suspension of contractors, and for resolving other procurement-related disputes. Additionally, the Standard Procurement Rules (44 Ill. Adm Code 1.5550) details protest resolution procedures. Finally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies, including the Department, to establish and maintain a system, or systems, of internal fiscal and administrative controls. These controls should provide assurance that: (1) resources are utilized efficiently, effectively, and in compliance with applicable law; and (2) obligations and costs are in compliance with applicable law. These controls should include protest procedures so that vendors proposing on a Department procurement have adequate due process. Due process requires that persons doing business with the State be afforded an adequate opportunity to ensure the State’s process is fair and decisions are not arbitrary or capricious.

Department personnel stated that based on the authority provided in two sections of the Lottery Act, *“the Lottery did not believe it was required to follow any set procedures in selecting the Private Manager other than Section 20-35 of the Procurement Code, however, we certainly sought to comply with the spirit of 44 Ill. Adm. Code 1.5550 and 30 ILCS 500/20-70 and 20-75.”*

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Department personnel also stated that Sections 1605/9.1(o) and 1605/9.1(e) of the Lottery Act and Section 1-10 of the Procurement Code specifically exempted the Department and Lottery from provisions of the Illinois Procurement Code in the selection of a Private Manager for the Illinois Lottery. Thus, the Lottery was not required to follow any set protest procedure other than the provisions of Section 20-35 of the Procurement Code.

Failure to follow statutory or administrative processes lengthens the time for disposition of the protests, thus increasing the time before services can begin. Slowing the process results in it taking longer for the State to experience the increased revenues promised by the winner of the Private Manager procurement. Requiring protests to an RFP (Step 1) prior to the vendors being able to review public procurement file information decreases transparency in the procurement process and leads to belief that the award was made in an arbitrary or capricious manner. (Finding Code No. 10-19)

**RECOMMENDATION**

The Department should follow documented laws and administrative rules in handling protests to awards of procurement opportunities.

**DEPARTMENT RESPONSE**

The Department disagrees with the findings. The Department implemented a process that ensured that all parties, the protester and the Department, were provided due process. Specifically, an impartial and independent arbiter of facts and law was appointed to hear the protest. This individual was not involved in the RFP, the evaluation of the bids, or the selection process for the Private Manager. This arbiter was free to make his decision without interference or the involvement of any other Department or Lottery personnel. As part of this process, the protest officer would review the protest filing, review the Department's response, conduct any additional investigation that might be necessary and enter the Protest Officer's Decision. This process is similar to the Department's procedure for handling protests in its Administrative Hearings Division.

<p><b>AUDITOR'S COMMENT:</b> The protest process utilized by the Department <b>was not documented</b>. This increases the likelihood that parties would feel they were <b>not afforded due process</b> and that the award process was arbitrary and capricious.</p>
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The finding notes the timing of Camelot's and Intralot's protests, complaining that insufficient time was allowed to potential protesters, to allow them to fully develop their facts and arguments. Both protests were filed within 7 days of the Governor's public notification of his selection of a Private Manager as required by Section 1605/9.1(i) of the Lottery Act. The time lines in question were set by statute, not by the Department. Due to delays during the bidding and evaluation process the Department and in fairness to all bidders, the Department extended and did not enforce the August 6, 2010 deadline for filing protests as provided in the RFP.

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**AUDITOR'S COMMENT:** The Department's response is inaccurate. Auditors did not question whether the protests from the vendors were not submitted timely. They were submitted within the time frame delineated in the Lottery Law. The auditors **did question the process utilized** by the Department, **including the protest deadline the Department implemented in Step 1**, which was not detailed in the Lottery Law, nor in the spirit of any documented protest criteria. Vendors proposing in Step 1 could not have known of the procurement discrepancies detailed in these Lottery Private Manager findings and the procurement process by the August 6, 2010 deadline. Further, the Department states in its response that the August 6 deadline date was not enforced. However, the Department responses to the Intralot and Camelot protests did reference this requirement.

The finding also noted that it took the Protest Officer over 100 days to enter his decision with respect to the protests. Given the volume of material the Protest Officer was required to review, 100 days is not an excessive amount of time for a thorough review of the Protester's challenges and is consistent with the amount of time required to file a decision in other complicated Department hearings. Furthermore, the protestors submitted a number of supplemental filings during the process. The only parties impacted by this delay were the successful bidder and the Lottery by not being able to proceed to contract until the protests were resolved.

**AUDITOR'S COMMENT:** It is unclear whether the Department's protest officer started the review process immediately upon receiving the protests **or after the Department provided its response** to the protesting firms. The Department spent 52 days developing its protest response to Intralot and 61 days to respond to Camelot.

That said, Sections 1605/9.1(o) and 1605/9.1(e) of the Lottery Act and Section 1-10 of the Procurement Code specifically exempted the Department and Lottery from provisions of the Illinois Procurement Code in the selection of a Private Manager for the Illinois Lottery. Thus, the Lottery was not required to follow any set protest procedure other than the provisions of Section 20-35 of the Procurement Code.

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10-20. **FINDING** (Lottery Private Manager Procurement-Private Manager Agreement)

The Department of Revenue (Department) had failed, as of April 1, 2011, to file, with the Comptroller, a completed copy of the Private Management Agreement (Agreement) between the Department and Northstar.

During our review of the procurement process utilized by the Department in selecting a vendor to provide Private Management of the Illinois Lottery, we examined the procurement files and other documentation maintained by the Department. Additionally, we examined the Private Management Agreement located on the Department's website and the Agreement on the Northstar website. The following items are noted:

- The Department reported that the Agreement was executed with Northstar on January 18, 2011. According to the Step 2 RFP, the Department was not supposed to enter into an Agreement with the Final Offeror until a full investigation of the Finalist had been completed. We were unable to determine if the Department complied with this RFP criteria because the probity report conducted by Kroll on Northstar is undated. The Department provided no documentation to show when this investigation was completed.
- A Comptroller official reported to us on March 28, 2011, 69 days after the Agreement was executed, that the Agreement had been sent back to the Department for more information. The official indicated it may be a week or two before it is returned.
- The Illinois Lottery Law dictates that 21 elements be incorporated into the Agreement. Given that a final copy of the Agreement has not been filed with the Comptroller, we were unable to determine if these requirements were contained in the Agreement. For example, 20 ILCS 1606/9.1(d)(5) requires the Agreement to contain a "provision providing for compensation of the private manager."
  - The Department, on the Lottery website, has placed an Execution Copy of the Agreement. However, the schedules, including schedule 10.1 on the payment schedule, and exhibits to the Agreement are not contained in this web posting.
  - Likewise, Northstar has posted a copy of the Agreement on its website. The schedules are marked "intentionally omitted" by Northstar.
- In its November 12, 2010 response to the Intralot protest, the Department's General Counsel indicated that "*Throughout the procurement process that resulted in the selection of the Private Manager, the Department was fundamentally concerned with ensuring that the process was not only fair and competitive in nature, but also open and transparent.*" Failing to file contract does not appear to be "open and transparent."

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies, including the Department, to establish and maintain a system, or systems, of internal fiscal and administrative controls. These controls should provide assurance that: (1) resources are utilized efficiently, effectively, and in compliance with applicable law; and (2) obligations and costs are in compliance with applicable law. These controls should include procedures that require the Department to timely file contracts with the Comptroller and develop a management agreement that has all the required elements of the Lottery Law and is accessible by the public. The Illinois Lottery Law (20 ILCS 1605/9.1(d)) requires the

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management agreement with the vendor to include 21 different required clauses. The Illinois Procurement Code (30 ILCS 500/20-80 (b)) also states that “whenever a grant, defined pursuant to accounting standards established by the Comptroller, or a contract liability, except for: (1) contracts paid from personal services, or (2) contracts between the State and its employees to defer compensation in accordance with Article 24 of the Illinois Pension Code, exceeding \$10,000 is incurred by any State agency, a copy of the contract, purchase order, grant, or lease shall be filed with the Comptroller within 15 days thereafter.” (emphasis added)

Department personnel stated they did attempt to file the PMA with the Comptroller’s Office and will do so as soon as all certifications are signed, as required by the Comptroller. In addition, the process of negotiating redacted parts of the PMA and certification was further delayed when the Lottery’s General Counsel resigned in December 2010.

Given that the Department is turning over a \$2 billion State asset to a vendor, the filing of the agreement with the Comptroller would create a sense of transparency in the process. Additionally, failure to file the Agreement with the Comptroller is a violation of the Illinois Procurement Code. (Finding Code No. 10-20)

**RECOMMENDATION**

The Department should file a completed and full copy of the Private Management Agreement with the Comptroller.

**DEPARTMENT RESPONSE**

The Department disagrees with the findings. The Private Management Agreement (PMA) between the State and Northstar Lottery Group was executed on January 18, 2011 and submitted to the Comptroller on March 18, 2011. The PMA includes certain schedules and attachments that contain proprietary, competitive information. Parties routinely protect competitive information of this nature from public disclosure. From the time the PMA was signed until it was filed, the Department’s General Counsel, in addition to his regular responsibilities, was reviewing the entire PMA in order to make a determination of items that were of a competitive and proprietary nature – the Lottery’s General Counsel left State service on January 3, 2011. The Comptroller has since contacted the Department with additional questions regarding the PMA filing and Counsels are working to satisfy the Comptroller’s additional certification and requested explanation/information. This agreement is entirely unique and does not conform to regular State contract structure, so the time to review and ensure that everything is in order at the beginning of this 10-year relationship is appropriate.

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**AUDITOR'S COMMENT:** The Department disagrees that the contract has been filed with the Comptroller yet in its response the Department offers no guarantee that it was filed as of when the response were submitted on May 27, 2011. Additionally, it has taken Department Counsel two months to determine what was proprietary on a page by page basis for the 800 page Northstar contract when one of the members of the evaluation team reviewed those 800 pages in the Northstar Step 2 proposal along with another 800 pages of Camelot Step 2 proposal in just one day. The confidential nature of information should have been reviewed when Northstar submitted its final proposal in September 2010. Four months have passed since the contract was signed. This does not create an atmosphere of transparency.

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10-21. **FINDING** (Lack of Contract Monitoring)

The Department of Revenue (Department) did not exercise sufficient monitoring and oversight over the completion of functional requirements as outlined in the contract for the development of a new enterprise-wide tax system (GenTax).

In October 2006, the Department entered into a contract with a vendor for the development of GenTax to replace over 70 legacy tax systems. The contract continues through June 2012. The contract maximum is approximately \$52.1 million and through fiscal year 2010, the Department had paid the vendor approximately \$34.7 million.

A Request For Proposal (RFP) was issued in May 2006 and included specific “Processing and Accounting Functional Requirements.” In response to the RFP, vendors **were required** to select one of the following three responses for each functional requirement:

- 1) Included in base product at time bid submitted;
- 2) Not included in base product but will be readily available at implementation; or,
- 3) Will not be included.

The vendor responses **were used** to evaluate proposals and select the winning vendor. The winning vendor’s response (technical response) to the RFP was attached and incorporated in its entirety to the final contract.

Our review of the final contract (which included the vendor’s technical response) identified several required functions that **were not** currently components of GenTax. For example, the following items **were not** implemented in GenTax but were listed as “Included in base product at time bid submitted” in the contract:

- Compliant with Generally Accepted Accounting Principles (GAAP).
- Booking all accounting transactions to a journal utilizing the double entry system of accounting.
- Supporting the State’s chart of accounts.

In addition, the following items **were not** implemented in GenTax but were listed as “Not included in base product but will be readily available at implementation” in the contract:

- Interfacing with the Office of the State Comptroller’s Statewide Accounting Management System (SAMS).
- Providing an automated reconciliation process with SAMS.
- Capable of interfacing with the Social Security Administration to receive updates of death records.

As a result of GenTax lacking these **required** capabilities, the Department had to implement manual processes to achieve required objectives.

The Department was responsible for the project oversight, assignment of a project manager, and ensuring the vendor met the obligations outlined in the contract. However, the

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Department had not developed adequate internal controls to ensure the project met the State's objectives and the vendor's contracted obligations.

According to Department management, "Even though the Technical Proposal was referenced as part of the final contract, it **was not** the intention of either party that the Technical Proposal **would be** strictly adhered to."

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system of internal fiscal and administrative controls to ensure the State's resources are used efficiently and effectively.

The lack of project oversight and contract monitoring increases the likelihood the State will not receive all the functional requirements included in the contract. (Finding Code No. 10-21)

**RECOMMENDATION**

The Department should develop a monitoring process to ensure contractual requirements are fulfilled and satisfactorily meet expectations.

**DEPARTMENT RESPONSE**

The Department agrees on the necessity of a monitoring process to ensure contractual requirements are fulfilled and satisfactorily meet expectations, and believes it has such a process in place for its tax processing system implementation project.

Although the Technical Proposal was referenced as part of the final contract, the core of the contract relates to the implementation of registration, processing, collections, audit and taxpayer service functionality related to the administration of 40 of the 70 taxes for which the Department has responsibility – literally thousands of complex tasks, letters and reports. The Department has received far more functionality than was detailed in the technical matrix, including the ability to administer the recent tax amnesty program without an additional charge from the vendor.

<p><b>AUDITOR'S COMMENT:</b> A comprehensive and effective approach to contract monitoring for a complex and \$50+ million project would include detailed tracking of compliance with contractual provisions. Sufficient documentation was not provided during fieldwork that outlined management's review and approval of contractual changes. Thus, documentation to support the Department's contention that items outlined in the contract were no longer required, did not exist. In addition, if the changes associated with the recent tax amnesty program replaced other requirements, documentation to support the changes should have been maintained and provided.</p>
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The OAG has identified six items in the Technical Proposal related to financial reporting that have not been implemented. These functions were not implemented because they simply didn't make sense in the context of the state's financial reporting infrastructure. For instance the Gentax system is faulted for not "booking all transactions to a journal" – but the Department doesn't have a general ledger system to book transactions to. Without a general ledger for revenue accounting, interfacing the tax system directly to the Statewide Accounting Management System (SAMS) is not practical or worthwhile.

GenTax was never intended to be utilized as a general ledger. At the time of the contracting for the new Tax Processing System in FY2006, the State had proposals to obtain a new statewide financial reporting system; hence the Department made the conscious decision to choose the product that was the best tax processing system. It should be noted that the State did not procure a new financial reporting system and still has not obtained such a system.

The Department continues to work with its vendor to develop functionality to compensate for the lack of a modern financial reporting system. The new tax processing system **has the capability** to interface with a new financial reporting system, if such a system existed.

<p><b>AUDITOR'S COMMENT:</b> We are confused about the Department's statement that the new tax processing system has the capability to interface with a new financial reporting system. The statement appears very bold since a new financial reporting system and its capabilities, software, requirements, etc. are completely unknown at this time.</p>
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10-22. **FINDING** (Weaknesses in the Development of GenTax)

The Department of Revenue (Department) had not ensured the development process and project management of the enterprise wide tax system (GenTax) was properly controlled and documented.

In October 2006, the Department entered into a contract with a vendor for the development of GenTax to replace over 70 legacy tax systems. The contract continues through June 2012. The contract maximum is approximately \$52.1 million and through fiscal year 2010, the Department had paid the vendor approximately \$34.7 million.

During fiscal year 2010, the Department processed over 11.8 million tax returns and \$22.5 billion in payments from Illinois taxpayers.

During our previous audits, we identified significant problems with the controls over the functions and the development process. Specifically, the Department could not provide deliverables as outlined in the vendor's contract and the development methodology. Additionally, we had noted deficiencies in the production module of GenTax which affected the integrity of the financial data and reporting.

During the current audit, we continued to identify weaknesses in the development process. We specifically noted:

- The lack of sufficient internal controls over the tax system (GenTax) functions affected financial data and financial reporting. Finding 10-29 included issues that resulted from deficiencies in the development of GenTax.
- Internal control deficiencies included inadequate system test documentation and incomplete reconciliation of data.
- The vendor supplied a development methodology which outlined the artifacts to be developed during each phase of the project. However, our review of the artifacts indicated eight of the 27 (30%) artifacts, required to be delivered during this phase had not been developed and nine others appeared to lack compliance with the methodology.
- Several deliverables critical for the Department's ability to maintain the system on its own had not been received. Examples of such deliverables included the Operations Manual, Procedures Manual, and Knowledge Transfer Plan.

At the end of June 2011, the Department will become responsible for the day-to-day maintenance of GenTax; however, without the appropriate documentation of GenTax, maintenance tasks may be hindered.

Generally Accepted Information Technology (IT) guidance requires system have adequate written system documentation and adequate input, processing and output controls. IT general and application controls are necessary to preserve the integrity of the system, to provide reliance on the results produced by the system and to ensure that the processing of transactions is performed in accordance with laws and regulations and with management's design and intent.

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The lack of an effective and controlled development process may lead to excessive expenditures, over-reliance on contractors, and a system which does not meet the goals or needs of the Department. In addition, an inadequate development process increases the risk that the system will not have the required accuracy, integrity, availability, and security. (Finding Code No. 10-22, 09-7, 08-8)

**RECOMMENDATION**

The Department should ensure the development process is adequately controlled and documented. Specifically, the Department should:

- Ensure all required documentation and critical deliverables are developed, reviewed, and approved by the Department prior to system implementation.
- Ensure all artifacts outlined in the development methodology are developed, reviewed and approved prior to implementation of each phase.
- Ensure all system testing is properly documented, reviewed and approved and data reconciliations are properly completed.

**DEPARTMENT RESPONSE**

The Department agrees that the development process should be adequately controlled and documented, and believes that, in the case of its tax system replacement project, this standard has been met. By every measure, this complex, far-reaching technology implementation project has been a success. Each phase has been delivered on-time and on-budget. System functionality meets or exceeds the needs of the agency to register taxpayers, process tax returns, issue bills, collect payments and conduct audits.

There are over 13 million individuals registered in the new system and over 2.5 million business tax accounts. The system is processing millions of transactions, representing billions of dollars in tax payments, credits and refunds – almost without incident. Not to say that there have not been problems and mistakes, as there would be with any complex process and as there was in our legacy systems, but the transparency of the data and the level of reporting and system monitoring, allows the Department to identify and respond to issues quickly.

The vendor has gone above and beyond its contract to accommodate our needs, including implementing the recent tax amnesty program at no additional cost. Department IT staff are now maintaining the system and have implemented the administration of taxes outside the scope of the project on their own. Throughout the project, the Department has worked to improve development, testing and documentation processes.

For Roll Out 3A and 3B, there were almost 800 test cases developed to verify system integrity. Further each phase went through extensive testing, with 12 – 13 weeks of system testing (individual functions); 6 – 8 weeks of regression testing (all the individual functions together) and 5 weeks of end-to-end testing (the new functions running with the existing application).

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The OAG has been supplied the Operations Manual. The Department's extensive on-line training materials make up the "Procedures Manual." The plan for knowledge transfer was simply the process of attending training classes and working side-by-side with vendor staff to develop an understanding of the system and subject-area expertise.

As a further proof point that the Department has the knowledge and tools necessary to maintain the system, new staff that have joined the Department over the last 5 years, they have received the necessary training and support – both on-line and class room – to perform their jobs at a high level.

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10-23. **FINDING** (Inadequate Security over GenTax)

The Department of Revenue (Department) did not have adequate security controls over the GenTax (enterprise wide tax system) system and data.

During our review, we noted:

- The Department did not have a documented process for the administration of access rights to GenTax.
- The Department did not have a process in place for the periodic review of access rights to GenTax.
- 16 of 31 (52%) Department of Central Management employees with administrative access right did not have required background checks.

In addition, during our review of IDs with access to GenTax, we noted:

- Seven active generic or unassigned accounts, with varying degrees of access rights, including some with the capability to view and modify taxpayer data.
- An excessive number of vendor staff with access to the GenTax system and taxpayer data.

Department personnel stated that they recognize the need for a Chief Information Security Officer and are attempting to hire a qualified person with particular credentials to oversee issues pertaining to security controls and development of those analyzes, policies and procedures required to control and mitigate the risks related to these types of needs.

The Internal Revenue Service's Publication 1075, Tax Information Security Guidelines for Federal, State, and Local Agencies and Entities, Safeguards for Protecting Federal Tax Returns and Return Information, states "Access control policy and procedures must be developed, documented, disseminated, and updated, as necessary, to facilitate implementing access control security controls." Additionally, "Agencies must manage information system user accounts, including establishing, activating, changing, reviewing, disabling, and removing user accounts." The Publication also states personnel with access to Federal Tax Information shall have a completed background investigation. In addition, when a staff member has administrator access to access the entire set of Federal Tax Information records, additional background checks may be determined necessary. In addition, internal Department policies require background checks on all individuals that have access to Department related data.

The Department has the responsibility to ensure only authorized individuals have access to taxpayer information. Failure to establish adequate security controls could result in taxpayer identity theft or unintended use. (Finding Code No. 10-23)

**RECOMMENDATION**

The Department should establish a documented process over the administration of GenTax users. Additionally, the Department should periodically review all user access to GenTax.

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In addition, the Department should ensure all accounts are assigned to individuals for accountability.

The Department should work with the Department of Central Management Services to ensure all background checks are appropriately completed.

**DEPARTMENT RESPONSE**

The Department has created a process for the administration of access rights to GenTax. This was discussed with senior staff during Steering Committee meetings, through email correspondences, and all have agreed to the process. However, this policy standard has not been reduced to a formal written document at this time. The policy standard will be written and documented, but other standards have to be addressed first. At the time that this process was agreed to, the Department removed all Fast staff from having access to Security over the GenTax system. Currently, only IT Revenue employees have access to the Security Manager in GenTax.

When Revenue IT Security staff took over all Security for GenTax, the Department required all owners of different parts of the system to look at all employees who had access to their portion of the system. We removed staff that did not have documented permission to have access, and we tightened down groups and reworked security groups. Since that time, only Revenue IT Security staff can grant any access to any part of the system. Permission must be granted by appropriate owners before access is allowed. This periodic review process will be part of our security procedures that are being written.

In regards to 16 of 31 CMS employees with administrative access rights that did not have required background checks as found by the OAG. It should be noted that all 16 CMS employees had been given administrative access **by CMS without clearing through Revenue or Revenue being aware of the access granted.** Since then, the CMS employees have submitted appropriate paper work for approving their access. We will continue to work with CMS to ensure they do not give administrative rights to their employees without first passing clearance with Revenue as required by Publication 1075.

Of the seven listed accounts designated as generic or unassigned accounts, the following facts should be noted:

- One of seven is assigned to an IT employee who must create and email statements that are created for the transaction taxes. It is not a generic or unassigned account as it belongs to an employee doing their designated duties in GenTax.
- Five of seven are shared IDs used by data entry for the sole purpose of entering IFTA returns into GenTax. Data Entry employees did not need access to GenTax except for keying in IFTA returns. These generic IDs were created so that any data entry staff could be used to key in IFTA returns. Once IT staff complete building the screens for capturing IFTA returns, these IDs will be turned off and made invalid.

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10-24. **FINDING** (Inadequate Change Control Process)

The Department of Revenue (Department) had not ensured the change management process for the enterprise-wide tax system (GenTax) was properly controlled and documented.

For the fiscal year ended June 30, 2010, GenTax processed 11.9 million returns and over \$22.5 billion in payments. During fiscal year 2010, the Department completed phase four of the five phase GenTax implementation.

During our review, we noted the Department had developed standards, processes and procedures to control the change process; however, they were not consistently followed.

During our detailed review of 32 completed change requests, we noted:

- Documentation required by the established standards, processes, and procedures had not been developed or maintained;
- Approvals were not obtained before changes were moved to the production environment.
- Documentation of test results was not completed or maintained for changes moved to the production environment.

Per Department management, nine of the changes reviewed were actually help desk tickets rather than change requests. Department management stated that although help desk tickets should follow different requirements, they did not have a separate tracking system for help desk tickets or separate policies and procedures.

During our review, the GenTax Project Manager indicated they were not aware of the Standards, Processes, and Procedures which GenTax changes were to follow.

In addition, it was noted normal maintenance changes to the GenTax application did not follow any of the Department's change processes and were not logged into the GenTax change tracking system.

Modifications and upgrades to GenTax are ongoing, as of June 30, 2010 the Department had 246 open requests.

Department personnel stated that one staff member dedicates 50% of their time to the writing of standards, processes, and procedures. Change Management was introduced in the audit year and had already been flagged for review because of some procedural discrepancies. IDOR's acceptance of NIST Standards as directed by IRS Publication 1075 has also provided additional insight to adequate change management. Thus, Change Management Process will be reviewed and updated.

Generally accepted information technology guidance, including the Internal Revenue Service's Publication 1075, Tax Information Security Guidelines for Federal, State, and Local Agencies and Entities require modifications (changes) to existing systems to be properly approved, thoroughly tested, and adequately documented.

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Without an effective change management standard, poorly designed and tested developments and/or unauthorized changes could be implemented. As a result data integrity, availability and security could be compromised. (Finding Code No. 10-24, 09-8, 08-8)

**RECOMMENDATION**

The Department should ensure the change management process is effectively controlled and documented. In particular, the Department should ensure all changes adhere to the Department's established standards, processes and procedures.

The Department should also develop a tracking mechanism and policies and procedures relating to help desk tickets.

**DEPARTMENT RESPONSE**

The Department concurs with the recommendation and has worked to create production change control procedures for GenTax. There was an oversight in that the finalized procedures were not distributed to IT GenTax supervisors and Fast Production Control Staff.

The finalized procedures have now been communicated with all appropriate staff. Management will continue to meet with IT GenTax Supervisors and Fast Production Control Managers to advise them of the need to follow the standard procedures. It has been noted by the acting GenTax Division Manager that there is a need to further enhance the established procedures.

To date, Department staff has undergone a review process for the GenTax Change Management documents and the suggested modifications are being developed. Currently, help desk tickets are not tracked through the IDOR change management process.

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10-25. **FINDING** (Inadequate Controls over Confidential Information)

The Department of Revenue (Department) did not adequately ensure the security and control of confidential and personal information, including taxpayer information.

During testing, we noted the following:

- The Department had not performed a risk assessment of its computing resources to identify confidential or personal information to ensure such information is protected from unauthorized disclosure.
- During our review of the Department's Intranet, we noted taxpayer information was contained in the enterprise wide tax system (GenTax) training manual and change requests. The information included the taxpayers name, social security number and specific tax data.
- We noted vendor laptops that contained confidential taxpayer information were not adequately secured (encrypted).
- The Department was unable to provide sufficient documentation to verify the security (encryption) over Department laptops that contained confidential information.

The Internal Revenue Service has determined the taxpayer's State tax information must be retained in the same strict requirements as the taxpayer's federal tax information where the federal tax information has been commingled with State tax information as defined in the Internal Revenue Service's Publication 1075, Tax Information Security Guidelines for Federal, State, and Local Agencies and Entities, Safeguards for Protecting Federal Tax Returns and Return Information. As such, the Department is required to ensure all commingled tax information is protected in accordance with the Internal Revenue Service's Publication 1075. Publication 1075, Section 4.7.1, states all computers and mobile devices that contain Federal Tax Information must employ encryption mechanisms to ensure the data may not be accessed if the computer is lost or stolen.

In addition, the Department had the responsibility to ensure that confidential information is protected from disclosure and that provisions in the Personal Information Protection Act (815 ILCS 530) are followed.

A comprehensive risk assessment would help the Department identify instances where confidential is exposed (i.e. intranet and vendor laptop) and promote the verification of the implementation of encryption software on Department laptops.

Department personnel stated that they recognize the need for protecting confidential information. New and enhanced policies and procedures have and continue to be put in place based upon the Department's review of existing processes. Limitations in encryption software

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documentation did not allow the Department to provide an easily identifiable way to verify the encryption of all laptops, but all laptops are encrypted.

The Department has the responsibility to ensure confidential information is protected from unauthorized disclosure. Failure to establish effective controls over the protection of confidential taxpayer information could result in taxpayer identity theft or unintended use and may constitute a breach of Federal and State laws. (Finding Code No. 10-25)

**RECOMMENDATION**

We recommend the Department complete a risk assessment of its computing environment in order to ensure adequate security controls are applied. The Department should ensure all taxpayer information is properly secured (encrypted) as required by Federal and State law and ensure they comply with the notification requirements outlined in the Personal Information Protection Act. Further, Department management should consistently communicate the importance of protecting and maintaining accountability for taxpayer information to both Department employees and vendors.

**DEPARTMENT RESPONSE**

The Department acknowledges and understands the need to control access to federal tax information, as well as, state tax information and personal information. The Department has many processes in place to address the protection of tax payer information and is continually working to improve our processes. The following specific actions are being addressed by the Department:

- The Department will enhance its process of reviewing all documents before they are posted on the Intranet for confidential information. Once the posted confidential information was pointed out to appropriate staff, it was immediately removed.
- The encryption of all Department laptops is an important security standard to the Department. The installation of encryption software has been part of the standard load process for all laptops issued since 2007 and now the Department has instituted a required check-off to enhance the documentation of encryption. The Department is in the process of creating a verification process to match each laptop (by property tag) to a corresponding encryption key (encryption key server).
- The Department has created a more expansive annual safeguard training program that is required for all employees and contractors of the Department to complete. This training addresses both federal and state requirements for protecting confidentiality of information.
- The Department contracted with IBM to perform a Risk Assessment on our sites as well as Department interests at the State Data Center which is controlled by Central Management Services. The Risk Assessment Report was issued in June 2010 and this

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was a high-level review. The Department is in the process of hiring a Chief Information Security Officer that will oversee the improvement of existing security, perform a more detailed risk assessment on data classification, create new processes and enhance training with regards to safeguarding taxpayer information.

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10-26. **FINDING** (Failure to Timely Distribute Local Government Tax Collections)

The Department of Revenue (Department) did not timely distribute the balance of moneys in the County Water Commission Tax Fund or the Metro-East Mass Transit District Tax Fund to local governments as specifically required by State law. The statutes cited below require the Department to distribute the balance of moneys in the funds each month to the local governments; however, the Department maintains an approximate cash balance of two to three months of sales tax collections in the funds.

During testing, we noted:

- The Department did not timely distribute the balance of moneys in the County Water Commission Tax Fund each month as required by the Water Commission Act of 1985. We noted the Office of the State Comptroller reported month-end fund balances between \$7,735,418 and \$8,721,260 for the fund during FY10.

The Water Commission Act of 1985 (70 ILCS 3720/4(g)) requires the Department to certify the balance of moneys in the County Water Commission Tax Fund to the State Comptroller each month, less a reserve for refunds, for distribution to the DuPage Water Commission.

- The Department did not timely distribute the balance of moneys in the Metro-East Mass Transit District Tax Fund each month as required by the Local Mass Transit District Act. We noted the Office of the State Comptroller reported month-end fund balances between \$4,323,681 and \$5,627,091 for the fund during FY10.

The Local Mass Transit District Act (70 ILCS 3610/5.01(h)) requires the Department to certify the balance of moneys in the Metro-East Mass Transit District Tax Fund to the State Comptroller each month, less a reserve for refunds, for distribution to the St. Clair County Transit District and Madison County Transit District.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system of fiscal and administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Department officials wrote that they “disagree with the statutory interpretation of the auditor challenging practices that go back to 1986,” and they “need perfected returns to identify the actual amount of cash due to the local governments, which precludes distributing the cash balance – which includes unperfected returns – to the local governments.”

The auditors noted the Department can process receipt adjustments to correct overpayments, if any, within both funds in accordance with the Statewide Accounting Management System (SAMS), Procedure 25.20.15. Further, the Department's current procedures call for

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reconciling and adjusting local government sales tax deposit allocations to perfected returns when the information is available, generally two months after the tax is paid.

Failure to timely distribute the balance of funds in the County Water Commission Tax Fund and the Metro-East Mass Transit District Tax Fund limited the use of tax collections by local governments and is noncompliance with State law. (Finding Code No. 10-26)

**RECOMMENDATION**

We recommend the Department implement controls to ensure the Department timely distributes all funds due to local governments in accordance with the Water Commission Act of 1985 and the Local Mass Transit District Act.

**DEPARTMENT RESPONSE**

The auditors' legal interpretation is incorrect. While the Department agrees that the language could be clarified, the Department believes the current process reflects the intent of the statute. The suggestion that the Department should pay the locals monies before we can actually identify the appropriate amounts would be in error.

The Department followed the intent and tax administration language of the Acts. The sales tax authorized to be imposed by the Metro-East Mass Transit District (MED) under the Local Mass Transit District Act (70 ILCS 3610/5.01) and County Water Commission (CWC) under the Water Commission Act of 1985 (70 ILCS 3620/4) does not contain the "second preceding month" language and instead requires distribution of "the then balance in the fund, less any amount determined by the Department to be necessary for the payment of refunds . . . ." However, these two local sales taxes contain the statutory language found in other local sales tax statutes that requires that these taxes be administered using the same modes of procedure as the State imposed sales taxes. A part of administering these taxes using the same modes of procedure as State-imposed sales taxes is that the local taxes distributed are those collected in the second preceding month. **The "then balance in the fund" means amount eligible to be certified for distribution:** Deposits that the Department makes into local sales tax funds when it receives the money are only the Department's best guess at that time as to the correct amount. And, the balance in the fund that the Department can "certify" under the statute as being eligible for distribution is the amount that the Department has determined, after it has processed and perfected the returns for a given liability period, as being available. It follows that when the statute requires the Department to "certify . . . the then balance in the fund" for distribution to the MED or the CWC, this refers to the amount eligible for distribution based on the liability period for which returns have been processed and perfected. To do otherwise would be to "certify" a balance which is based only on the Department's best guess of the true amount available. Such a procedure would make no sense.

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**AUDITOR'S COMMENT:** The County Water Commission Tax Fund distributes funds only to the DuPage Water Commission and the Metro-East Mass Transit District Tax Fund distributes funds only to the St. Clair County Transit District and Madison County Transit District. The statute as written would provide funding to these entities as receipts are collected from taxpayers. The current process delays the distributions of moneys due to these entities for two months. In the event of an overpayment, the Department has mechanisms within the Statewide Accounting Management System to adjust the cash balance in the fund when the detailed return information is available and perfected.

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10-27. **FINDING** (Failure to Pay Personal Property Replacement Tax Refunds Created a Statutory Excess)

During fieldwork, we noted the Department of Revenue (Department) transferred \$184 million from the Income Tax Refund Fund (Fund 278) to the Personal Property Tax Replacement (PPRT) Fund (Fund 802). The Department calculated the transfer on June 30, 2010 pursuant to the statute cited below. At the same time, the Department had estimated there were approximately \$271 million in PPRT refunds that were not paid and were held for payment due to cash shortages in Fund 278. Some of these refunds have been accruing interest since January 2008 (see the Schedule of Aged Refunds Payable as listed in the Table of Contents).

The Illinois Income Tax Act (35 ILCS 5/904(a)) and the Illinois Administrative Code (86 Ill. Adm. Code 100.9300(a)) states as soon as practicable after a return is filed, the Department shall examine it to determine the correct amount of tax. If the Department finds that the tax paid is more than the correct amount, it shall credit or refund the overpayment.

The Illinois Income Tax Act (35 ILCS 5/901(d)(3)) requires as soon as possible after the end of each fiscal year, the Director shall order transferred and the State Treasurer and State Comptroller shall transfer from the Income Tax Refund Fund to the Personal Property Tax Replacement Fund an amount, certified by the Director to the Comptroller, equal to the excess of the amount collected and deposited into the Income Tax Refund Fund during the fiscal year over the amount of refunds resulting from the overpayment of tax liability paid from the Income Tax Refund Fund during the fiscal year.

The Department believes the PPRT portion of refunds approved and held for payment at June 30, 2010 should not be included in the statutory calculation of excess as they were not paid during the fiscal year as referenced in the statute. The auditors believe that simply not paying the PPRT refunds that are due should not create an “excess” amount in accordance with the statutory parameters. Instead, the refunds due should be paid first and any funds remaining would be considered excess and available for transfer.

The \$184 million was eventually transferred in September and November, 2010 from the Income Tax Refund Fund to the Personal Property Tax Replacement Fund by the Department as cash was made available. It was not used to liquidate amounts owed to taxpayers for PPRT refunds due at year-end and not paid due to the lack of available cash. As these refunds were not paid, interest accumulates from the date the taxpayer filed the return and overpaid their tax liability. In the future, when PPRT refunds exceed PPRT deposits into the Income Tax Refund Fund, a transfer will have to be made from PPRT Fund into the Income Tax Refund Fund.

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A summary obtained from the Office of the State Comptroller for the Personal Property Replacement Tax transactions in the Income Tax Refund Fund (Fund 278) and information from the Department of Revenue for refunds approved and unpaid, follows:

<b>CALCULATION OF STATUTORY EXCESS</b>			
	Personal Property Replacement Tax		
	FY10	FY09	% Increase (Decrease)
Receipts, Net	\$ 184,569,112	\$ 225,680,828	-18%
Less:			
Tax Refunds Paid	121,941	120,854,515	-100%
Interest Paid	4,257	19,444,233	-100%
Transfer Out <sup>1</sup>	6,438	1,998	222%
Receipts Over (Under) Expenditures	<u>\$ 184,436,476</u>	<u>\$ 85,380,082</u>	<u>116%</u>
<b>Statutory Excess to Transfer Out<sup>2</sup></b>	<b><u>\$ 184,368,165</u></b>	<b><u>\$ 85,328,850</u></b>	<b><u>116%</u></b>

<sup>1</sup> Statutory Transfer Pursuant to the State Finance Act (30 ILCS 105/6z-27), Net

<sup>2</sup> Statutory Transfer Pursuant to the Illinois Income Tax Act (35 ILCS 5/901(d))

Per Department records, the refunds held for payment at June 30, 2010 follows:

<b>REFUNDS APPROVED, BUT UNPAID</b>			
	Personal Property Replacement Tax		
	FY10	FY09	% Increase (Decrease)
Tax Refunds Approved but Unpaid	\$ 255,895,569	\$ 82,601,236	210%
Estimated Unpaid Accrued Interest	14,939,455	1,378,424	984%
<b>Total Payable at June 30, 2010</b>	<b><u>\$ 270,835,024</u></b>	<b><u>\$ 83,979,660</u></b>	<b><u>223%</u></b>

The amount calculated as statutory excess should be compared to the amount of refunds approved and held for payment to further illustrate that the “statutory excess” is not truly an excess in the fund, as noted below:

	<u><b>FY10</b></u>	<u><b>FY09</b></u>
<b>Statutory Excess to Transfer Out<sup>2</sup></b>	<b><u>\$ 184,368,165</u></b>	<b><u>\$ 85,328,850</u></b>
<b>Total Refunds held and Payable at June 30, 2010</b>	<b><u>\$ 270,835,024</u></b>	<b><u>\$ 83,979,660</u></b>

Failure to pay refunds timely could materially impact the calculation of the statutory excess amounts related to the Personal Property Tax Replacement Fund and resulted in at least \$184

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million in funds being transferred that were needed to pay refunds to taxpayers, thus further prolonging the payment of PPRT refunds to those taxpayers. (Finding Code No. 10-27, 09-14)

**RECOMMENDATION**

We recommend the Department pay PPRT refunds due to taxpayers from the Income Tax Refund Fund. Amounts remaining only after PPRT refunds are paid should be determined as excess and transferred to the Personal Property Tax Replacement Fund as required by statute, or the Department should seek legislative remedy.

**DEPARTMENT RESPONSE**

The Department disagrees with the finding and the recommendation. Everyone agrees that all refunds should be paid, but that is not possible when there is no money in the Refund Fund. The OAG's legal interpretation of the term "excess" in this statute is incorrect. The department's tax counsel has concluded: "The proposed finding that transfers from the fund should be reduced by refunds due, but not paid, is inconsistent with the plain language of the statute." See the legal memo below. The Department will continue to follow the law as determined by its tax counsel.

**Tax Counsel Legal interpretation**

Section 901(c)(2) of the Illinois Income Tax Act (35 ILCS 5/901) provides:

"Beginning on January 1, 1989 and thereafter, the Department shall deposit a percentage of the amounts collected pursuant to subsections (a) and (b)(6), (7), and (8), (c) and (d) of Section 201 of this Act into a fund in the State treasury known as the Income Tax Refund Fund."

Section 901(d)(3) of the Illinois Income Tax Act provides:

"As soon as possible after the end of each fiscal year, the Director shall order transferred and the State Treasurer and State Comptroller shall transfer from the Income Tax Refund Fund to the Personal Property Tax Replacement Fund an amount, certified by the Director to the Comptroller, equal to the excess of the amount collected pursuant to subsections (c) and (d) of Section 201 of this Act deposited into the Income Tax Refund Fund during the fiscal year over the amount of refunds resulting from overpayment of tax liability under subsections (c) and (d) of Section 201 of this Act paid from the Income Tax Refund Fund during the fiscal year."

The language in these provisions requires "cash basis" accounting. Deposits into the Income Tax Refund Fund are made when amounts are collected, not when a liability is assessed or otherwise becomes due. Transfers from the fund are made when amounts deposited into the fund during a fiscal year exceed amounts paid during the fiscal year, rather than when liabilities collected plus liabilities assessed or otherwise due exceed refunds paid plus refunds accrued or otherwise due.

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The proposed finding that transfers from the fund should be reduced by refunds due, but not paid, is inconsistent with the plain language of the statute. Moreover, interpreting the word term “refunds paid” to also include “refunds due” would require a similar interpretation of “amounts collected” to include “amounts due” in determining the amount to be deposited into the fund. The determination of whether an amount of tax or refund is “due” is an inherently subjective matter, and interpretation of the statute to require that determination would lead to considerable uncertainty in compliance. The language of the statute clearly and very correctly precludes that interpretation, and requires deposits and transfers to be determined on a cash basis.

**AUDITOR’S COMMENT:** A management decision to simply hold certain refunds and preventing them from being considered “paid” on a statutory and cash basis should not create an excess as defined in statute. The statute as written clearly contemplates the prompt (“as soon as practicable”) examination of returns and credit or refund of any overpayments. The statute as written was not intended to address a management decision to not pay taxpayers from the money deposited into the Income Tax Refund Fund for that specific purpose. As noted in the finding, at June 30, 2010, the Department owed \$271 million in refunds, some dating back to January 2008.

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10-28. **FINDING** (Noncompliance with Statutory Expenditure Limitations)

The Department of Revenue (Department) exceeded administrative expenditure limitations for the Personal Property Tax Replacement Fund (Fund 802) and the County Option Motor Fuel Tax Fund (Fund 190).

- The State Revenue Sharing Act (30 ILCS 115/12) limits necessary administrative expenses incurred by the Department to 105% of the actual administrative expenses of the prior fiscal year. During testing, we noted the Department's administrative expenditures from Fund 802 grew by 108% over the prior year's administrative expenditures in FY10. The total amount of excess expenditures incurred by the Department during FY10 was \$657,016, which would have otherwise been distributed to local governments.
- The Counties Code (55 ILCS 5/5-1035.1) limits administration and enforcement expenses incurred by the Department during FY10 to 2% of the amount deposited into the Fund 190 during the preceding fiscal year. During testing, we noted the Department's Fund 190 administrative expenditures exceeded 2% of FY09 deposits by \$184,674, which would have otherwise been distributed to local governments.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system of fiscal and administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Department personnel stated the reason expenditures exceeded statutory limits was related to the increase in State pay plan expenditures.

Failure to comply with statutory administrative expenditure limitations reduced resources distributed to local governments. (Finding Code No. 10-28)

**RECOMMENDATION**

We recommend the Department implement controls to ensure the Department complies with statutory administrative expenditure limitations.

**DEPARTMENT RESPONSE**

The Department agrees and has already implemented controls to ensure that it does not exceed statutory limitations on expenditures from the Personal Property Tax Replacement and County Option Motor Fuel Tax Funds for fiscal year 2011 and going forward.

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10-29. **FINDING** (Lack of Controls over the Tire User Fee)

The Department of Revenue (Department) failed to comply with the requirements of the Environmental Protection Act (Act) regarding the Tire User Fee, resulting in errors on taxpayer accounts, inaccurate correspondence, inaccurate fund deposits and statutory transfers, and related financial reporting.

During testing, we noted the following noncompliance:

- In 5 of 12 (42%) returns tested, the Department’s GenTax system did not impose the correct statutory rate of \$2.50 per tire sold at retail. For retailers reporting an odd number of tire sales, the GenTax system rounds the total tire fees due to the next dollar, effectively overcharging tire retailers by \$0.50.

The Act (415 ILCS 5/55.8(a)) requires tire retailers to collect from consumers a fee of \$2.50 per tire sold and remit that amount, less any allowed discount, to the Department.

- In 7 of 12 (58%) returns tested, the Department’s GenTax system did not correctly calculate the discount allowed on tires that were timely paid by a taxpayer that timely filed their return. The differences between the correct discount and GenTax calculated discount were from \$0.20 to \$1.00. In addition, in 5 of 12 (42%) returns tested, the screens within GenTax showed calculations of the same discount that differed between \$1.00 and \$2.00.
- In 1 of 12 (8%) returns tested, the taxpayer filed and paid an amount timely; however, the Department did not allow the corresponding \$9.70 discount, resulting in the taxpayer overpaying the fee.

The Act (415 ILCS 5/55.8(a)) grants tire retailers a discount of \$0.10 per tire sold to the amount that is timely paid with a timely return.

- The Department did not exercise adequate controls over allocating Tire User Fee receipts. The Department’s deposit process assumed all taxpayers filed returns and paid all moneys due to the State in a timely manner.

The Act (415 ILCS 5/55.8(a)) requires the following allocation process for tires paid with a timely return:

<i><b>For Tires Timely Paid with a Timely Return</b></i>		
Fund	Cash Allocation	Percentage Allocation
Used Tire Management Fund	\$1.90	79.17%
Emergency Public Health Fund	\$0.50	20.83%

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Further, the Act (415 ILCS 5/55.8(a)) requires the following allocation process for all other tires:

<i>For All Other Tires</i>		
Fund	Cash Allocation	Percentage Allocation
Used Tire Management Fund	\$2.00	80.00%
Emergency Public Health Fund	\$0.50	20.00%

- In addition, the Department’s statutory transfers of \$0.10 per tire sold from the Used Tire Management Fund to the General Revenue Fund do not appear logical and resulted in an excess transfer of, at least, \$1,525,360 to the General Revenue Fund during FY10.

The Act (415 ILCS 5/55.8(a)) requires the Department to transfer from the Used Tire Management Fund to the General Revenue Fund \$0.10 per tire for the Department to use in administering and enforcing the fee.

In addition, we noted the following internal control deficiencies during testing:

- In 2 of 12 (17%) returns tested, the Department’s GenTax system had the taxpayer classified as a monthly taxpayer and had assessed penalties and interest to the taxpayer that would not have been assessed on a quarterly basis. In following up on this exception, the auditors determined that 64 of 4,765 (1%) taxpayers filing Tire User Fee returns were filing on a more frequent basis than quarterly.

The Act (415 ILCS 5/55.10(a)) states that taxpayers shall file returns on a quarterly basis.

- In 2 of 2 (100%) final returns tested, the Department’s GenTax system did not require a taxpayer filing a final return to file the return within one month of the cease date of the business. Further, the instructions for the Department’s Form ST-8, *Tire User Fee*, does not notify taxpayers of this requirement.

The Act (415 ILCS 5/55.10(b)) requires retailers who cease to engage in the retail sale of tires file a final return one month after discontinuing the business.

- In 5 of 12 (42%) returns tested, the Department’s GenTax system generated and sent conflicting letters to taxpayers on the same date. The amount of tire user fee due differed between the “Return Correction Notice” and the “Final Notice of Tax Due.”
- In 2 of 12 (17%) returns tested, we noted that the information on the taxpayer’s primary screen for the Tire User Fee differed from the information on the taxpayer’s main screen for the tax period tested.

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In accordance with Generally Accepted Accounting Principles (GAAP), all assets, liabilities, revenues, and expenses should be recorded in the financial statements. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system of fiscal and administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Department management wrote that “the allocation errors were oversights in applying these correctly in the GenTax system. However, the second dot point references an issue with the calculated discount. The Department believes the system is working correctly. Because of the nature of the way that the system processes these returns, the information on the transaction screen is not updated until after the return is processed in the nightly job stream.” Although the discount is calculated overnight, the auditors noted differences among the various GenTax screens that should all reflect the proper amount of tax due long after the overnight process would have run. Further, the second dot point notes errors in the calculation of discount, resulting in errors on taxpayer accounts.

The lack of internal control over the Tire User Fee affects the integrity of processing taxpayer information, financial data, and financial reporting. Further, inconsistent computer processing of taxpayer returns leads to unfair outcomes among retailers who should be assessed the same fees and discounts in accordance with State law. (Finding Code No. 10-29)

**RECOMMENDATION**

We recommend the Department implement internal controls to ensure:

- the Tire User Fee is imposed on all tires at the statutory rate of \$2.50;
- the GenTax system correctly grants tire retailers a discount of \$0.10 per tire sold to the amount that is timely paid with a timely return;
- duplicate return controls are implemented within GenTax to require taxpayers to file Tire User Fee returns quarterly;
- taxpayers are required to file a final return within one month of ceasing to sell tires;
- the accuracy of taxpayer correspondence generated from the GenTax system;
- the accuracy of all GenTax screens;
- receipts collected are properly allocated among the Used Tire Management Fund and Emergency Public Health Fund; and,
- transfers between the Used Tire Management Fund and the General Revenue Fund are properly calculated.

**DEPARTMENT RESPONSE**

The Department concurs with the recommendation and will cease rounding Tire User Fee returns to the nearest dollar, make changes to generate correct notices, assure that allocations are made correctly, accommodate more frequent filers, and inform taxpayers that a final return is due 30 days after a business ceases operations.

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10-30. **FINDING** (Inadequate Controls over Liquor Retailer Licenses)

The Department of Revenue, Liquor Control Commission, (Department) did not exercise adequate control over recording retailer liquor licenses issued or calculating and timely reporting the annual liquor license fee transfer, leading to an unrecorded liability in the Department's June 30, 2010 financial statements.

During testing, we noted the following:

- The Department provided the auditors with three different numbers of retailer liquor licenses issued during FY10, as noted below:

Source Document	Issued Licenses
Department Receipt Transmittals	21,444
Bank Transmittal Reports	21,640
Annual Transfer from the General Revenue Fund	21,710

- The Department incorrectly calculated the annual transfer of accrued prior year liquor retailer licensee fee receipts from the General Revenue Fund to the Youth Alcoholism and Substance Abuse Prevention Fund.

	FY10 Receipts Transferred in FY11		
	Department Receipt Transmittals	Bank Transmittal Reports	Annual Transfer from the General Revenue Fund
Retailer Licenses Issued	21,444	21,640	21,710
Less: NSF Returned Checks	8	8	8
Net, Retailer Licenses Issued	21,436	21,632	21,702
Transfer Amount, Per License	\$50	\$50	\$50
Transfer Amount	\$1,071,800	\$1,081,600	\$1,085,100
Department Transfer	\$1,091,478	\$1,091,478	\$1,091,478
Over(Under) Transfer	\$19,678	\$9,878	\$6,378

- The Department did not record the corresponding General Revenue Fund liability for the annual liquor transfer in the Department's June 30, 2010 financial statements.
- The Department did not timely initiate the transfer of funds from the General Revenue Fund to the Youth Alcoholism and Substance Abuse Prevention Fund for FY09 receipts. The *Fund Transfer Notification* (Form C-55) was filed on November 2, 2009, which was 64 days late.

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Due to these limitations, we were unable to conclude whether the Department properly allocated retailer license fees between the General Revenue Fund and the Dram Shop Fund and accurately calculated the annual transfer from the General Revenue Fund to the Youth Alcoholism and Substance Abuse Prevention Fund.

The Liquor Control Act of 1934 (235 ILCS 5/5-3) requires the Department deposit \$250 into both the General Revenue Fund and Dram Shop Fund for each issued retailer liquor license. Further, the State Finance Act (30 ILCS 105/8g(c)) requires that on August 30 of each fiscal year's license period, the Department shall transfer from the General Revenue Fund to the Youth Alcoholism and Substance Abuse Prevention Fund an amount equal to the number of retail liquor licenses issued for that fiscal year multiplied by \$50.

The State Records Act (5 ILCS 160/8) requires the Director to preserve adequate and proper documentation of the essential transactions of the Department to protect the legal and financial rights of the State.

In accordance with Generally Accepted Accounting Principles (GAAP), all assets, liabilities, revenues, and expenses should be recorded in the financial statements. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system of fiscal and administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Department personnel stated that the Commission inadvertently included some license categories that were not considered retailer license fees. In addition, there was an oversight in completing the calculation and transfer of funds. This caused the transfer to be late and the Department not recording the liability accrual in its GAAP packages.

Failure to exercise adequate internal controls over recording issued retailer liquor licenses may result in lost revenues to the State and inaccurate fund transfers and deposits. Failure to record all liabilities arising from the required transfer of accrued receipts at fiscal year-end reduces the reliability of Statewide financial information. (Finding Code No. 10-30)

**RECOMMENDATION**

We recommend the Department implement internal controls to ensure issued retailer liquor licenses are properly recorded to permit the accurate:

- accounting and recording of the number of retailer liquor licenses issued during each fiscal year;
- allocation of receipts between the Dram Shop Fund and General Revenue Fund; and,
- transfer of accrued receipts from the General Revenue Fund to the Youth Alcoholism and Substance Abuse Prevention Fund on August 30 of each year.

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**DEPARTMENT RESPONSE**

The Department concurs with the recommendation. Before the 2010 audit commenced, the Commission had been working on the clarification of the distributor license categories to make sure the licenses were issued under the correct categories. As part of this process, it was noted that improper categories were being classified as retailer licenses for transfer.

The Commission has implemented the following actions:

- All future retailer licenses and transfers will be calculated using the Retailer CLASS 1A license category only.
- Updated its license applications to reflect the updated distributor categories and the correct fee amounts.
- Updated its database so the importing distributor's license (2B) and foreign importer's license (2C) reflects \$25 not \$295.
- Removed the 2D license category from its applications and have put alerts in the database so that any license that is classified as a 2D cannot be renewed and at renewal time for each licensee that holds the 2D is re-categorizing the license to the correct license categories.

As of September 2010, all correct license fee amounts have been updated in the Commission's system and if an incorrect fee amount is entered, the user will receive an alert. In addition, the Commission will initiate the fund transfer in a timely manner, which will allow the Department to properly record the liability accrual in the financial statements.

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10-31. **FINDING** (Improper Fiscal Year Expenditures)

The Department of Revenue (Department) did not exercise adequate internal controls over distributing funds due to local governments in accordance with State statute and fiscal year and appropriation limitations.

The State Constitution (Article VIII, Section 2(b)) states, “[t]he General Assembly by law shall make appropriations for all expenditures of public funds by the State.” The State Finance Act (30 ILCS 105/25(a)) states, “appropriations shall be available for expenditure for the fiscal year ... that the appropriation so specifies.”

During testing, we noted:

- The Department received an annual appropriation to distribute one-third of the total receipts deposited into the Illinois Gaming Law Enforcement Fund to local governments for law enforcement purposes in accordance with the Charitable Games Act (230 ILCS 30/14(b)) and the Pull Tabs and Jar Games Act (230 ILCS 20/5(b)). The Department’s procedures call for calculating the distribution from total receipts deposited during the fiscal year, recording a liability to local governments in the financial statements, and presenting vouchers to the State Comptroller for payment from expiring appropriations during the Lapse Period.

In FY09, the Department calculated the distribution during the Lapse Period and recorded the liability to local governments, but failed to present the vouchers to the State Comptroller by the close of the Lapse Period. In November 2009, the Department determined that the FY09 grants from the Illinois Gaming Law Enforcement Fund should be paid from the FY10 appropriations, well after the August 31, 2009 end of the Lapse Period for 2009. The Department charged the FY09 expenditure of \$1,067,966 to FY10’s appropriation in November 2009. No expenditures were presented to the State Comptroller against the FY09 appropriation for these grants. The Department argues the distribution for July 2008 through June 2009 collections should be made from FY10 appropriations, instead of the past practice of paying the grants in the Lapse Period of the fiscal year for which the collections were received and the appropriations were made.

In FY10, the Department calculated the distribution, recorded the liability to local governments, and presented the vouchers to the State Comptroller during the Lapse Period. However, due to previously exhausting the FY10 appropriation, the Department charged the FY10 expenditure of \$1,032,272 to the Department’s FY11 appropriation in August 2010.

Department personnel stated that the voucher for charitable gaming distributions to local governments was not submitted to the State Comptroller by the end of the lapse period. Subsequently, based on a legal review by the Department, the Department concluded it was appropriate to change past practice and make the payment from the fiscal year 2010 appropriation.

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- The Department received an annual appropriation to distribute the amount of real estate taxes deferred by senior citizens to county collectors in accordance with the Senior Citizens Real Estate Tax Deferral Act (320 ILCS 30/5). The Act requires the county collector to send to the Department the tax bills, including special assessment bills, on all tax deferred property in that collector's county. The Department shall then pay by June 1 or within 30 days of the receipt of these tax bills, whichever is later, to the county collector, for distribution to the taxing bodies in his county, the total amount of taxes so deferred. The Department shall make these payments from the Senior Citizens Real Estate Deferred Tax Revolving Fund.

In FY09, the Department received an appropriation of \$5.4 million and expended \$3.6 million to cover the costs of the program. At June 30, 2009, the Department held approximately \$2.3 million in approved grant payments the Department did not present to the Office of the State Comptroller due to a low cash balance in the Senior Citizens Real Estate Deferred Tax Revolving Fund and an insufficient appropriation of \$500,000.

Department personnel stated that based on the fact that there was insufficient cash flow in the Senior Citizens Real Estate Tax Deferral Fund to process all tax bills payable to counties in 2009 from the fiscal year 2009 appropriation, the Department paid the difference of \$2.3 million in 2009, from the fiscal year 2010 appropriation.

Failure to pay expenditures out of the correct fiscal year is noncompliance with the State Finance Act and fails to match fiscal year expenditures with correct fiscal year appropriations, reducing the overall reliability of the State's financial information. (Finding Code No. 10-31)

**RECOMMENDATION**

We recommend the Department implement controls to ensure all expenditures are paid out of the proper fiscal year appropriation in accordance with fiscal year limitations in the State Finance Act and in the timeframes outlined in the Senior Citizens Real Estate Tax Deferral Act.

**DEPARTMENT RESPONSE**

The Department disagrees that additional controls need to be implemented to assure that all expenditures are to be paid out of the proper fiscal year in accordance with fiscal year limitations in the State Finance Act and in the timeframes outlined in the Senior Citizens Real Estate Tax Deferral Act.

The annual Charitable Games Distribution to local units of government was properly paid from the fiscal year 2010 appropriation. The Department's changed past practice after review of the statute with the Department legal counsel and determined that it was indeed appropriate to make the distribution of one-third of the receipts from the games during July, 2009, through June, 2010, from the fiscal year 2010 appropriation that began July 1, 2010.

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**AUDITOR'S COMMENT:** According to documents provided by the Department, through oversight, it failed to timely submit vouchers to the State Comptroller to distribute the local government share of FY09 receipts out of the FY09 appropriation. At that point, the Department decided to change its longstanding past practice and instead to pay the local government share of FY09 receipts out of the FY10 appropriation. The Department's failure to timely submit vouchers to the State Comptroller for payment circumvented the ability of the State to determine and report the amount of unpaid bills outstanding on a budgetary basis.

The Department agrees that the law requires it to pay the counties the deferred tax bills by June 1 of the calendar year in which they are due, or within 30 days of the receipt of these tax bills, whichever is later. However, there was not sufficient money in the fund or appropriation to make the payments; hence the payments were not made. Faced with this problem, the Department paid the bills (for low-income seniors) as quickly as it could. We believe we took the correct action.

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10-32. **FINDING** (Inadequate Control over Distributions of Hotel Operators' Occupation Tax)

The Department of Revenue (Department) did not exercise adequate control over distributing Hotel Operators' Occupation Tax collections on behalf of the Illinois Sports Facilities Authority, Metropolitan Pier and Exposition Authority, and a local government.

**Underpayments to a Local Government**

During testing, we noted the Department did not certify all collections on behalf of the local government for distribution to the local government to the Office of the State Comptroller. Two of 12 (17%) distributions were certified for an amount less than the amount required by statute, which were tax collections occurring during the second preceding calendar month. The total FY10 underpayment to the local government was \$187,500.

We noted the Department reduced the distribution to the local government to account for fund sweeps from the Illinois Tourism Tax Fund (Fund 452). Upon inquiry to the Department regarding the fund sweeps, the Department's Legal Counsel has advised, "[t]he Illinois Tourism Tax Fund is a trust fund, held by the Illinois Treasurer, as trustee. As such, any transfer of monies out of that Fund, even in accordance with provisions of the State Finance Act enacted in budget implementation bills, must be re-paid to the Fund and ultimately distributed to the city."

The Municipal Code (65 ILCS 5/8-3-13) requires the Department to certify taxes collected during the second preceding calendar month to the Office of the State Comptroller for distribution to the local government.

**Untimely and Unsupported Distributions**

- 16 of 24 (67%) distribution vouchers for taxes collected on behalf of the Illinois Sports Facilities Authority were submitted to the Office of the State Comptroller between one and seven days late.
- Eight of 12 (67%) distribution vouchers for taxes collected on behalf of the local government were submitted to the Office of the State Comptroller between two and ten days late.
- The Department did not prepare a distribution in August 2009 for June 2009 taxes collected on behalf of the Illinois Sports Facilities Authority.

The Illinois Sports Facilities Authority Act (70 ILCS 3205/19) and the Municipal Code (65 ILCS 5/8-3-13) require the Department certify monthly distributions of tax receipts collected to the Office of the State Comptroller by the 25th day of the month.

- The Department did not maintain documentation to support the distribution in August 2009 for June 2009 taxes collected on behalf of the local government and the Metropolitan Pier and Exposition Authority.

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The State Records Act (5 ILCS 160/8) requires the Director to preserve adequate and proper documentation of the essential transactions of the Department to protect the legal and financial rights of the State.

Department personnel stated that the fact that the August distribution was not prepared was an oversight during the height of preparation of the Department's GAAP reporting package.

Failure to certify all tax collections during the second preceding calendar month reduced the amount of cash remitted to the local government. Further, failure to maintain supporting documentation and timely certify tax collections to the Office of the State Comptroller is noncompliance with various State laws. (Finding Code No. 10-32)

**RECOMMENDATION**

We recommend the Department work with the Director of the Governor's Office of Management and Budget to seek clarification as to whether the transfer from the Illinois Tourism Tax Fund must be repaid by the General Revenue Fund, and, if necessary, seek a formal, written opinion from the Attorney General. Further, we recommend the Department maintain adequate supporting documentation in accordance with the State Records Act and timely submit distributions of tax collections to the Office of the State Comptroller.

**DEPARTMENT RESPONSE**

The Department has asked for clarification and the Governor's Office of Management and Budget is in agreement that funds should be transferred from the General Revenue Fund to the Illinois Tourism Tax Fund. In addition, to ensure all eight distributions are prepared during the fiscal year the Department is adding an additional level of voucher review and approval going forward to ensure that all allocations are completed.

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10-33. **FINDING** (Distributions to Counties in Violation of the Tennessee Valley Authority Payment Act)

The Department's distributions to counties appear to be in violation of the Tennessee Valley Authority Payment Act (Act) (30 ILCS 250).

Each year, the Tennessee Valley Authority (TVA) calculates direct payments due to states and counties throughout the Central United States in accordance with §13 of the Tennessee Valley Authority Act (16 U.S.C. §831L). After completing the calculation, the TVA sends the Department of Revenue (Department) a letter with the total distribution amount for all governments receiving a direct payment from the TVA.

After receiving a direct payment from the TVA, the Act requires the Department to distribute 70% of the State's share of the TVA distribution to counties that have coal reserved for the TVA and receive a direct payment from the TVA in proportion to the net book value of TVA property in the county to the total net book value of counties eligible to receive a share of the funds.

During testing, we noted the following:

- The Department issued payments to three downstate counties; however, the TVA only issued direct payments to two downstate counties with coal reserved for the TVA. The Department believes the third county was originally intended to receive payments, but the wording of the statute was incorrect.
- The Department did not maintain supporting documentation for the net book value of TVA property or counties with coal reserved for the TVA within the State. The Department had to request the data from the TVA after inquiry from the auditors.

The net effect of the noncompliance during FY10 is as follows:

	County 1	County 2	County 3
Per Department	\$ 133,311	\$ 116,251	\$ 31,034
Per Auditor	\$ 149,708	\$ 130,888	\$ -
Over(Under) Payment	\$ (16,397)	\$ (14,637)	\$ 31,034

Department personnel stated they have distributed 70% of the TVA payments to the three downstate counties based upon statutory interpretation and the legislative history of the original bill in 1981.

Failure to accurately distribute the State's direct payment from the TVA is noncompliance with the Tennessee Valley Authority Payment Act and resulted in two downstate counties receiving less funds than they were entitled to under State law. (Finding Code No. 10-33)

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**RECOMMENDATION**

We recommend the Department properly calculate and distribute the State's direct payment from the TVA in accordance with the provisions of the Tennessee Valley Authority Payment Act, or seek a legislative remedy to allow a payment to the third county.

**DEPARTMENT RESPONSE**

The Department disagrees with the auditor's statutory interpretation and has paid the proper amount of federal funds that flow through the state to these three counties. We have confirmed with the Tennessee Valley Authority (TVA) that the three counties in question should be receiving such payments. The statute wording may be confusing, so the Department has proposed that this statute be amended to clarify the fact that three counties should be allocated payments from the TVA. The clarifying language for this statute is contained in HB2500, which passed on May 12, 2011.

<p><b>AUDITOR'S COMMENT:</b> The Tennessee Valley Authority Payment Act states, "payment shall be divided among counties in Illinois in which the Tennessee Valley Authority has coal reserved, and which counties themselves receive direct payments pursuant to Section 13 of the Tennessee Valley Authority Act of 1933." While all three counties have coal reserved for the Tennessee Valley Authority (TVA), only two counties receive a direct payment from the TVA. We would note that the legislation referenced in the Department's response would conform the statute to the Department's historical practice in distributing these funds.</p>
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10-34. **FINDING** (Lack of Adequate Disaster Contingency Planning or Testing to Ensure Recovery of Applications and Data)

The Department of Revenue (Department) had not provided adequate planning for the recovery of its applications and data. Additionally, midrange recovery testing had not been performed during the audit period.

The Department carries out its daily operations through the use of Information Technology. The Department is reliant on a significant number of computer systems in order to support the Department's mission as "chief tax collector for the State of Illinois."

The Department had established 22 individual contingency plans; however, they had not been updated within the last four to eight years and did not depict the current environment. In addition, the plans did not address the restoration of applications/data, and testing procedures for recovery.

In December 2007, the Department implemented an enterprise wide tax system (GenTax), which processed over \$22.5 billion of taxpayer payments during fiscal year 2010. As of June 30, 2010, the Department had not developed a recovery plan or conducted recovery testing.

Department personnel stated that one staff dedicates 50% of their time to the recovery planning. Recent CMS announcements have also required IDOR to look again at the chosen recovery strategy and develop new strategy where newly published CMS policy or infrastructure direction has indicated a need for change. These continued changes have created a need to review, rewrite, and rebuild IDOR recovery strategy and all the parts connected delay recovery plan progress.

Information technology guidance (including the National Institute of Standards and Technology and the Government Accountability Office) endorse the formal development and testing of disaster recovery plans. Tests of disaster recovery plans (and the associated documentation of the test results) verify that the plan, procedures, and resources provide the capability to recover critical systems within the required timeframe.

The lack of an adequate and tested disaster contingency plan leaves the Department exposed to the possibility of major disruptions of services. A comprehensive test of the plan across all platforms utilized will assist management in identifying weaknesses to ensure recovery procedures are adequate in the event of a disaster. Continuous reviews and tests of plans would help management ensure the plans are appropriately modified, as the Department's computing environment and disaster recovery needs change. (Finding Code No. 10-34, 09-15, 08-10, 07-4, 06-2)

**RECOMMENDATION**

The Department should upgrade the contingency plans to address the current environment, including the enterprise wide tax system (GenTax). The Department should also ensure the

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contingency plans include details specific to the recovery applications and data. In addition, the contingency plans should be tested on an annual basis and continually updated to reflect environmental changes and improvements identified from tests.

The Department should also work with the Department of Central Management Services to ensure plans, facilities, and other operational provisions are appropriately aligned.

**DEPARTMENT RESPONSE**

The Department continues to support the re-engineering of the Business Continuity Plan, in specific, Disaster Recovery Plans for critical applications. Legacy recovery plans remain in place as the Department moves through the last phases of the GenTax conversion.

Public Act 93-025 formally consolidated Information Technology services into the Department of Central Management Services (CMS). As implemented, the consolidation created an intertwined cooperative effort between IDOR and DCMS for many services. IDOR (as the client) owns the recovery process, handles functional application recovery, some file restoration, data synchronization and continuation of production processes. However, CMS as our managed service provider **does not have the required recovery environment** to implement or test a disaster recovery plan.

IDOR is dedicated to completing the recovery plan detail and providing adequate plan testing on an annual basis for all processing environments. Recent coordinated efforts with CMS have given IDOR the best hope of forward movement on the lack of recovery process. IDOR has CMS commitment that they will be working with us, and IDOR has seen movement all but slowly towards resolving some of the most serious recovery issues.

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10-35. **FINDING** (Inadequate Controls over Contractual, Interagency, and Grant Agreements)

The Department of Revenue (Department) did not maintain adequate control over contractual, interagency, and grant agreements.

During testing, we noted the following:

- The Department did not timely execute contractual, interagency, and grant agreements.
  - One of 38 (3%) vouchers tested was related to a contract that was executed after the vendor began providing services.
  - One of 25 (4%) contractual agreements tested was executed after the vendor began providing services.
  - Five of 25 (20%) contractual agreements tested were not signed and approved by the Department prior to the effective date specified in the contract.
  - Three of nine (33%) interagency agreements tested were not signed and approved by the Department prior to the effective date specified in the agreement.
  - Two of five (40%) tobacco enforcement agreements tested were not signed and approved by the Department prior to the effective date specified in the grant agreement.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system of internal fiscal and administrative controls to ensure the State's resources are used efficiently and effectively. Good internal controls require the approval of agreements prior to the effective date and prior to when services are provided.

- The Department did not comply with the contract and grant filing provisions of the Illinois Procurement Code (Code).
  - Nine of 25 (36%) contractual agreements tested were not filed with the Office of the State Comptroller within 15 days of execution. Agreements were between 3 and 126 days late.
  - Four of the nine contractual agreements untimely filed were required to have late filing affidavits. One of those four (25%) did not have a notarized late filing affidavit.

The Code (30 ILCS 500/20-80(b)) requires agencies to file a copy of the contract, purchase order, grant, or lease with the Office of the State Comptroller within 15 days of incurring grant and contract liabilities. Further, the Code (30 ILCS 500/20-80(c)) requires agencies to file a late filing affidavit with the State Comptroller and Auditor General explaining why a contract, purchase order, grant, or lease was not filed with the Office of the State Comptroller within 30 days of incurring grant and contract liabilities.

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- The Department did not comply with the contract obligation provisions of the Statewide Accounting Management System (SAMS).
  - One of 25 (4%) Contract Obligation Documents (COD) tested obligated a different amount than specified in the underlying contractual agreement.
  - Two of 25 (8%) CODs tested had multiple rates listed as the method of compensation; however, the contract specified quarterly payments of a fixed amount.
  - Six of 25 (24%) CODs tested did not match the service dates specified in the underlying contractual agreement.
  - Four of 25 (16%) CODs tested did not have a proper signature.

SAMS, Procedure 15.20.10, requires State agencies to submit the Contact Obligation Document (Form C-23) to the Office of the State Comptroller, including the appropriate obligation amount equaling the total amount of the contact, the beginning and ending dates for multiple fiscal year contacts, the maximum contact amount, the method of compensation with an attached rate sheet for multiple rates, and proper authorization.

Department personnel stated human error caused the discrepancies with voucher and COD processing. Intergovernmental Agreements are not always initiated by the Department and therefore are sometimes in effect prior to the signature of all parties. Although the effective date of the contract had passed prior to full execution, Department personnel are aware that no work is supposed to begin. In rare occasions, essential services continue without the realization that the contract has yet to be executed.

Failure to approve contractual, interagency and grant agreements prior to the performance of services may result in loss of State funds and subject the State to unnecessary legal risks. In order to assess whether the interagency agreements are reasonable, appropriate, and sufficiently document the responsibilities of the appropriate parties, the agreements need to be approved prior to the effective date. Failure to properly complete Contract Obligation Documents is noncompliance with SAMS. (Finding Code No. 10-35, 09-17, 08-11, 07-6)

**RECOMMENDATION**

We recommend the Department ensure all contracts, interagency agreements, and grant agreements are approved prior to the start of the contract period and before services are performed. Further, we recommend the Department prepare Contract Obligation Documents in accordance with SAMS.

**DEPARTMENT RESPONSE**

The Department has hired an Agency Procurement Officer (APO) to oversee and monitor contracts and IGA's for the agency. The APO will work very closely with Department staff and the EEC State Purchasing Officer to ensure that all contracts are processed timely. We will work with other governmental units to emphasize the needs to execute IGA's prior to the start date.

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10-36. **FINDING** (Inadequate Controls over Personal Services)

The Department of Revenue (Department) did not maintain adequate control over personal services.

During testing, we noted the following:

- The Department did not maintain adequate control over employee evaluations.
  - 10 of 25 (40%) employees' annual performance evaluations tested were completed 34 to 334 days late.
  - Four of 25 (16%) tested employees did not receive an annual evaluation during the examination period.
  - Three of 25 (12%) tested employees did not receive a probationary evaluation during the examination period.

The Department's Employee Handbook (Handbook) states initial probationary employees are evaluated twice during the six-month probationary period, with one evaluation at the midpoint of the period and one two weeks prior to the end of such probation. Certified employees are evaluated annually. In addition, good business practices require employee evaluations to be performed to communicate the employees' strengths and weaknesses in meeting their job responsibilities.

- The Department did not maintain adequate control over payroll deductions. One of seven (14%) employees with personal use of a State vehicle tested did not have the proper value of the fringe benefit included in the employee's taxable income.

The IRS Employer's Tax Guide to Fringe Benefits (Publication 15-B) requires employers to determine the value of a vehicle they provide to an employee for commuting use by multiplying each one-way commute by \$1.50. This multiplies out to \$3 per day, or \$33 per pay period. This amount must be included in the employee's wages or be reimbursed by the employee.

Department personnel stated that a process is in place to capture the correct payroll deductions, but in this case it was a human oversight in entering the correct information into the system.

- The Department did not maintain adequate control over employee timekeeping.
  - Eight of 25 (32%) employees tested did not have complete support for time spent on "official State business". The Department of Central Management Services' reports from the Central Time and Attendance System (CTAS) were either months late or lacked the required signatures of the employee, timekeeper, and/or division manager.
  - Nine of 25 (36%) employees tested had employee absences that did not trace to supporting leave request documentation and/or leave requests were not properly approved or completed timely.
    - Four of the nine employees had leave request slips that were not signed by the

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employee or the employee's supervisor as required by the Handbook.

- Three of the nine employees had leave request slips signed by the employee or supervisor a significant time after the leave was taken.
- Four of the nine employees' time off was not correctly accounted for in CTAS.

The State Officials and Employees Ethics Act (Act) (5 ILCS 430/5-5(c)) requires the Department to adopt personnel policies consistent with the Act. The Act states, "The policies shall require State employees to periodically submit time sheets documenting the time spent each day on official State business to the nearest quarter hour." Further, the Handbook requires absent employees to complete the Form IDR-139, *Request for Leave*, which must be signed by the employee and employee's supervisor.

- The Department did not comply with requirements regarding employee training.
  - 14 of 25 (56%) new employees tested did not have documentation in their employee files to show that sexual harassment training was completed within one year of employment with the Department. These employees had a registration form on file that was signed by the employee. A certificate of completion was not received from the training coordinator separate from the registration form that was signed only by the employee.
    - 7 of the 14 noted employees registered for sexual harassment training in January and March of 2011, 48 to 210 days late, after inquiry by the auditors.
  - Two of 25 (8%) new employees tested had a training certificate on file, but did not complete sexual harassment training until February and March 2011, after auditor inquiry. Employees completed training 237 to 247 days late. Sexual harassment training should be completed within one year after the employee starts employment with the Department.
  - One of the 25 (4%) new employees did not complete sexual harassment training during the individual's 494-day tenure as a Department employee.
  - Two of 18 (11%) employees did not complete their annual ethics training timely, 207 and 227 days late. The training was completed after auditor inquiry in January 2011.

The Illinois Human Rights Act (775 ILCS 5/2-105(c)) requires State agencies provide training on sexual harassment prevention and the agency's sexual harassment policy as a component of all ongoing or new employee training programs. Further, the State Officials and Employees Ethics Act (5 ILCS 430/5-10(a)) requires each officer, member, and employee annually complete an ethics training program.

Department officials stated, "The Department adopted all of the Office of the Executive Inspector General's ethics training procedures. As part of the annual training process and procedures, the OEIG provides the Department with a master employee list that the Department uses to monitor participation and generate notices to its employees about the required ethics training. The 2 employees who were non-compliant were not on the master employee list provided by the OEIG."

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Performance evaluations are a systematic and uniform approach used for the development of employees and communication of performance expectations to employees. Performance evaluations should serve as a foundation for salary adjustments, promotion, demotion, discharge, layoff, recall, and reinstatement decisions. Failure to properly calculate payroll deductions and taxable fringe benefits resulted in errors and omissions in employee payroll. By not maintaining appropriate time sheets, the Department is not in compliance with the State Officials and Employees Ethics Act. Failure to properly record benefit time in CTAS and allowing employees paid leave without providing the required pre-certifications could result in payments to individuals not entitled to the benefit and is noncompliance with Department policy. Failure to provide sexual harassment training to new employees and annual ethics training is noncompliance with State law. (Finding Code No. 10-36, 09-18, 08-13, 07-07)

**RECOMMENDATION**

We recommend the Department:

- ensure employee performance evaluations are performed in a timely manner;
- ensure personnel files are maintained and payroll transactions are properly supported;
- properly calculate and record employee deductions and fringe benefits;
- require employees maintain timesheets in compliance with the State Officials and Employees Ethics Act;
- maintain accurate accumulated leave records for all employees; and,
- ensure all employees obtain all mandated training as required by State law.

**DEPARTMENT RESPONSE**

The Department agrees that timely completion of evaluations, up-to-date personnel files, and accurate time sheets and leave records are important. The Department has a notification process in place that informs managers and supervisors of evaluations due.

The Department requires all employees to maintain time sheets in compliance with the State Officials and Employees Ethics Act and IDOR to maintain accurate accumulated leave records for all employees. The Department will remind timekeepers, employees, and managers that all CTAS reports must be signed, as required by timekeeping policy.

The IRS employers Tax Guide top Fringe Benefits requirement to include the value of a vehicle used for commuting purposes is followed by IDOR. The Department has proper controls in place, but this was an isolated occurrence of human oversight in entering the incorrect information into the system.

The Department will ensure that all employees obtain all mandated training. Going forward, the Department has implemented a New Employee Orientation (NEO) program. This program is operated by the A and R Shared Services Center. All new employees are required to attend NEO on their first day working for the Department. NEO is a day-long process of completing paperwork, reviewing agency policies and receiving mandatory training.

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10-37. **FINDING** (Payments to County Officials)

The Department of Revenue (Department) was unable to comply with statutory requirements regarding payments to certain county officials due to insufficient appropriations. The Department was appropriated \$9,530,500 for payments to county officials, but the required statutory payments totaled \$11,813,413.

During testing, we noted the Department did not have adequate appropriations to pay the required statutory payments. The Department notified the counties that they would not pay the remainder of the required payments, as noted below:

	Approved Invoices	Actual Payments	Difference	Counties Affected
<b><i>Stipends</i></b>				
Sheriff	\$663,000	\$427,992	\$235,008	102
Coroner	\$656,500	\$423,796	\$232,704	101
Treasurer	\$663,000	\$427,992	\$235,008	102
Auditor	\$110,500	\$71,332	\$39,168	17
<b><i>Compensation Reimbursement</i></b>				
Public Defender	\$6,154,611	\$5,700,000	\$454,611	102
<b><i>Supervisor of Assessments</i></b>				
Compensation	\$2,662,802	\$1,906,596	\$756,206	100
Additional Compensation	\$294,000	\$189,917	\$104,083	86
Performance Compensation	\$609,000	\$382,875	\$226,125	60
Total:	\$11,813,413	\$9,530,500	\$2,282,913	

Further, the Department did not exercise adequate internal control over compensation paid to assessors meeting the specific sales assessment ratio. We noted the following:

- Two assessors receiving a distribution per the Department’s records were ineligible, as their coefficient of dispersion exceeded the statutory maximum; and,
- Two assessors from a downstate county received a distribution of \$3,000, while the remaining assessors received a distribution of \$1,875. The Department stated they were paying prior year distributions to the two noted assessors out of the FY10 appropriation.

The Counties Code mandates the Department to pay:

- a \$6,500 stipend to each Sheriff ((55 ILCS 5/4-6003(d)) and (55 ILCS 5/4-8002(a)));
- a \$6,500 stipend to Coroners in counties other than Cook County (55 ILCS 5/4-6002(c));
- a \$6,500 stipend to each Treasurer (55 ILCS 5/3-10007);
- a \$6,500 stipend to each Auditor (55 ILCS 5/4-6001(h)); and,
- 66.67% of each Public Defender’s salary (55 ILCS 5/3-4007(b)).

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Further, the Property Tax Code mandates the Department to pay:

- 50% of a Supervisor of Assessment's salary, if the assessed value of property is between 31.33% and 35.33% of the total fair cash value of property (35 ILCS 200/3-40(c));
- An additional \$500 if the Assessor holds a Certified Assessing Evaluator Certificate (35 ILCS 200/3-40(c)); and,
- An additional \$3,000 if the Assessor meets a specific sales assessment ratio and has a coefficient of dispersion no greater than 15% for large counties and 30% for small counties (35 ILCS 200/4-20).

In addition, the State Constitution (Article VIII, Section 2(b)) states, "[t]he General Assembly by law shall make appropriations for all expenditures of public funds by the State." The State Finance Act (30 ILCS 105/25(a)) states, "appropriations shall be available for expenditure for the fiscal year ... that the appropriation so specifies."

Department personnel stated that the Department's appropriation legislation for fiscal year 2010 was introduced at a level that would fully cover stipends and salary reimbursements provided under the Counties Code, but was reduced by the General Assembly. Department personnel further stated that they paid one assessor performance bonus in error because of a math error.

Failure to pay county officials meeting statutory requirements the amount mandated by State law is noncompliance with the Counties Code and the Property Tax Code. Further, failure to limit expenditures to qualified assessors reduced the amount available to pay other qualified officials. (Finding Code No. 10-37, 09-11)

### **RECOMMENDATION**

We recommend the Department comply with the Counties Code and the Property Tax Code or seek legislative assistance regarding the compensation and reimbursement of county officials. Further, we recommend the Department implement internal controls to ensure assessors are paid in accordance with State law.

### **DEPARTMENT RESPONSE**

The Department agrees that we should comply with the Counties Code. However, we cannot make payments without an appropriation and reduced all payments proportionally to stay within the appropriation. The Department agrees that it paid one assessor performance bonus in error because of a rounding error and will institute additional review of the manual calculation. The Department disagrees that it paid the second assessor in error as it followed long-standing practice and it disagrees that the two assessors who were paid \$3,000 performance bonuses in FY10 were improperly paid. The Fiscal Year and property tax cycles do not match, and the Department paid all of the 2009 property tax bonuses at the full level.

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**AUDITOR'S COMMENT:** In regards to the disagreement over the payments to the two assessors, the assessor's coefficient of dispersion exceeded the statutory maximum set in the Property Tax Code (Code) (35 ILCS 200/4-20). The Code states, "the coefficient of dispersion must not be greater than 15%" for larger counties and "the coefficient of dispersion must not be greater than ... 30% in 1999 and every year thereafter" for small counties. The statute clearly states the coefficient of dispersion cannot exceed the statutory maximum. In regards to the disagreement over the \$3,000 payments to the assessors, the Department paid the FY09 liability out of FY10 appropriations, violating the State Finance Act and fiscal year limitations.

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**PRIOR FINDINGS NOT REPEATED**  
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A. **FINDING** (Inaccurate Calculation of Year-end Liability)

During the prior examination period, the Department of Revenue (Department) overstated its liability to local governments for Personal Property Replacement Tax collections that were received and deposited, but not earned as of year-end. The auditor proposed and the Department recorded an adjustment of \$84 million to correct the error.

During the current examination period, the Department implemented procedures to address revenue recognition related to Personal Property Replacement Tax collections. (Finding Code No. 09-1)

B. **FINDING** (Inadequate Controls over Refunds)

During the prior examination period, the Department of Revenue (Department) did not exercise adequate controls over recording, reporting, and distributing income tax refunds to taxpayers.

During the current examination period, the Department improved controls over refunds. The auditors uncovered smaller, immaterial conditions of noncompliance that will be reported in the Letter of Immaterial Findings. (Finding Code No. 09-3)

C. **FINDING** (Lack of Formal Business Rules)

During the prior examination period, the Department of Revenue (Department) lacked established, formal, business rules, policies, and procedures relating to certain accounting practices.

During the current examination period, the Department improved upon the documentation of its rules, policies, and procedures. (Finding Code No. 09-4)

D. **FINDING** (Unrecorded Interest Amounts)

During the prior examination period, the Department of Revenue (Department) did not properly post and record interest calculations for financial reporting purposes as of June 30, 2009.

During the current examination period, the Department's GenTax system, based upon sample test work, generally posted and recorded interest transactions for financial reporting purposes as of June 30, 2010. (Finding Code No. 09-5, 08-6)

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E. **FINDING** (Deficiencies in GenTax)

During the prior examination period, the Department of Revenue (Department) did not have sufficient internal control over GenTax functions, which affected the integrity of processing taxpayer information, financial data, and financial reporting.

During the current examination period, the auditors uncovered less significant conditions of noncompliance that will be reported as noncompliance with specific laws, rules, or regulations. (Finding Code No. 09-6, 08-9)

F. **FINDING** (Inaccurate Cigarette Tax Allocations)

During the prior examination period, the Department of Revenue (Department) did not allocate cigarette tax collections pursuant to statute. The Department had multi-million dollar deposit errors between the General Revenue Fund, Long-Term Care Provider Fund, and Common School Fund.

During the current examination period, the Department implemented procedures to reconcile cigarette tax collections to deposit collections pursuant to statute. (Finding Code No. 09-9)

G. **FINDING** (Failure to Provide Timely Motor Fuel Tax Information to IDOT)

During the prior examination period, the Department of Revenue (Department) did not provide the necessary information in a timely manner to the Illinois Department of Transportation (IDOT) in order to allocate money according to the Motor Fuel Tax Law (35 ILCS 505/8) and initiate the process for distribution of motor fuel tax to the counties, municipalities, and townships with the most accurate information. This condition delayed the preparation of IDOT's financial statements.

During the current examination period, the Department improved upon submission of year-end information to IDOT to allow for financial reporting. The auditors uncovered smaller, immaterial conditions of noncompliance that will be reported in the Letter of Immaterial Findings. (Finding Code No. 09-16)

H. **FINDING** (Inadequate Control over the Personal Use of State Vehicles)

During the prior examination period, the Department of Revenue (Department) did not always include the \$33 per pay period fringe benefit in the taxable income of employees with personal use of a State vehicle.

During the current examination period, the Department implemented controls to calculate the taxable income of employees with personal use of a State vehicle; however, we did note issues regarding recording the proper payroll deduction reported in Finding 10-36. (Finding Code No. 09-19, 08-14, 07-8)

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I. **FINDING** (Noncompliance with the Illinois Lottery Law)

During the prior examination period, the Department of Revenue (Department) did not comply with the Lottery Retailer's license suspension and renewal provisions of the Illinois Lottery Law regarding unpaid State tax debt.

During the current examination period, the Department implemented additional controls to identify and suspend Lottery Retailers that owe tax debt to the State. (Finding Code No. 09-20, 08-17)

J. **FINDING** (Noncompliance with Statutory Mandates)

During the prior examination period, the Department of Revenue (Department) did not comply with the bonding requirements of Retailer's Occupation Tax accounts or submit an annual Unified Economic Development Budget to the General Assembly within three months after the end of the fiscal year.

During the current examination period, Public Act 96-1355 modified the statute governing bonding requirements for Retailer's Occupation Tax accounts and the Department filed the Unified Economic Development Budget with the General Assembly. (Finding Code No. 09-21, 08-18)

K. **FINDING** (The Department Did Not Ensure GAAP Packages and Draft Financial Statements Were Accurate and Complete)

During the prior audit period, there were numerous errors in accounting reports submitted to the Office of the State Comptroller (Generally Accepted Accounting Principles (GAAP) package forms) and draft financial statements that were given to the auditors.

The Department added additional review procedures to the GAAP reporting process. (Finding Code No. 09-12)

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**STATE'S MULTI-YEAR BEVERAGE VENDING AND POURING CONTRACT**

House Resolution Number 862 directed the Auditor General to conduct an audit of the procurement practices in connection with the State's multi-year Beverage Vending and Pouring contract. The audit, released in March 2009, contained 11 recommendations to the Department of Revenue.

We followed-up with the Department to determine if the recommendations have been implemented. In the previous Compliance Examination, we reported that the 11 recommendations were all partially implemented pending testing of the Department's policy changes.

For this audit we examined two procurements, Illinois Lottery Private Management-Transaction Advisor and the Illinois Lottery Private Manager, to determine if changes had been implemented. We determined that 6 recommendations were implemented while 5 recommendations remained partially implemented. (See Exhibit 1.)

The following contains a brief synopsis of each finding from the audit of the procurement practices in connection with the State's multi-year Beverage Vending and Pouring contract. Also included is the status of each recommendation.

Exhibit 1 <b>SUMMARY OF RECOMMENDATIONS</b>			
<b>Recommendations</b>	<b>Implemented?</b>		
	Yes	Partially	No
Contract Execution	X		
Timing of the Vendor Conference	X		
Vendor Presentations		X	
Evaluation Scoring Tool	X		
Documenting Evaluation Committee Meetings	X		
Scoring Issues		X	
References	X		
Opening Price Proposals	X		
Evaluation Language in Request for Proposals		X	
Protest Resolution		X	
Clarifying Offers		X	
<b>Total</b>	<b>6</b>	<b>5</b>	<b>0</b>

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**Recommendation 1 – Contract Execution**

**Synopsis of Finding:**

The contract was awarded to Pepsi on July 27, 2007. However, a contract with Pepsi was not executed until over a year later on August 15, 2008.

The contract was signed by Pepsi on May 14, 2008. Revenue’s Chief Fiscal Officer signed the contract on June 3, 2008, and Revenue’s Chief Legal counsel signed the contract on June 6, 2008. However, the Director of Revenue did not date the contract. The State Comptroller’s Accounting Bulletin Number 124 requires every contract signature to be dated below the actual signature.

A handwritten note attached to the contract said that August 15, 2008 was being used as the start date because that was when Revenue’s State Procurement Officer received the contract. A copy of the fully-executed contract was also sent by Revenue to Pepsi on August 15, 2008.

Section 1.1 of the contract states, “Unless otherwise specified, this contract shall commence upon the last dated signature of the Parties and expire on the tenth (10<sup>th</sup>) anniversary of the signature date.” Based on the signature dates in the contract, the contract should have commenced on June 6, 2008, not August 15, 2008.

**Recommendation:**

*The Department of Revenue should ensure that contracts contain dated signatures as required by Comptroller’s Accounting Bulletin Number 124. In addition, the Statewide Beverage Contract should commence on the last dated signature as specified in the Contract.*

**Status:**

Implemented.

The Department made changes to its procurement checklist to ensure that contracts contained dated signatures and contained an effective date. Testing revealed no deficiencies.

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**Recommendation 2 – Timing of the Vendor Conference**

**Synopsis of Finding:**

The Department issued the RFP on Wednesday, December 6, 2006 and held a vendor conference on Monday, December 18, 2006, which was eight working days after the issuance of the RFP. Due to the complexity and unique nature of this RFP, it was even more important that vendors be given an adequate amount of time to review the RFP prior to the vendor conference. According to the National Association of State Procurement Officials' *Issues in Public Purchasing*, the pre-bid conference should be scheduled to permit bidders/proposers adequate time to read and digest the solicitation, a minimum of 10 working days.

**Recommendation:**

*The Department of Revenue should ensure that potential vendors have an adequate amount of time to review the Request for Proposals prior to the vendor conference.*

**Status:**

Implemented.

The Department made changes to its procurement checklist to ensure that the vendor conference is held a minimum of ten days after publication of the RFP. Testing revealed no deficiencies.

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**Recommendation 3 – Vendor Presentations**

**Synopsis of Finding:**

The procurement file did not contain adequate records of the vendor presentations. Both Coke and Pepsi made vendor presentations on March 22, 2007. The procurement file did not contain records to indicate the discussions that took place during the presentations, such as questions asked by the evaluation team and questions asked by the vendors. *Issues in Public Purchasing*, published by the National Association of State Procurement Officials, notes that responsibilities of an evaluation committee include keeping "...accurate records of all meetings, conferences and negotiations."

The procurement file also lacked a record of who attended the presentations. Evaluation guidelines issued by CMS state that "...committee members must attend all meetings of the committee, including interview with the proposers if conducted..." Based on interviews with the evaluation team members, at least one of them did not attend the vendor presentations. The team member said he did not attend the presentations and did not receive any of the materials provided by the vendors at the presentations.

**Recommendation:**

*The Department of Revenue should maintain adequate documentation of vendor presentations including a record of who attended the presentations and the discussions that took place. If evaluation team members are unable to attend the vendor presentations, the Department should ensure that the evaluation team members receive the necessary information for scoring the proposals.*

**Status:**

Partially implemented.

The Department has updated their Best Practice Tips for Project Managers document which added a statement asking that all meeting notes be sent to procurement. The Department has also included this item as part of its procurement checklist.

During our examination of the procurement for a Lottery private manager, we noted that not all of the members of the evaluation team were able to attend the vendor presentations. The procurement file contained no evidence that information from the presentations was provided to the members that did not attend the presentations. See Finding 10-15 for a further discussion.

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**Recommendation 4 – Evaluation Scoring Tool**

**Synopsis of Finding:**

The Department of Revenue developed an evaluation scoring tool to score the technical proposals. The scoring tool contained detailed subcategories for the three general categories established in the RFP.

The evaluation scoring tool included a column titled “evaluator considerations in arriving at score.” For those evaluator considerations that referenced a specific section in the RFP, 63 percent (5 of 8) partially or completely referenced an incorrect section of the RFP. In one instance, the section referenced in the RFP did not exist. In another instance, the RFP section referenced in the scoring tool did not correlate with the correct section in the RFP.

One goal of the beverage vending and pouring program was to increase commission revenue for the State and generate additional funding for State programs. Revenue would be the primary focus of the price proposals. However, a revenue growth plan was also required to be submitted with the technical proposals. The RFP did not specify the point value to be assigned for a revenue growth plan or for the other specific requirements for the technical proposals.

For technical approach, the RFP states that this is the ability to perform all services and then lists examples. Revenue growth was not mentioned as an example. However, in the scoring tool, the revenue growth subcategory accounted for 75 of the 200 points (38 percent) for technical approach. Neither vendor provided a revenue growth plan with its technical proposal. While increasing revenue was a goal of the Statewide beverage contract, we question whether a revenue growth plan should have been weighted so heavily in the technical evaluation when increased revenue would already be the primary focus of the price proposals.

**Recommendation:**

*The Department of Revenue should ensure that scoring tools include correct references when referring to specific sections of the RFP. If subcategories are used in the scoring tools, point values assigned to those subcategories should be appropriate based on language in the RFP.*

**Status:**

Implemented.

The Department made changes to its procurement checklist to ensure that the scoring tool included correct references when referring to specific sections of the RFP. Testing revealed no deficiencies.

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**Recommendation 5 – Documenting Evaluation Committee Meetings**

**Synopsis of Finding:**

The procurement file did not contain adequate records of evaluation committee meetings. The evaluation committee met on at least two occasions prior to the vendor presentations and at least once following the vendor presentations after the price proposals were opened. The procurement file contained an agenda for one of the meetings but did not contain any additional notes to indicate what specifically was discussed or what instructions were given to the evaluation team. *Issues in Public Purchasing*, published by the National Association of State Procurement Officials, notes responsibilities of an evaluation committee including keeping “...accurate records of all meetings, conferences and negotiations.”

There was also no record of who attended the meetings so it is unclear if all of the members of the evaluation committee participated.

**Recommendation:**

*The Department of Revenue should document evaluation committee meetings including dates, who attended, and what was discussed.*

**Status:**

Implemented.

The Department made changes to its procurement checklist to ensure that evaluation committee meetings were documented including sign-in sheets and notes on what was discussed. Testing revealed no deficiencies.

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**Recommendation 6 – Scoring Issues**

**Synopsis of Finding:**

The evaluation team did not meet to discuss major differences in scores as recommended by CMS Evaluation Guidelines. CMS Guidelines states, “Any major differences in scores should be discussed to determine if an error was made; or an evaluator missed or misinterpreted a vendor’s proposal.” The individual scores for both Coke and Pepsi varied greatly. Additionally, scores for individual subcategories within the evaluation tool also varied greatly.

The Department did not determine if two evaluation team members intended to leave certain elements on their evaluation tools blank. The Department did not question the evaluators about the blanks and calculated a zero for all blanks even if evaluators may not have intended to leave the elements blank.

Only two of the nine evaluators provided notes or comments with their scoring instruments. Without this type of documentation, it is difficult to determine reasons for discrepancies in scoring. CMS Guidelines state, “Rating points must be supported by thorough and appropriate comments. The points given must be consistent with the comments. General statements such as ‘good proposal’ without something to qualify the statement (i.e., why it is a good proposal) are not acceptable. Evaluations, which are not accompanied by thorough supporting comments, should be returned to the evaluator for further consideration.” The Department did not return the evaluation sheets for members to insert comments to support their scores.

**Recommendation:**

*The Department of Revenue should follow CMS Guidelines and ensure that:*

- *Major differences in scores are discussed to determine if an error was made or an evaluator missed or misinterpreted a vendor’s proposal;*
- *Evaluation tools are fully completed with no elements left blank; and*
- *Ratings points are supported with thorough and appropriate comments.*

**Status:**

Partially implemented.

The Department made changes to its procurement checklist to ensure that scoring issues were discussed, evaluation tools fully completed, and rating points were supported with appropriate comments.

The review of the procurement for the Lottery Private Manager revealed some irregularities. See Finding 10-17 for a further discussion.

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**Recommendation 7 – References**

**Synopsis of Finding:**

Scoring of references was based on responses to the reference interviews, which were conducted by two members of the evaluation team both from the Department of Revenue. In the evaluation scoring tool, references were worth 75 points of the total 500 points possible. During our review of references, we noted issues with the process used and with the documentation of references.

Points were assigned for one reference subfactor even though the question was never asked of the references. One of the five reference elements, related to similarity of staff, on the evaluation tool did not correlate with any of the questions on the reference questionnaire.

The CMS template contains a section where the reference is asked to rate the vendor on a scale of 0 – 10 on a series of questions. These resulting scores for all of the references contacted are totaled and averaged and then inserted into the fifth element, reference quality. However, Revenue did not ask the references to rate the vendors on a scale of 0 – 10 for selected questions as recommended by CMS.

The procurement file did not contain any documentation of the references checks performed or how reference scores were developed. Documentation that was later provided was incomplete.

Reference scores were lowered for both vendors with no indication of why the scores were lowered. The documentation on how the scores were formulated was minimal. The documentation showed scores that were initially higher for both of the vendors. However, scores were then revised and lowered for both vendors. There was no additional documentation to support why the scores were lowered. There was also no documentation to indicate why a particular score was formulated for any of the scores listed.

**Recommendation:**

*The Department of Revenue should ensure that:*

- *The reference questionnaire encompasses all of the elements included on the evaluation tool;*
- *References are asked to rate the vendor (when using the subfactor number five used in this scoring tool) and the resulting scores are inserted for all evaluators; and*
- *References are fully documented in the procurement file including the reference questionnaires and how scores are formulated.*

**Status:**

Implemented.

The Department made changes to its procurement checklist to ensure that the reference questionnaire encompasses all elements and are fully documented in the procurement file. Testing revealed no deficiencies.

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**Recommendation 8 – Opening Price Proposals**

**Synopsis of Finding:**

The scoring of technical proposals was completed April 16, 2007. The results were compiled including reference scores. Pepsi's average score was 383 while Coke's average score was 341.

The pricing proposals for both Coke and Pepsi were opened three days later on April 19, 2007. After the pricing proposals were opened, separate conference calls with both Coke and Pepsi were held on April 30, 2007. An e-mail sent by Revenue to the vendors prior to the conference calls noted that vendors would be asked clarifying questions and Revenue was to discuss how they planned to move forward.

The RFP specified that vendor offers that did not attain a minimum of 350 points on their technical proposals "will be rejected." Officials at Revenue did not initially realize that Coke had not received the minimum 350 points on the technical proposals required to proceed to the pricing phase. There is no documentation to indicate exactly when Revenue became aware of this issue, but the determination was made after the pricing proposals were opened and after the April 30, 2007 conference call with both vendors.

**Recommendation:**

*The Department of Revenue should not open price proposals from vendors, or begin discussions regarding pricing with vendors, whose technical proposals are rejected for failing to meet minimum point requirements.*

**Status:**

Implemented.

The Department made changes to its procurement checklist to ensure that minimum point requirements are met before opening price proposals. Testing revealed no deficiencies.

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**Recommendation 9 – Evaluation Language in Request for Proposals**

**Synopsis of Finding:**

The evaluation language in the Beverage Vending and Pouring Program RFP was not consistent with other RFPs at Revenue. We examined nine other RFPs at Revenue to determine if they also contained minimum point requirements. Four of the nine RFP reviewed also required a minimum point value to advance which is similar to the Beverage Vending and Pouring RFP. However, the remaining five RFPs did not contain a minimum point requirement. Instead, the RFPs specified that vendors who were not among the top scores (ranging from three to five) need not be considered. Had the Beverage Vending and Pouring RFP contained this differing language, both vendors would have advanced to the pricing phase.

All nine RFPs included alternative evaluation language. The Beverage Vending and Pouring RFP did not. Alternative evaluation language states that if a certain number of offers are received, offers may be evaluated using simple comparative analysis. If the Beverage Vending and Pouring RFP had contained alternative evaluation language and the alternative evaluation was used, both vendors would have been eligible for consideration.

**Recommendation:**

*The Department of Revenue should include alternative evaluation language in all Requests for Proposals. The Department should also consider using minimum point requirement language that would ensure more than one vendor is considered for price evaluation.*

**Status:**

Partially implemented.

The Department has made changes to the Procurement Manual which includes the SPO's responsibility to include alternative evaluation language. Also, the Procurement Manual, Section B. RFPs now includes alternative evaluation language.

During our examination of the procurement for a Lottery private manager, we noted that the RFP did not contain alternative evaluation language.

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**Recommendation 10 – Protest Resolution**

**Synopsis of Finding:**

On December 13, 2006, the Nedlog Company filed a formal protest against the Beverage Vending and Pouring Program RFP. Nedlog stated in the protest letter that the RFP is in direct violation of the Illinois Procurement Code and cited part of 30 ILCS 500/20-50.

The Department of Revenue did not respond to Nedlog’s protest until August 1, 2007, over seven months later, when the protest was denied. The Administrative Code – Standard Procurement Rules state: “When a protest has been timely filed and before an award has been made, the Procurement Officer shall make no award of the contract until the protest has been resolved.” (44 Ill. Adm. Code 1.5550(d)) The Department of Revenue did not respond to Nedlog’s protest until after the contract was awarded which is in direct violation of the Standard Procurement Rules.

Furthermore, the Department’s denial did not fully address Nedlog’s claim but instead focused on a second issue that was not raised by Nedlog in its protest.

**Recommendation:**

*The Department of Revenue should comply with the Standard Procurement Rules and ensure that protests are resolved in a timely fashion. The Department should also ensure that central points of the protest are fully addressed.*

**Status:**

Partially implemented.

The Department made changes to its procurement checklist to ensure that any protests filed are resolved timely.

The review of the procurement for the Lottery Private Manager revealed issues with the resolution of the protests that were filed. See Finding 10-19 for a further discussion.

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**Recommendation 11 – Clarifying Offers**

**Synopsis of Finding:**

Both vendors' proposals lacked key information that was required to be submitted. The RFP allowed Revenue to request clarification. Additionally, the Illinois Procurement Code (30 ILCS 500/20-15(f)) and the American Bar Association's 2000 Model Procurement Code for State and Local Governments also contain language allowing requests for clarification.

Based on the offers submitted and the issues raised in those offers, the vendors may not have fully understood the solicitation requirements and were not fully responsive to the solicitation.

Regarding best and final offers, the Standard Procurement Rules (44 Ill. Adm. Code 1.2015(g)(4)) state, "The request for Best & Final offers may pertain to any aspect of the solicitation, including but not limited to qualifications, specifications, scope of work or price."

Revenue officials stated that they did ask the vendors to clarify their offers during the vendor presentations. However, the procurement file did not contain records to indicate the discussions that took place during the presentations such as questions asked by the evaluation team and questions asked by the vendor.

Because of the key information lacking from both proposals, Revenue would have benefited from requesting both vendors to clarify their offers and provide the missing information. This could have been done as a best and final offer request during the technical proposal phase and would have allowed both vendors equal treatment and opportunity to revise their offers.

**Recommendation:**

*The Department of Revenue should request vendors to clarify offers and provide missing information when appropriate.*

**Status:**

Partially implemented.

The Department made changes to its procurement checklist to ensure that vendors are requested to clarify offers and provide missing information.

The review of the procurement for the Lottery Private Manager revealed issues with the clarification process. See Finding 10-16 for a further discussion.

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DEPARTMENT OF REVENUE  
COMPLIANCE EXAMINATION  
For the Year Ended June 30, 2010

**SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES**

**SUMMARY**

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:

- Schedule of Appropriations, Expenditures and Lapsed Balances
- Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
- Schedule of Receipts, Disbursements and Fund Balance (Cash Basis) – Locally-Held Funds
- Schedule of Changes in State Property
- Comparative Schedule of Cash Receipts
- Reconciliation of Cash Receipts to Deposits Remitted to the State Comptroller
- Analysis of Significant Variations in Expenditures
- Analysis of Significant Variations in Receipts
- Analysis of Significant Lapse Period Spending
- Analysis of Accounts Receivable
- Reconciliation of the Analysis of Accounts Receivable to the Taxes Receivable
- Footnote in the Financial Statements

- Analysis of Operations:

- Agency Functions and Planning Program
- Comparative Analysis of the Income Tax Refund Fund (Not Examined)
- Schedule of Aged Refunds Payable (Not Examined)
- Average Number of Employees
- Emergency Purchases
- Audit Collections Statistics (Not Examined)
- Service Efforts and Accomplishments (Not Examined)

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states the auditors have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General, except for information on the Comparative Analysis of the Income Tax Refund Fund, the Schedule of Aged Refunds Payable, the Audit Collections Statistics, and the Service Efforts and Accomplishments on which they did not perform any procedures. However, the accountants do not express an opinion on the supplementary information.

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**SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES**  
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Public Acts 96-39, 96-42, 96-46, 96-819, and 96-890	Appropriations (Net of Transfers)	Expenditures Through June 30	Approximate Lapse Period Expenditures July 1 to August 31	Approximate Total Expenditures 14 Months Ended August 31	Balance Reappropriated July 1, 2010	Approximate Balances Lapsed August 31
<b>General Revenue Fund (001)</b>						
Personal Services	\$ 82,604,000	\$ 76,496,798	\$ 3,546,358	\$ 80,043,156	\$ -	\$ 2,560,844
State Contributions to Social Security	6,319,200	5,515,269	257,273	5,772,542	-	546,658
Operational Expenses, Awards, Grants, and Permanent Improvements	3,830,500	3,642,308	188,192	3,830,500	-	-
Operational Expenses	29,983,400	15,788,316	2,749,668	18,537,984	-	11,445,416
Grants for the State's Share of State's Attorneys' and Assistant State's Attorneys' Salaries	14,067,000	12,944,479	1,122,521	14,067,000	-	-
Grants for the State's Share of County Public Defenders' Salaries	5,700,000	5,224,451	475,549	5,700,000	-	-
<b>Total General Revenue Fund</b>	<b>\$ 142,504,100</b>	<b>\$ 119,611,621</b>	<b>\$ 8,339,561</b>	<b>\$ 127,951,182</b>	<b>\$ -</b>	<b>\$ 14,552,918</b>
<b>Motor Fuel Tax Fund (012)</b>						
Personal Services	\$ 15,383,600	\$ 14,666,213	\$ 636,272	\$ 15,302,485	\$ -	\$ 81,115
State Contributions to State Employees' Retirement System	4,365,400	4,167,843	180,841	4,348,684	-	16,716
State Contributions to Social Security	1,176,900	1,064,266	46,168	1,110,434	-	66,466
Group Insurance	3,192,500	2,803,917	123,172	2,927,089	-	265,411
Contractual Services	2,039,300	1,727,078	120,753	1,847,831	-	191,469
Travel	1,433,200	1,197,580	215,427	1,413,007	-	20,193
Commodities	58,400	46,210	2,468	48,678	-	9,722
Printing	140,700	92,705	684	93,389	-	47,311
Equipment	15,000	4,338	-	4,338	-	10,662
Electronic Data Processing	15,771,200	11,179,194	4,267,172	15,446,366	-	324,834
Telecommunications	967,000	815,070	135,162	950,232	-	16,768
Operation of Automotive Equipment	71,100	46,758	10,484	57,242	-	13,858
Administration of the Motor Fuel Tax Enforcement Grant from U.S.D.O.T.	300,000	71,001	77,844	148,845	-	151,155
Shared Services Center	693,000	642,584	33,106	675,690	-	17,310
Reimbursement to International Fuel Tax Agreement Member States	42,000,000	10,149,303	2,204,203	12,353,506	-	29,646,494
Motor Fuel Tax Refunds	21,016,200	20,172,288	843,447	21,015,735	-	465
<b>Total Motor Fuel Tax Fund</b>	<b>\$ 108,623,500</b>	<b>\$ 68,846,348</b>	<b>\$ 8,897,203</b>	<b>\$ 77,743,551</b>	<b>\$ -</b>	<b>\$ 30,879,949</b>

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Public Acts 96-39, 96-42, 96-46, 96-819, and 96-890 Fiscal Year 2010	Appropriations (Net of Transfers)	Expenditures Through June 30	Approximate Lapse Period Expenditures July 1 to August 31	Approximate Total Expenditures 14 Months Ended August 31	Balance Reappropriated July 1, 2010	Approximate Balances Lapsed August 31
<b>Underground Storage Tank Fund (072)</b>						
Personal Services	\$ 609,700	\$ 569,359	\$ 23,892	\$ 593,251	\$ -	\$ 16,449
State Contributions to State						
Employees' Retirement System	173,000	161,673	6,783	168,456	-	4,544
State Contributions to Social Security	46,700	41,416	1,722	43,138	-	3,562
Group Insurance	174,900	130,030	5,666	135,696	-	39,204
Travel	30,200	29,661	-	29,661	-	539
Commodities	2,100	2,040	-	2,040	-	60
Printing	1,500	369	68	437	-	1,063
Electronic Data Processing	215,300	206,463	4,342	210,805	-	4,495
Telecommunications	61,400	61,398	(2,014)	59,384	-	2,016
Motor Fuel Tax Refunds	12,000	-	-	-	-	12,000
<b>Total Underground Storage Tank Fund</b>	<b>\$ 1,326,800</b>	<b>\$ 1,202,409</b>	<b>\$ 40,459</b>	<b>\$ 1,242,868</b>	<b>\$ -</b>	<b>\$ 83,932</b>
<b>Illinois Gaming Law Enforcement Fund (085)</b>						
Personal Services	\$ 742,400	\$ 210,900	\$ 15,555	\$ 226,455	\$ -	\$ 515,945
State Contributions to State						
Employees' Retirement System	210,700	59,857	4,415	64,272	-	146,428
State Contributions to Social Security	56,800	15,329	1,155	16,484	-	40,316
Group Insurance	190,800	53,131	3,842	56,973	-	133,827
Contractual Services	4,300	580	1,659	2,239	-	2,061
Travel	50,200	45,719	-	45,719	-	4,481
Commodities	2,900	784	104	888	-	2,012
Printing	1,500	319	-	319	-	1,181
Electronic Data Processing	392,400	-	-	-	-	392,400
Telecommunications	14,500	14,436	58	14,494	-	6
Operation of Automotive Equipment	28,600	28,575	-	28,575	-	25
Grant for Allocation to Local Law Enforcement Agencies	1,300,000	1,061,007	-	1,061,007	-	238,993
<b>Total Illinois Gaming Law Enforcement Fund</b>	<b>\$ 2,995,100</b>	<b>\$ 1,490,637</b>	<b>\$ 26,788</b>	<b>\$ 1,517,425</b>	<b>\$ -</b>	<b>\$ 1,477,675</b>
<b>State Gaming Fund (129)</b>						
Shared Services Center	\$ 230,600	\$ 169,001	\$ 10,163	\$ 179,164	\$ -	\$ 51,436
<b>Home Rule Municipal ROT Fund (138)</b>						
Personal Services	\$ 434,000	\$ 403,669	\$ 18,003	\$ 421,672	\$ -	\$ 12,328
State Contributions to State						
Employees' Retirement System	123,200	114,628	5,111	119,739	-	3,461
State Contributions to Social Security	33,200	30,075	1,339	31,414	-	1,786
Group Insurance	95,400	79,328	3,436	82,764	-	12,636
Travel	50,800	-	-	-	-	50,800
Electronic Data Processing	277,200	104,542	172,197	276,739	-	461
Telecommunications	30,100	30,100	-	30,100	-	-
<b>Total Home Rule Municipal ROT Fund</b>	<b>\$ 1,043,900</b>	<b>\$ 762,342</b>	<b>\$ 200,086</b>	<b>\$ 962,428</b>	<b>\$ -</b>	<b>\$ 81,472</b>

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<b>Illinois Department of Revenue Federal Trust Fund (140)</b>						
Administrative Costs	\$ 50,000	\$ -	\$ 630	\$ 630	\$ -	\$ 49,370
<b>Rental Housing Support Program Fund (150)</b>						
Administration of the Rental Housing Support Program	\$ 1,100,000	\$ 130,438	\$ 127,631	\$ 258,069	\$ -	\$ 841,931
Grants to Provide Rental Assistance to the Rental Housing Support Program	30,000,000	12,477,867	3,751,960	16,229,827	-	13,770,173
Total Rental Housing Support Program Fund	<u>\$ 31,100,000</u>	<u>\$ 12,608,305</u>	<u>\$ 3,879,591</u>	<u>\$ 16,487,896</u>	<u>\$ -</u>	<u>\$ 14,612,104</u>
<b>State and Local Sales Tax Reform Fund (186)</b>						
Grants to Allocate to Chicago for Additional 1.25% Use Tax Pursuant to P.A. 86-0928	\$ 53,803,700	\$ 40,500,960	\$ 7,515,139	\$ 48,016,099	\$ -	\$ 5,787,601
<b>RTA Occupation and Use Tax Replacement Fund (187)</b>						
Grants to Allocate to RTA for 10% of the 1.25% Use Tax Pursuant to P.A. 86-0928	\$ 26,901,200	\$ 20,688,765	\$ 3,757,569	\$ 24,446,334	\$ -	\$ 2,454,866
<b>County Option Motor Fuel Tax Fund (190)</b>						
Personal Services	\$ 365,200	\$ 329,988	\$ 13,876	\$ 343,864	\$ -	\$ 21,336
State Contributions to State Employees' Retirement System	103,600	93,736	3,943	97,679	-	5,921
State Contributions to Social Security	28,000	24,469	1,034	25,503	-	2,497
Group Insurance	111,300	76,629	3,249	79,878	-	31,422
Travel	30,300	30,290	-	30,290	-	10
Commodities	2,400	2,168	144	2,312	-	88
Electronic Data Processing	193,600	64,683	128,917	193,600	-	-
Telecommunications	41,600	41,600	-	41,600	-	-
Total County Option Motor Fuel Tax Fund	<u>\$ 876,000</u>	<u>\$ 663,563</u>	<u>\$ 151,163</u>	<u>\$ 814,726</u>	<u>\$ -</u>	<u>\$ 61,274</u>
<b>Debt Collection Fund (279)</b>						
Administration of Statewide Debt Collection	\$ 40,000	\$ 18,585	\$ -	\$ 18,585	\$ -	\$ 21,415
<b>Illinois Tax Increment Fund (281)</b>						
Personal Services	\$ 227,100	\$ 214,040	\$ 9,898	\$ 223,938	\$ -	\$ 3,162
State Contributions to State Employees' Retirement System	64,400	60,788	2,811	63,599	-	801
State Contributions to Social Security	17,400	15,698	729	16,427	-	973
Group Insurance	64,800	51,468	2,345	53,813	-	10,987
Electronic Data Processing	135,000	-	135,000	135,000	-	-
Telecommunications	18,700	18,698	-	18,698	-	2
Grants for Distribution to Local Tax Increment Finance Districts	21,420,600	13,116,644	4,555,895	17,672,539	-	3,748,061
Total Illinois Tax Increment Fund	<u>\$ 21,948,000</u>	<u>\$ 13,477,336</u>	<u>\$ 4,706,678</u>	<u>\$ 18,184,014</u>	<u>\$ -</u>	<u>\$ 3,763,986</u>

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For the Fiscal Year Ended June 30, 2010

Public Acts 96-39, 96-42, 96-46, 96-819, and 96-890 Fiscal Year 2010	Appropriations (Net of Transfers)	Expenditures Through June 30	Approximate Lapse Period Expenditures July 1 to August 31	Approximate Total Expenditures 14 Months Ended August 31	Balance Reappropriated July 1, 2010	Approximate Balances Lapsed August 31
<b>Illinois Affordable Housing Trust Fund (286)</b>						
Administration of the Illinois Affordable Housing Act	\$ 2,500,000	\$ 1,146,441	\$ 947,356	\$ 2,093,797	\$ -	\$ 406,203
Grants to Other State Agencies	2,000,000	2,000,000	-	2,000,000	-	-
Grants, Mortgages, Loans, or for the Purpose of Securing Bonds	45,000,000	14,385,881	855,000	15,240,881	-	29,759,119
<b>Total Illinois Affordable Housing Trust Fund</b>	<b>\$ 49,500,000</b>	<b>\$ 17,532,322</b>	<b>\$ 1,802,356</b>	<b>\$ 19,334,678</b>	<b>\$ -</b>	<b>\$ 30,165,322</b>
<b>Federal HOME Investment Trust Fund (338)</b>						
Illinois HOME Investment Partnerships Program	\$ 39,150,000	\$ 7,677,556	\$ -	\$ 7,677,556	\$ -	\$ 31,472,444
<b>Tax Compliance and Administration Fund (384)</b>						
Personal Services	\$ 1,019,900	\$ 965,124	\$ 37,622	\$ 1,002,746	\$ -	\$ 17,154
State Contributions to State Employees' Retirement System	289,400	274,117	10,694	284,811	-	4,589
State Contributions to Social Security	78,000	38,479	1,639	40,118	-	37,882
Group Insurance	238,500	192,304	8,138	200,442	-	38,058
Electronic Data Processing	367,500	-	114,350	114,350	-	253,150
Telecommunications	35,100	35,100	(2,014)	33,086	-	2,014
Administration of the Dyed Diesel Fuel Roadside Enforcement Plan Pursuant to P.A. 91-173	29,600	15,402	5,986	21,388	-	8,212
Administration of the Illinois Petroleum Education and Marketing Act	9,000	7,750	46	7,796	-	1,204
Administration of the Dry Cleaners Environmental Response Trust Fund Act	76,800	75,198	-	75,198	-	1,602
Administration of the Simplified Telecommunications Act	1,827,300	1,735,894	77,234	1,813,128	-	14,172
Administration of Municipality Sales Tax Pursuant to P.A. 93-1053	100,100	98,515	-	98,515	-	1,585
<b>Total Tax Compliance and Administration Fund</b>	<b>\$ 4,071,200</b>	<b>\$ 3,437,883</b>	<b>\$ 253,695</b>	<b>\$ 3,691,578</b>	<b>\$ -</b>	<b>\$ 379,622</b>
<b>Predatory Lending Database Program Fund (478)</b>						
Grants for the Predatory Lending Database Program	\$ 1,500,000	\$ -	\$ 1,100,000	\$ 1,100,000	\$ -	\$ 400,000
<b>Local Government Distributive Fund (515)</b>						
Grants to Allocate to Local Governments for Additional 1.25% Use Tax Pursuant to P.A. 86-0928	\$ 142,620,700	\$ 109,011,320	\$ 19,777,383	\$ 128,788,703	\$ -	\$ 13,831,997
<b>Horse Racing Fund (632)</b>						
Shared Services Center	\$ 88,500	\$ 66,670	\$ 4,396	\$ 71,066	\$ -	\$ 17,434

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For the Fiscal Year Ended June 30, 2010

Public Acts 96-39, 96-42, 96-46, 96-819, and 96-890 Fiscal Year 2010	Appropriations (Net of Transfers)	Expenditures Through June 30	Approximate Lapse Period Expenditures July 1 to August 31	Approximate Total Expenditures 14 Months Ended August 31	Balance Reappropriated July 1, 2010	Approximate Balances Lapsed August 31
<b>Federal Low Income Housing Tax Credit Gap</b>						
<b>HOME Investment Fund (681)</b>						
Grants for Capital Investment in Qualified Low Income Housing Tax Credit Housing Developments	\$ 96,000,000	\$ -	\$ -	\$ -	\$ -	\$ 96,000,000
<b>Federal Low Income Housing Tax Credit Exchange Fund (682)</b>						
Grants for Capital Investment in Affordable Housing Developments	\$ 250,000,000	\$ -	\$ -	\$ -	\$ -	\$ 250,000,000
<b>State Lottery Fund (711)</b>						
Personal Services	\$ 9,624,500	\$ 9,129,297	\$ 414,988	\$ 9,544,285	\$ -	\$ 80,215
State Contributions to State Employees' Retirement System	2,731,100	2,594,349	117,937	2,712,286	-	18,814
State Contributions to Social Security	752,200	674,253	30,736	704,989	-	47,211
Group Insurance	2,865,200	2,145,236	94,854	2,240,090	-	625,110
Contractual Services	29,613,700	26,653,887	1,766,554	28,420,441	-	1,193,259
Travel	110,400	54,925	5,081	60,006	-	50,394
Commodities	33,600	7,408	109	7,517	-	26,083
Printing	29,800	24	-	24	-	29,776
Equipment	85,000	234	71,516	71,750	-	13,250
Electronic Data Processing	3,339,000	2,633,974	577,477	3,211,451	-	127,549
Telecommunications	8,563,700	6,499,058	1,318,944	7,818,002	-	745,698
Operation of Automotive Equipment	475,000	373,944	42,029	415,973	-	59,027
Developing and Promoting Lottery Games	7,533,200	1,093,570	4,155,039	5,248,609	-	2,284,591
Lottery Board	8,300	544	-	544	-	7,756
Shared Services Center	387,700	317,117	19,664	336,781	-	50,919
Payment of Prizes to Holders of Winning Lottery Tickets or Shares	355,050,000	308,841,224	32,114,703	340,955,927	-	14,094,073
Refunds	48,000	35,633	40	35,673	-	12,327
Total State Lottery Fund	<u>\$ 421,250,400</u>	<u>\$ 361,054,677</u>	<u>\$ 40,729,671</u>	<u>\$ 401,784,348</u>	<u>\$ -</u>	<u>\$ 19,466,052</u>
<b>Municipal Telecommunications Fund (719)</b>						
Simplified Municipal Telecommunications Tax Act Refunds	\$ 12,000	\$ -	\$ -	\$ -	\$ -	\$ 12,000

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For the Fiscal Year Ended June 30, 2010

Public Acts 96-39, 96-42, 96-46, 96-819, and 96-890 Fiscal Year 2010	Appropriations (Net of Transfers)	Expenditures Through June 30	Approximate Lapse Period Expenditures July 1 to August 31	Approximate Total Expenditures 14 Months Ended August 31	Balance Reappropriated July 1, 2010	Approximate Balances Lapsed August 31
<b>Personal Property Tax Replacement Fund (802)</b>						
Personal Services	\$ 9,400,700	\$ 8,863,652	\$ 373,860	\$ 9,237,512	\$ -	\$ 163,188
State Contributions to State						
Employees' Retirement System	2,667,600	2,517,202	106,180	2,623,382	-	44,218
State Contributions to Social Security	719,200	653,182	27,713	680,895	-	38,305
Group Insurance	2,559,900	2,004,227	83,904	2,088,131	-	471,769
Contractual Services	1,206,400	1,050,486	31,068	1,081,554	-	124,846
Travel	243,900	234,486	3,755	238,241	-	5,659
Commodities	52,500	24,770	9,336	34,106	-	18,394
Printing	27,100	24,396	-	24,396	-	2,704
Equipment	12,900	8,087	4,507	12,594	-	306
Electronic Data Processing	6,209,200	4,802,770	1,326,222	6,128,992	-	80,208
Telecommunications	561,100	560,982	(2,015)	558,967	-	2,133
Operation of Automotive Equipment	22,000	10,000	-	10,000	-	12,000
<b>Total Personal Property Tax Replacement Fund</b>	<b>\$ 23,682,500</b>	<b>\$ 20,754,240</b>	<b>\$ 1,964,530</b>	<b>\$ 22,718,770</b>	<b>\$ -</b>	<b>\$ 963,730</b>
<b>Dram Shop Fund (821)</b>						
Personal Services	\$ 2,550,000	\$ 2,309,750	\$ 6,939	\$ 2,316,689	\$ -	\$ 233,311
State Contributions to State						
Employees' Retirement System	723,600	656,406	2,673	659,079	-	64,521
State Contributions to Social Security	195,100	170,324	721	171,045	-	24,055
Group Insurance	715,500	516,492	828	517,320	-	198,180
Contractual Services	231,200	154,886	28,230	183,116	-	48,084
Travel	110,000	73,894	12,450	86,344	-	23,656
Commodities	7,000	4,137	129	4,266	-	2,734
Printing	5,000	-	-	-	-	5,000
Equipment	20,000	322	14,521	14,843	-	5,157
Electronic Data Processing	893,300	53,641	37,388	91,029	-	802,271
Telecommunications	65,000	21,493	4,319	25,812	-	39,188
Operation of Automotive Equipment	95,400	61,334	4,599	65,933	-	29,467
Shared Services Center	114,700	99,161	5,561	104,722	-	9,978
Tobacco Study	332,700	303,056	19,080	322,136	-	10,564
Retailer Education Program	184,400	159,008	2,758	161,766	-	22,634
Operation of the Beverage Alcohol Sellers and Servers Education and Training (BASSET) Program	220,500	161,103	8,613	169,716	-	50,784
Grants to Local Governmental Units to Establish Enforcement Programs	1,000,000	989,981	9,263	999,244	-	756
Refunds	5,000	2,625	100	2,725	-	2,275
<b>Total Dram Shop Fund</b>	<b>\$ 7,468,400</b>	<b>\$ 5,737,613</b>	<b>\$ 158,172</b>	<b>\$ 5,895,785</b>	<b>\$ -</b>	<b>\$ 1,572,615</b>
<b>Senior Citizens' Real Estate Deferred Tax Revolving Fund (930)</b>						
Payments to Counties	\$ 10,350,000	\$ 8,423,936	\$ 114,809	\$ 8,538,745	\$ -	\$ 1,811,255

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Public Acts 96-39, 96-42, 96-46, 96-819, and 96-890 Fiscal Year 2010	Appropriations (Net of Transfers)	Expenditures Through June 30	Approximate Lapse Period Expenditures July 1 to August 31	Approximate Total Expenditures 14 Months Ended August 31	Balance Reappropriated July 1, 2010	Approximate Balances Lapsed August 31
<b>Build Illinois Bond Fund (971)</b>						
Affordable Housing Grants, Loans, and Investments for Low-Income Families, Senior Citizens, Persons with Disabilities, and at risk Displaced Veterans	\$ 100,000,000	\$ -	\$ -	\$ -	\$ -	\$ 100,000,000
Affordable Housing Grants, Loans, and Investments for Low-Income Persons with Disabilities and at risk Displaced Veterans	30,000,000	-	-	-		30,000,000
Total Build Illinois Bond Fund	<u>\$ 130,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 130,000,000</u>
<b>SUBTOTAL - Appropriated Funds</b>	<b><u>\$ 1,567,136,600</u></b>	<b><u>\$ 813,736,089</u></b>	<b><u>\$ 103,430,042</u></b>	<b><u>\$ 917,166,131</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 649,970,469</u></b>
<b><u>CONTINUING APPROPRIATIONS</u></b>						
<b>Income Tax Refund Fund (278)</b>						
Income Tax Refunds	\$ 1,336,317,416	\$ 1,336,317,415	\$ -	\$ 1,336,317,415	\$ -	\$ 1
<b>Local Government Distributive Fund (515)</b>						
Grants to Local Governments	\$ 1,069,784,807	\$ 1,069,784,806	\$ -	\$ 1,069,784,806	\$ -	\$ 1
<b>Personal Property Tax Replacement Fund (802)</b>						
Shared Revenue Payments	\$ 1,135,940,898	\$ 1,135,940,897	\$ -	\$ 1,135,940,897	\$ -	\$ 1
<b>SUBTOTAL - Continuing Appropriated Funds</b>	<b><u>\$ 3,542,043,121</u></b>	<b><u>\$ 3,542,043,118</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 3,542,043,118</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 3</u></b>
<b>SUBTOTAL - All Appropriated Funds</b>	<b><u>\$ 5,109,179,721</u></b>	<b><u>\$ 4,355,779,207</u></b>	<b><u>\$ 103,430,042</u></b>	<b><u>\$ 4,459,209,249</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 649,970,472</u></b>

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For the Fiscal Year Ended June 30, 2010

Public Acts 96-39, 96-42, 96-46, 96-819, and 96-890 Fiscal Year 2010	Appropriations (Net of Transfers)	Expenditures Through June 30	Approximate Lapse Period Expenditures July 1 to August 31	Approximate Total Expenditures 14 Months Ended August 31	Balance Reappropriated July 1, 2010	Approximate Balances Lapsed August 31
<b><u>NONAPPROPRIATED EXPENDITURES</u></b>						
<b>County Water Commission Tax Fund (084)</b>						
Shared Revenue Payments		\$ 28,909,180	\$ -	\$ 28,909,180		
<b>Non-Home Rule Municipal ROT Fund (088)</b>						
Shared Revenue Payments		\$ 87,051,584	\$ -	\$ 87,051,584		
<b>Home Rule Municipal Soft Drink ROT Fund (097)</b>						
Shared Revenue Payments		\$ 8,206,740	\$ -	\$ 8,206,740		
<b>Home Rule Municipal ROT Fund (138)</b>						
Shared Revenue Payments		\$ 704,527,992	\$ -	\$ 704,527,992		
<b>Home Rule County ROT Fund (139)</b>						
Shared Revenue Payments		\$ 672,347,583	\$ -	\$ 672,347,583		
<b>Business District Sales Tax Fund (160)</b>						
Shared Revenue Payments		\$ 7,785,788	\$ -	\$ 7,785,788		
<b>County and Mass Transit District Fund (188)</b>						
Shared Revenue Payments		\$ 191,893,851	\$ -	\$ 191,893,851		
<b>Local Government Tax Fund (189)</b>						
Shared Revenue Payments		\$ 1,474,183,687	\$ -	\$ 1,474,183,687		
<b>County Option Motor Fuel Tax Fund (190)</b>						
Shared Revenue Payments		\$ 31,034,198	\$ -	\$ 31,034,198		
<b>County Public Safety ROT Fund (219)</b>						
Shared Revenue Payments		\$ 74,866,861	\$ -	\$ 74,866,861		
<b>Sports Facility Tax Trust Fund (229)</b>						
Interfund Transfers		\$ 26,874,906	\$ -	\$ 26,874,906		
Shared Revenue Payments		1,675,953	109,661	1,785,614		
Total Sports Facility Tax Trust Fund		\$ 28,550,859	\$ 109,661	\$ 28,660,520		
<b>Illinois Tourism Tax Fund (452)</b>						
Shared Revenue Payments		\$ 13,764,610	\$ -	\$ 13,764,610		
<b>School Facility Occupation Fund (498)</b>						
Shared Revenue Payments		\$ 10,878,691	\$ -	\$ 10,878,691		

STATE OF ILLINOIS  
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For the Fiscal Year Ended June 30, 2010

Public Acts 96-39, 96-42, 96-46, 96-819, and 96-890 Fiscal Year 2010	Appropriations (Net of Transfers)	Expenditures Through June 30	Approximate Lapse Period Expenditures July 1 to August 31	Approximate Total Expenditures 14 Months Ended August 31	Balance Reappropriated July 1, 2010	Approximate Balances Lapsed August 31
<b>Flood Prevention Occupation Fund (558)</b>						
Shared Revenue Payments		\$ 10,570,458	\$ -	\$ 10,570,458		
<b>State Lottery Fund (711)</b>						
Interfund Cash Transfers		\$ -	\$ 32,875,000	\$ 32,875,000		
<b>Metro East Park and Recreation Fund (717)</b>						
Shared Revenue Payments		\$ 4,145,559	\$ -	\$ 4,145,559		
<b>Municipal Telecommunications Fund (719)</b>						
Grants to Local Governments		\$ 291,291,605	\$ -	\$ 291,291,605		
<b>RTA Public Transportation Fund (741)</b>						
Shared Revenue Payments		\$ 5,081	\$ -	\$ 5,081		
<b>RTA Sales Tax Trust Fund (812)</b>						
Shared Revenue Payments		\$ 986,298,793	\$ -	\$ 986,298,793		
<b>Metro East Mass Transit District Tax Fund (841)</b>						
Shared Revenue Payments		\$ 28,106,101	\$ -	\$ 28,106,101		
<b>Tennessee Valley Authority Local Trust Fund (861)</b>						
Shared Revenue Payments		\$ 255,725	\$ 24,871	\$ 280,596		
<b>Municipal Automobile Renting Tax Fund (868)</b>						
Shared Revenue Payments		\$ 5,206,399	\$ -	\$ 5,206,399		
<b>County Automobile Renting Tax Fund (869)</b>						
Shared Revenue Payments		\$ 227,939	\$ -	\$ 227,939		
<b>Deferred Lottery Prize Winners Fund (978)</b>						
Lottery Prizes - Monetary		\$ 116,214,350	\$ 12,000	\$ 116,226,350		
<b>SUBTOTAL - Nonappropriated Expenditures</b>		<b>\$ 4,776,323,634</b>	<b>\$ 33,021,532</b>	<b>\$ 4,809,345,166</b>		
<b>DEPARTMENT TOTAL - ALL FUNDS</b>		<b>\$ 9,132,102,841</b>	<b>\$ 136,451,574</b>	<b>\$ 9,268,554,415</b>		

Notes:

- (a) Appropriations, expenditures and lapsed balances were obtained from the State Comptroller's records, which have been reconciled to the Department's records.
- (b) Expenditure amounts are vouchers approved for payment by the Department and submitted to the State Comptroller for payment to the vendor.
- (c) Approximate lapse period expenditures do not include interest payments approved for payment by the Department and submitted to the State Comptroller for payment after August 2010.

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES**  
For the Fiscal Year Ended June 30,

	2010	2009
	Public Acts 96-039, 96-042, 96-819, and 96-890	Public Acts 95-731 and 96-004
<b>General Revenue Fund (001)</b>		
Appropriations (Net of Transfers)	\$ 142,504,100	\$ 162,347,600
<u>Expenditures</u>		
Personal Services	\$ 80,043,156	\$ 71,225,389
Extra Help	-	69,849
State Contributions to State Employees' Retirement System	-	13,213,687
State Contributions to Social Security	5,772,542	5,150,573
Contractual Services	-	7,278,323
Travel	-	934,180
Commodities	-	575,706
Printing	-	768,515
Equipment	-	192,329
Electronic Data Processing	-	19,770,098
Telecommunications	-	920,726
Operation of Automotive Equipment	-	51,870
Shared Services Center	-	4,918,476
Grants for Additional Compensation for Local Assessors (Section 2.7)	-	642,000
Grants for State's Share of County Supervisors of Assessments or County Assessors' Salaries	-	2,608,916
Grants for Additional Compensation for Local Assessors (Section 2.3 and 2.6)	-	415,750
Grants for Additional Compensation for County Treasurers Pursuant to P.A. 84-1432	-	663,000
Grants for the State's Share of State's Attorneys' and Assistant State's Attorneys' Salaries	14,067,000	12,903,159
Grants for the Annual Stipend for Sheriffs	-	663,000
Grants for the State's Share of County Public Defenders' Salaries	5,700,000	5,699,306
Grants for the Annual Stipend to County Coroners	-	656,500
Other Tax Refunds	-	3,980,464
Operational Expenses, Awards, Grants and Permanent Improvements	3,830,500	
Operational Expenses	18,537,984	
Total General Revenue Fund	\$ 127,951,182	\$ 153,301,816
Lapsed Balances	\$ 14,552,918	\$ 9,045,784

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For the Fiscal Year Ended June 30,

	2010 Public Acts 96-039, 96-042, 96-819, and 96-890	2009 Public Acts 95-731 and 96-004
<b><u>Motor Fuel Tax Fund (012)</u></b>		
Appropriations (Net of Transfers)	\$ 108,623,500	\$ 101,300,900
<b><u>Expenditures</u></b>		
Personal Services	\$ 15,302,485	\$ 13,463,623
State Contributions to State Employees' Retirement System	4,348,684	2,561,202
State Contributions to Social Security	1,110,434	972,691
Group Insurance	2,927,089	2,651,875
Contractual Services	1,847,831	2,423,179
Travel	1,413,007	1,327,563
Commodities	48,678	33,473
Printing	93,389	102,447
Equipment	4,338	10,381
Electronic Data Processing	15,446,366	13,994,350
Telecommunications	950,232	937,300
Operation of Automotive Equipment	57,242	40,374
Administration of Joint State/Federal Motor Fuel Tax Enforcement Program	-	4,783
Shared Services Center	675,690	600,309
Reimbursement to International Fuel Tax Agreement Member States	12,353,506	37,353,511
Administration of the Motor Fuel Tax Enforcement Grant from U.S.D.O.T.	148,845	102,094
Motor Fuel Tax Refunds	21,015,735	16,008,825
Total Motor Fuel Tax Fund	<u>\$ 77,743,551</u>	<u>\$ 92,587,980</u>
Lapsed Balances	<u>\$ 30,879,949</u>	<u>\$ 8,712,920</u>
<b><u>Underground Storage Tank Fund (072)</u></b>		
Appropriations (Net of Transfers)	\$ 1,326,800	\$ 1,187,500
<b><u>Expenditures</u></b>		
Personal Services	\$ 593,251	\$ 556,722
State Contributions to State Employees' Retirement System	168,456	99,685
State Contributions to Social Security	43,138	40,827
Group Insurance	135,696	141,424
Travel	29,661	28,823
Commodities	2,040	1,195
Printing	437	759
Electronic Data Processing	210,805	198,106
Telecommunications	59,384	61,400
Total Underground Storage Tank Fund	<u>\$ 1,242,868</u>	<u>\$ 1,128,941</u>
Lapsed Balances	<u>\$ 83,932</u>	<u>\$ 58,559</u>

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For the Fiscal Year Ended June 30,

	2010 Public Acts 96-039, 96-042, 96-819, and 96-890	2009 Public Acts 95-731 and 96-004
<b><u>Illinois Gaming Law Enforcement Fund (085)</u></b>		
Appropriations (Net of Transfers)	\$ 2,995,100	\$ 2,824,700
<u>Expenditures</u>		
Personal Services	\$ 226,455	\$ 489,515
State Contributions to State Employees' Retirement System	64,272	103,058
State Contributions to Social Security	16,484	31,267
Group Insurance	56,973	134,747
Contractual Services	2,239	2,971
Travel	45,719	46,308
Commodities	888	2,051
Printing	319	891
Electronic Data Processing	-	392,400
Telecommunications	14,494	14,500
Operation of Automotive Equipment	28,575	28,600
Grant for Allocation to Local Law Enforcement Agencies	1,061,007	-
Total Illinois Gaming Law Enforcement Fund	<u>\$ 1,517,425</u>	<u>\$ 1,246,308</u>
Lapsed Balances	<u>\$ 1,477,675</u>	<u>\$ 1,578,392</u>
<b><u>State Gaming Fund (129)</u></b>		
Appropriations (Net of Transfers)	\$ 230,600	\$ 138,505,000
<u>Expenditures</u>		
Personal Services	\$ -	\$ 5,897,462
State Contributions to State Employees' Retirement System	-	1,084,279
State Contributions to Social Security	-	224,521
Group Insurance	-	1,090,062
Contractual Services	-	1,175,945
Travel	-	82,709
Commodities	-	6,969
Printing	-	5,631
Equipment	-	15,245
Electronic Data Processing	-	23,516
Telecommunications	-	275,777
Operation of Automotive Equipment	-	32,074
Illinois State Police	-	8,998,090
Shared Services Center	179,164	161,727
Distributions to Local Governments for Admissions and Wagering Tax	-	88,236,183
Total State Gaming Fund	<u>\$ 179,164</u>	<u>\$ 107,310,190</u>
Lapsed Balances	<u>\$ 51,436</u>	<u>\$ 31,194,810</u>

STATE OF ILLINOIS  
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**COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES**  
For the Fiscal Year Ended June 30,

	2010 Public Acts 96-039, 96-042, 96-819, and 96-890	2009 Public Acts 95-731 and 96-004
<b><u>Home Rule Municipal ROT Fund (138)</u></b>		
Appropriations (Net of Transfers)	\$ 1,043,900	\$ 941,300
<u>Expenditures</u>		
Personal Services	\$ 421,672	\$ 396,936
State Contributions to State Employees' Retirement System	119,739	71,084
State Contributions to Social Security	31,414	29,529
Group Insurance	82,764	86,161
Travel	-	49,373
Electronic Data Processing	276,739	264,000
Telecommunications	30,100	30,100
Total Home Rule Municipal ROT Fund	\$ 962,428	\$ 927,183
Lapsed Balances	\$ 81,472	\$ 14,117
<b><u>Federal Trust Fund (140)</u></b>		
Appropriations (Net of Transfers)	\$ 50,000	\$ 100,000
<u>Expenditures</u>		
Administrative Costs	\$ 630	\$ 6,527
Lapsed Balances	\$ 49,370	\$ 93,473
<b><u>Rental Housing Support Program Fund (150)</u></b>		
Appropriations (Net of Transfers)	\$ 31,100,000	\$ 42,100,000
<u>Expenditures</u>		
Administration of the Rental Housing Support Program	\$ 258,069	\$ 303,232
Grants to Provide Rental Assistance to the Rental Housing Support Program	16,229,827	32,858,187
Total Rental Housing Support Program Fund	\$ 16,487,896	\$ 33,161,419
Lapsed Balances	\$ 14,612,104	\$ 8,938,581
<b><u>State and Local Sales Tax Reform Fund (186)</u></b>		
Appropriations (Net of Transfers)	\$ 53,803,700	\$ 53,803,700
<u>Expenditures</u>		
Grants to Allocate to Chicago for Additional 1.25% Use Tax Pursuant to P.A. 86-0928	\$ 48,016,099	\$ 53,803,700
Lapsed Balances	\$ 5,787,601	\$ -
<b><u>RTA Occupation and Use Tax Replacement Fund (187)</u></b>		
Appropriations (Net of Transfers)	\$ 26,901,200	\$ 26,901,200
<u>Expenditures</u>		
Grants to Allocate to RTA for 10% of the 1.25% Use Tax Pursuant to P.A. 86-0928	\$ 24,446,334	\$ 26,901,200
Lapsed Balances	\$ 2,454,866	\$ -

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	2010 Public Acts 96-039, 96-042, 96-819, and 96-890	2009 Public Acts 95-731 and 96-004
<b>County Option Motor Fuel Tax Fund (190)</b>		
Appropriations (Net of Transfers)	\$ 876,000	\$ 790,600
<u>Expenditures</u>		
Personal Services	\$ 343,864	\$ 300,648
State Contributions to State Employees' Retirement System	97,679	59,658
State Contributions to Social Security	25,503	22,396
Group Insurance	79,878	80,584
Travel	30,290	30,264
Commodities	2,312	2,203
Electronic Data Processing	193,600	184,400
Telecommunications	41,600	41,600
Total County Option Motor Fuel Tax Fund	<u>\$ 814,726</u>	<u>\$ 721,753</u>
Lapsed Balances	<u>\$ 61,274</u>	<u>\$ 68,847</u>
<b>Debt Collection Fund (279)</b>		
Appropriations (Net of Transfers)	\$ 40,000	\$ 10,000
<u>Expenditures</u>		
Administration of Statewide Debt Collection	\$ 18,585	\$ 4,224
Lapsed Balances	<u>\$ 21,415</u>	<u>\$ 5,776</u>
<b>Illinois Tax Increment Fund (281)</b>		
Appropriations (Net of Transfers)	\$ 21,948,000	\$ 22,427,000
<u>Expenditures</u>		
Personal Services	\$ 223,938	\$ 214,481
State Contributions to State Employees' Retirement System	63,599	38,480
State Contributions to Social Security	16,427	15,821
Group Insurance	53,813	52,694
Electronic Data Processing	135,000	135,000
Telecommunications	18,698	18,700
Grants for Distribution to Local Tax Increment Finance Districts	17,672,539	18,948,316
Total Illinois Tax Increment Fund	<u>\$ 18,184,014</u>	<u>\$ 19,423,492</u>
Lapsed Balances	<u>\$ 3,763,986</u>	<u>\$ 3,003,508</u>
<b>Illinois Affordable Housing Trust Fund (286)</b>		
Appropriations (Net of Transfers)	\$ 49,500,000	\$ 75,300,000
<u>Expenditures</u>		
Administration of the Illinois Affordable Housing Act	\$ 2,093,797	\$ 2,498,917
Grants to Other State Agencies	2,000,000	1,995,550
Grants, Mortgages, Loans, or for the Purpose of Securing Bonds	15,240,881	28,974,000
Total Illinois Affordable Housing Trust Fund	<u>\$ 19,334,678</u>	<u>\$ 33,468,467</u>
Lapsed Balances	<u>\$ 30,165,322</u>	<u>\$ 41,831,533</u>

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	2010 Public Acts 96-039, 96-042, 96-819, and 96-890	2009 Public Acts 95-731 and 96-004
<b><u>Federal HOME Investment Trust Fund (338)</u></b>		
Appropriations (Net of Transfers)	\$ 39,150,000	\$ 46,900,000
<u>Expenditures</u>		
Illinois HOME Investment Partnerships Program	\$ 7,677,556	\$ 31,121,289
Balances Reappropriated	\$ -	\$ 13,150,000
Lapsed Balances	\$ 31,472,444	\$ 2,628,711
<b><u>Tax Compliance and Administration Fund (384)</u></b>		
Appropriations (Net of Transfers)	\$ 4,071,200	\$ 3,637,100
<u>Expenditures</u>		
Personal Services	\$ 1,002,746	\$ 914,249
State Contributions to State Employees' Retirement System	284,811	164,336
State Contributions to Social Security	40,118	35,214
Group Insurance	200,442	198,977
Electronic Data Processing	114,350	355,000
Telecommunications	33,086	32,200
Administration of the Dyed Diesel Fuel Roadside Enforcement Plan		
Pursuant to P.A. 91-173	21,388	28,000
Administration of the Illinois Petroleum Education and Marketing Act	7,796	8,868
Administration of the Dry Cleaners Environmental Response Trust Fund Act	75,198	67,222
Administration of the Simplified Telecommunications Act	1,813,128	1,666,224
Administration of the Municipality Sales Tax Pursuant to P.A. 93-1053	98,515	89,686
Total Tax Compliance and Administration Fund	\$ 3,691,578	\$ 3,559,976
Lapsed Balances	\$ 379,622	\$ 77,124
<b><u>Predatory Lending Database Program Fund (478)</u></b>		
Appropriations (Net of Transfers)	\$ 1,500,000	\$ 3,000,000
<u>Expenditures</u>		
Grants for the Predatory Lending Database Program	\$ 1,100,000	\$ 1,450,000
Lapsed Balances	\$ 400,000	\$ 1,550,000
<b><u>Local Government Distributive Fund (515)</u></b>		
Appropriations (Net of Transfers)	\$ 142,620,700	\$ 142,620,700
<u>Expenditures</u>		
Grants to Allocate to Local Governments for Additional 1.25% Use Tax Pursuant to P.A. 86-0928	\$ 128,788,703	\$ 142,620,693
Lapsed Balances	\$ 13,831,997	\$ 7

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**COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES**  
For the Fiscal Year Ended June 30,

	2010	2009
	Public Acts 96-039, 96-042, 96-819, and 96-890	Public Acts 95-731 and 96-004
<b><u>Horse Racing Fund (632)</u></b>		
Appropriations (Net of Transfers)	\$ 88,500	\$ 8,271,500
<u>Expenditures</u>		
Personal Services	\$ -	\$ 869,086
State Contributions to State Employees' Retirement System	-	181,607
State Contributions to Social Security	-	63,837
Group Insurance	-	162,525
Contractual Services	-	95,653
Travel	-	12,434
Commodities	-	3,540
Printing	-	1,360
Equipment	-	1,799
Electronic Data Processing	-	35,702
Telecommunications	-	90,600
Operation of Automotive Equipment	-	11,352
Laboratory Program	-	1,634,838
Regulation of Racing Program	-	3,239,344
Shared Services Center	71,066	40,241
Total Horse Racing Fund	\$ 71,066	\$ 6,443,918
Lapsed Balances	\$ 17,434	\$ 1,827,582
<b><u>Federal Low Income Housing Tax Credit Gap HOME Investment Fund (681)</u></b>		
Appropriations (Net of Transfers)	\$ 96,000,000	\$ 96,000,000
Lapsed Balances	\$ 96,000,000	\$ 96,000,000
<b><u>Federal Low Income Housing Tax Credit Exchange Fund (682)</u></b>		
Appropriations (Net of Transfers)	\$ 250,000,000	\$ 250,000,000
Lapsed Balances	\$ 250,000,000	\$ 250,000,000

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For the Fiscal Year Ended June 30,

	2010 Public Acts 96-039, 96-042, 96-819, and 96-890	2009 Public Acts 95-731 and 96-004
<b>State Lottery Fund (711)</b>		
Appropriations (Net of Transfers)	\$ 421,250,400	\$ 376,207,000
<u>Expenditures</u>		
Personal Services	\$ 9,544,285	\$ 8,964,710
State Contributions to State Employees' Retirement System	2,712,286	1,624,643
State Contributions to Social Security	704,989	663,829
Group Insurance	2,240,090	2,254,678
Contractual Services	28,420,441	24,697,534
Travel	60,006	59,381
Commodities	7,517	10,241
Printing	24	-
Equipment	71,750	161,627
Electronic Data Processing	3,211,451	2,984,516
Telecommunications	7,818,002	8,324,721
Operation of Automotive Equipment	415,973	438,121
Developing and Promoting Lottery Games	5,248,609	4,803,720
Lottery Board	544	3,405
Shared Services Center	336,781	516,032
Payment of Prizes to Holders of Winning Lottery Tickets or Shares	340,955,927	310,746,360
Refunds	35,673	24,581
Total State Lottery Fund	<u>\$ 401,784,348</u>	<u>\$ 366,278,099</u>
Lapsed Balances	<u>\$ 19,466,052</u>	<u>\$ 9,928,901</u>
<b>Municipal Telecommunications Fund (719)</b>		
Appropriations (Net of Transfers)	\$ 12,000	\$ 12,000
Lapsed Balances	<u>\$ 12,000</u>	<u>\$ 12,000</u>
<b>Personal Property Tax Replacement Fund (802)</b>		
Appropriations (Net of Transfers)	\$ 23,682,500	\$ 21,643,000
<u>Expenditures</u>		
Personal Services	\$ 9,237,512	\$ 8,593,758
State Contributions to State Employees' Retirement System	2,623,382	1,547,351
State Contributions to Social Security	680,895	653,846
Group Insurance	2,088,131	2,036,560
Contractual Services	1,081,554	1,132,198
Travel	238,241	228,807
Commodities	34,106	29,176
Printing	24,396	22,257
Equipment	12,594	8,750
Electronic Data Processing	6,128,992	5,921,581
Telecommunications	558,967	560,772
Operation of Automotive Equipment	10,000	13,353
Total Personal Property Tax Replacement Fund	<u>\$ 22,718,770</u>	<u>\$ 20,748,409</u>
Lapsed Balances	<u>\$ 963,730</u>	<u>\$ 894,591</u>

STATE OF ILLINOIS  
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**COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES**  
For the Fiscal Year Ended June 30,

	2010 <u>Public Acts</u> 96-039, 96-042, 96-819, and 96-890	2009 <u>Public Acts</u> 95-731 and 96-004
<b><u>Dram Shop Fund (821)</u></b>		
Appropriations (Net of Transfers)	\$ 7,468,400	\$ 6,283,300
<u>Expenditures</u>		
Personal Services	\$ 2,316,689	\$ 2,265,595
State Contributions to State Employees' Retirement System	659,079	442,493
State Contributions to Social Security	171,045	167,051
Group Insurance	517,320	536,101
Contractual Services	183,116	201,512
Travel	86,344	84,337
Commodities	4,266	4,996
Printing	-	4,293
Equipment	14,843	180
Electronic Data Processing	91,029	124,314
Telecommunications	25,812	58,962
Operation of Automotive Equipment	65,933	59,868
Shared Services Center	104,722	-
Tobacco Study	322,136	207,005
Retailer Education Program	161,766	165,780
Operation of the Beverage Alcohol Sellers and Servers Education and Training (BASSET) Program	169,716	173,432
Grants to Local Governmental Units to Establish Enforcement Programs	999,244	993,070
Refunds	2,725	525
Total Dram Shop Fund	<u>\$ 5,895,785</u>	<u>\$ 5,489,514</u>
Lapsed Balances	<u>\$ 1,572,615</u>	<u>\$ 793,786</u>
<b><u>Senior Citizens' Real Estate Deferred Tax Revolving Fund (930)</u></b>		
Appropriations (Net of Transfers)	\$ 10,350,000	\$ 5,400,000
<u>Expenditures</u>		
Payments to Counties	\$ 8,538,745	\$ 3,625,139
Lapsed Balances	<u>\$ 1,811,255</u>	<u>\$ 1,774,861</u>
<b><u>Build Illinois Bond Fund (971)</u></b>		
Appropriations (Net of Transfers)	\$ 130,000,000	\$ -
Lapsed Balances	<u>\$ 130,000,000</u>	<u>\$ -</u>
<b><u>TOTAL - APPROPRIATED FUNDS</u></b>		
Total Appropriations (Net of Transfers)	<u>\$ 1,567,136,600</u>	<u>\$ 1,588,514,100</u>
Total Appropriated Expenditures	<u>\$ 917,166,131</u>	<u>\$ 1,105,330,237</u>
Balances Reappropriated July 1	<u>\$ -</u>	<u>\$ 13,150,000</u>
Lapsed Balances	<u>\$ 649,970,469</u>	<u>\$ 470,033,863</u>

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**COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES**  
For the Fiscal Year Ended June 30,

	2010 Public Acts 96-039, 96-042, 96-819, and 96-890	2009 Public Acts 95-731 and 96-004
<b><u>CONTINUING APPROPRIATED FUNDS</u></b>		
<b><u>General Revenue Fund (001)</u></b>		
Appropriations (Net of Transfers)	\$ -	\$ 1,950,000
<u>Expenditures</u>		
State Contributions to State Employees' Retirement System	\$ -	\$ 1,807,815
Lapsed Balances	\$ -	\$ 142,185
<b><u>Motor Fuel Tax Fund (012)</u></b>		
Appropriations (Net of Transfers)	\$ -	\$ 350,000
<u>Expenditures</u>		
State Contributions to State Employees' Retirement System	\$ -	\$ 276,658
Lapsed Balances	\$ -	\$ 73,342
<b><u>Underground Storage Tank Fund (072)</u></b>		
Appropriations (Net of Transfers)	\$ -	\$ 20,000
<u>Expenditures</u>		
State Contributions to State Employees' Retirement System	\$ -	\$ 17,606
Lapsed Balances	\$ -	\$ 2,394
<b><u>State Gaming Fund (129)</u></b>		
Appropriations (Net of Transfers)	\$ -	\$ 165,000
<u>Expenditures</u>		
State Contributions to State Employees' Retirement System	\$ -	\$ 159,589
Lapsed Balances	\$ -	\$ 5,411
<b><u>Home Rule Municipal ROT Fund (138)</u></b>		
Appropriations (Net of Transfers)	\$ -	\$ 15,000
<u>Expenditures</u>		
State Contributions to State Employees' Retirement System	\$ -	\$ 12,493
Lapsed Balances	\$ -	\$ 2,507
<b><u>County Option Motor Fuel Tax Fund (190)</u></b>		
Appropriations (Net of Transfers)	\$ -	\$ 10,500
<u>Expenditures</u>		
State Contributions to State Employees' Retirement System	\$ -	\$ 3,663
Lapsed Balances	\$ -	\$ 6,837

STATE OF ILLINOIS  
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**COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES**  
For the Fiscal Year Ended June 30,

	2010	2009
	Public Acts 96-039, 96-042, 96-819, and 96-890	Public Acts 95-731 and 96-004
<b><u>Income Tax Refund Fund (278)</u></b>		
Appropriations (Net of Transfers)	\$ 1,336,317,416	\$ 1,577,788,061
<u>Expenditures</u>		
Income Tax Refunds	\$ 1,336,317,415	\$ 1,577,788,060
Lapsed Balances	\$ 1	\$ 1
<b><u>Illinois Tax Increment Fund (281)</u></b>		
Appropriations (Net of Transfers)	\$ -	\$ 9,000
<u>Expenditures</u>		
State Contributions to State Employees' Retirement System	\$ -	\$ 6,698
Lapsed Balances	\$ -	\$ 2,302
<b><u>Tax Compliance and Administration Fund (384)</u></b>		
Appropriations (Net of Transfers)	\$ -	\$ 30,000
<u>Expenditures</u>		
State Contributions to State Employees' Retirement System	\$ -	\$ 28,197
Lapsed Balances	\$ -	\$ 1,803
<b><u>Local Government Distributive Fund (515)</u></b>		
Appropriations (Net of Transfers)	\$ 1,069,784,807	\$ 1,034,727,653
<u>Expenditures</u>		
Grants to Local Governments	\$ 1,069,784,806	\$ 1,034,727,653
Lapsed Balances	\$ 1	\$ -
<b><u>Horse Racing Fund (632)</u></b>		
Appropriations (Net of Transfers)	\$ -	\$ 40,000
<u>Expenditures</u>		
State Contributions to State Employees' Retirement System	\$ -	\$ 1,666
Lapsed Balances	\$ -	\$ 38,334
<b><u>State Lottery Fund (711)</u></b>		
Appropriations (Net of Transfers)	\$ -	\$ 265,000
<u>Expenditures</u>		
State Contributions to State Employees' Retirement System	\$ -	\$ 264,638
Lapsed Balances	\$ -	\$ 362

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For the Fiscal Year Ended June 30,

	2010	2009
	Public Acts 96-039, 96-042, 96-819, and 96-890	Public Acts 95-731 and 96-004
<b><u>Personal Property Tax Replacement Fund (802)</u></b>		
Appropriations (Net of Transfers)	\$ 1,135,940,898	\$ 1,368,422,820
<u>Expenditures</u>		
State Contributions to State Employees' Retirement System	\$ -	\$ 262,761
Shared Revenue Payments	1,135,940,897	1,368,137,820
Total Personal Property Tax Replacement Fund	\$ 1,135,940,897	\$ 1,368,400,581
Lapsed Balances	\$ 1	\$ 22,239
<b><u>Dram Shop Fund (821)</u></b>		
Appropriations (Net of Transfers)	\$ -	\$ 35,000
<u>Expenditures</u>		
State Contributions to State Employees' Retirement System	\$ -	\$ 34,987
Lapsed Balances	\$ -	\$ 13
<b><u>TOTAL - CONTINUING APPROPRIATED FUNDS</u></b>		
Total Continuing Appropriations (Net of Transfers)	\$ 3,542,043,121	\$ 3,983,828,034
Total Expenditures	\$ 3,542,043,118	\$ 3,983,530,304
Lapsed Balances	\$ 3	\$ 297,730

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For the Fiscal Year Ended June 30,

	2010 Public Acts 96-039, 96-042, 96-819, and 96-890	2009 Public Acts 95-731 and 96-004
<b>NONAPPROPRIATED FUNDS</b>		
<b>County Water Commission Tax Fund (084)</b>		
Shared Revenue Payments	\$ 28,909,180	\$ 31,795,337
<b>Non-Home Rule Municipal ROT Fund (088)</b>		
Shared Revenue Payments	\$ 87,051,584	\$ 89,962,231
<b>Home Rule Municipal Soft Drink ROT Fund (097)</b>		
Shared Revenue Payments	\$ 8,206,740	\$ 8,494,068
Refunds	-	814
Total Home Rule Municipal Soft Drink ROT Fund	\$ 8,206,740	\$ 8,494,882
<b>Home Rule Municipal ROT Fund (138)</b>		
Shared Revenue Payments	\$ 704,527,992	\$ 731,424,055
<b>Home Rule County ROT Fund (139)</b>		
Shared Revenue Payments	\$ 672,347,583	\$ 589,421,982
<b>Business District Sales Tax Fund (160)</b>		
Shared Revenue Payments	\$ 7,785,788	\$ 6,386,963
<b>County and Mass Transit District Fund (188)</b>		
Shared Revenue Payments	\$ 191,893,851	\$ 205,878,740
<b>Local Government Tax Fund (189)</b>		
Shared Revenue Payments	\$ 1,474,183,687	\$ 1,569,680,203
<b>County Option Motor Fuel Tax Fund (190)</b>		
Shared Revenue Payments	\$ 31,034,198	\$ 31,377,512
<b>County Public Safety ROT Fund (219)</b>		
Shared Revenue Payments	\$ 74,866,861	\$ 78,883,238
<b>Sports Facility Tax Trust Fund (229)</b>		
Interfund Transfers	\$ 26,874,906	\$ 28,979,610
Shared Revenue Payments	1,785,614	6,017,178
Total Sports Facility Tax Trust Fund	\$ 28,660,520	\$ 34,996,788
<b>Illinois Racing Board Fingerprint License Fund (248)</b>		
Contractual Services	\$ -	\$ 70,437
<b>Illinois Racing Board Charity Fund (271)</b>		
Grants to Non-Profit Organizations	\$ -	\$ 750,000
<b>Illinois Racing Board Grant Fund (280)</b>		
Shared Revenue Payments	\$ -	\$ 809,562

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For the Fiscal Year Ended June 30,

	2010 Public Acts 96-039, 96-042, 96-819, and 96-890	2009 Public Acts 95-731 and 96-004
<b>Illinois Tourism Tax Fund (452)</b>		
Shared Revenue Payments	\$ 13,764,610	\$ 17,532,533
<b>School Facility Occupation Fund (498)</b>		
Shared Revenue Payments	\$ 10,878,691	\$ 4,454,176
<b>Flood Prevention Occupation Fund (558)</b>		
Shared Revenue Payments	\$ 10,570,458	\$ 2,283,764
<b>Tax Suspense Trust Fund (583)</b>		
Refunds	\$ -	\$ 34,010
<b>State Lottery Fund (711)</b>		
Interfund Cash Transfers	\$ 32,875,000	\$ -
<b>Metro East Park and Recreation Fund (717)</b>		
Shared Revenue Payments	\$ 4,145,559	\$ 4,197,043
<b>Municipal Telecommunications Fund (719)</b>		
Grants to Local Governments	\$ 291,291,605	\$ 296,678,972
<b>RTA Public Transportation Fund (741)</b>		
Shared Revenue Payments	\$ 5,081	\$ -
<b>RTA Sales Tax Trust Fund (812)</b>		
Shared Revenue Payments	\$ 986,298,793	\$ 1,040,841,884
<b>Metro East Mass Transit District Tax Fund (841)</b>		
Shared Revenue Payments	\$ 28,106,101	\$ 28,443,365
<b>Tennessee Valley Authority Local Trust Fund (861)</b>		
Shared Revenue Payments	\$ 280,596	\$ 259,845
<b>Municipal Automobile Renting Tax Fund (868)</b>		
Shared Revenue Payments	\$ 5,206,399	\$ 5,579,836
<b>County Automobile Renting Tax Fund (869)</b>		
Shared Revenue Payments	\$ 227,939	\$ 49,161
<b>Deferred Lottery Prize Winners Fund (978)</b>		
Lottery Prizes - Monetary	\$ 116,226,350	\$ 131,001,199
<b>TOTAL EXPENDITURES - NONAPPROPRIATED FUNDS</b>	<u>\$ 4,809,345,166</u>	<u>\$ 4,911,287,718</u>
<b>GRAND TOTAL EXPENDITURES - ALL FUNDS</b>	<u>\$ 9,268,554,415</u>	<u>\$ 10,000,148,259</u>

STATE OF ILLINOIS  
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For the Fiscal Year Ended June 30,

	2010	2009
	Public Acts 96-039, 96-042, 96-819, and 96-890	Public Acts 95-731 and 96-004
<b><u>STATE OFFICERS' SALARIES</u></b>		
<b><u>General Revenue Fund (001) State Comptroller</u></b>		
Appropriations (Net of Transfers)	\$ 599,500	\$ 599,500
<u>Expenditures</u>		
Department of Revenue:		
Director	\$ 142,339	\$ 142,339
Assistant Director	-	85,978
Liquor Control Commission:		
Chairman	33,592	38,917
Members (Six Total)	206,479	198,642
Secretary	37,571	37,571
Chairman and two members per diem for work on License Appeal Commission	7,000	22,000
Total General Revenue Fund	\$ 426,981	\$ 525,447
 Lapsed Balances	\$ 172,519	\$ 74,053
<b><u>Horse Racing Fund (632) State Comptroller</u></b>		
Appropriations (Net of Transfers)	\$ -	\$ 137,800
<u>Expenditures</u>		
Illinois Racing Board:		
Members (Eleven Total) per diem	\$ -	\$ 25,500
Total Horse Racing Fund	\$ -	\$ 25,500
 Lapsed Balances	\$ -	\$ 112,300

Notes:

- (a) Appropriations, expenditures and lapsed balances were obtained from the State Comptroller's records, which have been reconciled to the Department's records.
- (b) Expenditure amounts are vouchers approved for payment by the Department and submitted to the State Comptroller for payment to the vendor.
- (c) Approximate lapse period expenditures do not include interest payments approved for payment by the Department and submitted to the State Comptroller for payment after August 2010.

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE**  
**(CASH BASIS) – LOCALLY-HELD FUNDS**  
For the Year Ended June 30,

<u>Fund Name/Fund Number</u>	<u>2010</u>
<b>Surety Bond (1151)</b>	
Beginning Cash Balance, 07/01/09	\$ 3,157,832
Receipts:	
Bond Operations	272,382
Disbursements:	
Refunds	2,078,063
Ending Cash Balance, 06/30/10	<u>\$ 1,352,151</u>
<b>Prize Payment Fund (1279)</b>	
Beginning Cash Balance, 07/01/09	\$ 1,800,061
Receipts:	
Fund Transfers-In	83,663,332
Investment Income	179
Disbursements:	
Awards or Grants	84,112,610
Fund Transfers-Out	309
Ending Cash Balance, 06/30/10	<u>\$ 1,350,653</u>
<b>Agent Security Deposit (1309)</b>	
Beginning Cash Balance, 07/01/09	\$ 1,170,209
Receipts:	
Fund Transfers-In	140,144
Investment Income	1,397
Miscellaneous	237,722
Disbursements:	
Refunds	612,787
Ending Cash Balance, 06/30/10	<u>\$ 936,685</u>

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE**  
**(CASH BASIS) – LOCALLY-HELD FUNDS**  
For the Year Ended June 30,

<u>Fund Name/Fund Number</u>	<u>2010</u>
<b>Agent Sales Sweep Account (1373)</b>	
Beginning Cash Balance, 07/01/09	\$ 1,988,326
Receipts:	
Lottery Sales	1,123,110,737
Disbursements:	
Fund Transfers-Out	1,123,111,605
Ending Cash Balance, 06/30/10	<u>\$ 1,987,458</u>
<b>Agent Sales Concentration Account (1374)</b>	
Beginning Cash Balance, 07/01/09	\$ 133,753
Receipts:	
Fund Transfers-In	1,123,111,605
Lottery Sales	2,396,337
Disbursements:	
Contractual Services	58,341,113
Fund Transfers-Out	1,064,120,582
Ending Cash Balance, 06/30/10	<u>\$ 3,180,000</u>
<b>Evidence Fund (1369)</b>	
Beginning Cash Balance, 07/01/09	\$ 6,040
Receipts:	
Private Organizations or Individuals	1,829
Disbursements:	
Purchase of Evidence	5,195
Ending Cash Balance, 06/30/10	<u>\$ 2,674</u>

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**SCHEDULE OF CHANGES IN STATE PROPERTY**  
For the Year Ending June 30, 2010

	Total	Financed Equipment	Buildings and Building Improvements	Equipment
Balance at July 1, 2009	\$ 19,498,429	\$ 439,243	\$ 6,322	\$ 19,052,864
Additions	750,064	-	-	750,064
Deletions	(3,715)	-	-	(3,715)
Net Transfers	<u>(3,511,341)</u>	<u>-</u>	<u>-</u>	<u>(3,511,341)</u>
Balance at June 30, 2010	<u>\$ 16,733,437</u>	<u>\$ 439,243</u>	<u>\$ 6,322</u>	<u>\$ 16,287,872</u>

Note: The above schedule has been derived from Department records which have been reconciled to property reports submitted to the Office of the State Comptroller.

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**COMPARATIVE SCHEDULE OF CASH RECEIPTS**  
For the Fiscal Year Ending June 30,

FUND/TAX SOURCE	FUND	2010	2009
Deposits into the State Treasury were designated as follows:			
<b>General Funds:</b>			
<b>General Revenue Fund</b>	001		
Income Tax		\$ 9,150,222,513	\$ 10,134,745,366
Retailers' Occupation (Sales) Tax		4,691,367,185	5,043,229,672
Public Utility Tax		977,931,723	1,043,861,105
Cigarette Tax		190,924,376	138,825,684
Liquor Tax		158,527,781	157,621,223
Cigarette Use Tax		45,722,288	39,878,316
Hotel Operators' Occupation Tax		30,443,802	41,485,171
Automobile Renting Tax		28,866,425	30,826,263
Private Vehicle Use Tax		30,173,195	27,309,419
Liquor Control Commission		7,134,386	6,798,010
General Office		6,001,138	1,679,178
Coin Operators' Amusement Tax		2,089,732	2,522,756
Bingo License Fees		160,342	158,750
Tennessee Valley Authority Payments		120,255	111,362
Illinois Racing Board		27,060	476,103
Charitable Games Act		23,150	19,950
Replacement Vehicle Tax		-	352
Total General Revenue Fund		<u>\$ 15,319,735,351</u>	<u>\$ 16,669,548,680</u>
<b>Common School Fund</b>	412		
Public Utility Tax		\$ 105,141,075	\$ 113,995,283
Cigarette Tax		90,327,281	133,381,540
Cigarette Use Tax		27,615,044	38,314,460
Pull Tabs & Jar Games Tax and License Fees		2,535,806	2,668,908
Bingo Tax		1,139,036	1,170,890
Interest Income (Lottery)		309	21,400
Total Common School Fund		<u>\$ 226,758,551</u>	<u>\$ 289,552,481</u>
<b>Common School Special Account Fund</b>	005		
Retailers' Occupation (Sales) Tax		<u>\$ 1,587,795,777</u>	<u>\$ 1,698,809,732</u>
<b>Education Assistance Fund</b>	007		
Income Tax		\$ 720,567,679	\$ 798,097,526
Civil Penalties		-	30,761
Total Education Assistance Fund		<u>\$ 720,567,679</u>	<u>\$ 798,128,287</u>
<b>Income Tax Refund Fund</b>	278		
Income Tax		<u>\$ 1,385,179,429</u>	<u>\$ 1,580,223,167</u>
<b>Special State Funds:</b>			
<b>Build Illinois Fund</b>	960		
Retailers' Occupation (Sales) Tax		\$ 377,037,473	\$ 400,441,455
Hotel Operators' Occupation Tax		86,564,424	101,939,854
Private Vehicle Use Tax		5,000,000	5,000,000
Total Build Illinois Fund		<u>\$ 468,601,897</u>	<u>\$ 507,381,309</u>
<b>Business District Sales Tax Fund</b>	160		
Retailers' Occupation (Sales) Tax		<u>\$ 8,609,473</u>	<u>\$ 6,697,681</u>
<b>Coal Technology Development Assistance Fund</b>	925		
Public Utility Tax		<u>\$ 5,580,266</u>	<u>\$ 5,338,697</u>

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**COMPARATIVE SCHEDULE OF CASH RECEIPTS**  
For the Fiscal Year Ending June 30,

FUND/TAX SOURCE	FUND	2010	2009
<b>County and Mass Transit District Fund</b>	188		
Retailers' Occupation (Sales) Tax		\$ 298,510,057	\$ 315,309,032
<b>Debt Collection Fund</b>	279		
General Office		\$ 22,274	\$ 20,303
<b>Deferred Lottery Prize Winners Trust Fund</b>	978		
Interest Income (Lottery)		\$ 116,663,925	\$ 130,373,299
<b>Dram Shop Fund</b>	821		
Liquor Control Commission		\$ 6,293,428	\$ 6,483,141
<b>Drycleaner Environmental Response Trust Fund</b>	548		
Retailers' Occupation (Sales) Tax		\$ 2,675,378	\$ 2,952,944
<b>Emergency Public Health Fund</b>	240		
Retailers' Occupation (Sales) Tax		\$ 3,417,312	\$ 3,415,805
<b>Energy Efficiency Trust Fund</b>	571		
Public Utility Tax		\$ 3,257,104	\$ 3,729,491
<b>Horse Racing Fund</b>	632		
Racing Privilege Tax		\$ 6,833,148	\$ 6,851,320
<b>Illinois Affordable Housing Trust Fund</b>	286		
Real Estate Transfer Tax		\$ 20,161,411	\$ 20,320,431
<b>Illinois Gaming Law Enforcement Fund</b>	085		
Pull Tabs and Jar Games Tax and License Fees		\$ 2,535,806	\$ 2,668,909
Charitable Games Tax and License Fees		561,026	534,999
Total Illinois Gaming Law Enforcement Fund		\$ 3,096,832	\$ 3,203,908
<b>Illinois Racing Board Charity Fund</b>	271		
Annual Charity Assessment		\$ (27,060)	\$ 777,060
<b>Illinois Racing Board Fingerprint License Fund</b>	248		
Illinois Racing Board		\$ -	\$ 91,040
<b>Illinois Racing Board Grant Fund</b>	280		
Admission Tax		\$ -	\$ 837,251
<b>Illinois Racing-Quarterhorse Fund</b>	631		
Racing Privilege Tax		\$ 17,752	\$ 23,401
<b>Illinois Racing-Quarterhorse Purse Fund</b>	785		
Additional Racing Privilege Tax on Advance Deposit Wagering		\$ 183,194	\$ -
<b>Illinois Sports Facility Fund</b>	225		
Hotel Operators' Occupation Tax		\$ 34,500,000	\$ 34,500,000
<b>Illinois State Fair Fund</b>	438		
General Office		\$ 3,755	\$ -

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**COMPARATIVE SCHEDULE OF CASH RECEIPTS**  
For the Fiscal Year Ending June 30,

FUND/TAX SOURCE	FUND	2010	2009
<b>Illinois Tax Increment Fund</b>	281		
Retailers' Occupation (Sales) Tax		\$ 18,207,894	\$ 19,480,936
<b>Illinois Veterans' Assistance Fund</b>	236		
Lottery Ticket Sales		\$ 1,136,669	\$ 1,287,280
<b>International Tourism Fund</b>	621		
Hotel Operators' Occupation Tax		\$ 7,770,313	\$ 9,150,430
<b>Local Government Tax Fund</b>	189		
Retailers' Occupation (Sales) Tax		\$ 1,495,486,590	\$ 1,528,330,292
<b>Local Tourism Fund</b>	969		
Hotel Operators' Occupation Tax		\$ 13,850,308	\$ 16,267,431
<b>Long-Term Care Provider Fund</b>	345		
Cigarette Tax		\$ 128,834,161	\$ 134,069,476
Other Tobacco		24,006,352	21,358,819
Cigarette Use Tax		14,381,936	16,493,364
Total Long-Term Provider Fund		\$ 167,222,449	\$ 171,921,659
<b>Mental Health Fund</b>	050		
Bingo Tax		\$ 1,139,036	\$ 1,170,890
<b>Motor Fuel Tax Fund</b>	012		
Motor Fuel Tax		\$ 1,269,104,245	\$ 1,393,462,094
General Office		-	4,586
Total Motor Fuel Fund		\$ 1,269,104,245	\$ 1,393,466,680
<b>Municipal Economic Development Fund</b>	650		
Solid Waste Facilities		\$ 82,502	\$ 32,800
<b>Multiple Sclerosis Research Fund</b>	429		
Lottery Ticket Sales		\$ 1,249,858	\$ 2,127,268
<b>Military Affairs Trust Fund</b>	043		
Pepsi Agreement		\$ 17,925	\$ 234
<b>Natural Areas Acquisition Fund</b>	298		
Real Estate Transfer Tax		\$ 6,048,423	\$ 6,096,129
<b>Open Space Lands Acquisition and Development Fund</b>	299		
Real Estate Transfer Tax		\$ 14,112,988	\$ 14,224,302
<b>Personal Property Tax Replacement Fund</b>	802		
Income Tax		\$ 835,408,333	\$ 1,042,512,065
Public Utility Tax		179,709,122	222,906,421
Total Personal Property Tax Replacement Fund		\$ 1,015,117,455	\$ 1,265,418,486
<b>Public Utility Fund</b>	059		
Public Utility Tax		\$ 11,954,423	\$ 12,500,198
<b>Quality of Life Endowment Fund</b>	437		
Lottery Ticket Sales		\$ 1,031,345	\$ 563,680

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**COMPARATIVE SCHEDULE OF CASH RECEIPTS**  
For the Fiscal Year Ending June 30,

FUND/TAX SOURCE	FUND	2010	2009
<b>Renewable Energy Resource Trust Fund</b>	564		
Public Utility Tax		\$ 5,580,265	\$ 5,338,697
<b>Rental Housing Support Program Fund</b>	150		
Real Estate Transfer Tax		\$ 17,210,153	\$ 17,508,366
<b>School Infrastructure Fund</b>	568		
Public Utility Tax		\$ 93,211,590	\$ 100,619,124
Cigarette Tax		48,236,064	53,751,430
Cigarette Use Tax		11,763,936	6,248,570
Total School Infrastructure Fund		\$ 153,211,590	\$ 160,619,124
<b>Senior Citizens Real Estate Deferred Tax Revolving Fund</b>	930		
Deferred Real Estate Tax Reimbursements		\$ 3,813,721	\$ 3,658,559
<b>State Gaming Fund</b>	129		
Riverboat Gambling Taxes and License Fees		\$ -	\$ 553,181,381
<b>State and Local Sales Tax Reform Fund</b>	186		
Retailers' Occupation (Sales) Tax		\$ 230,107,688	\$ 255,103,550
<b>State Lottery Fund</b>	711		
Lottery Ticket Sales		\$ 1,069,778,471	\$ 985,899,615
<b>Supplemental Low Income Energy Assistance Fund</b>	550		
Public Utility Tax		\$ 121,231,209	\$ 85,423,216
<b>Tax Compliance and Administration Fund</b>	384		
Public Utility Tax		\$ 1,463,739	\$ 1,488,284
Retailers' Occupation (Sales) Tax		684,938	337,021
Motor Fuel Tax		329,095	406,863
Cigarette Tax		5,208	4,630
Cigarette Use Tax		-	300
Total Tax Compliance and Administration Fund		\$ 2,482,980	\$ 2,237,098
<b>Ticket for the Cure Fund</b>	208		
Lottery Ticket Sales		\$ 822,218	\$ 1,179,336
<b>Underground Storage Tank Fund</b>	072		
Underground Storage Tax		\$ 70,815,962	\$ 74,779,353
<b>Used Tire Management Fund</b>	294		
Retailers' Occupation (Sales) Tax		\$ 12,985,785	\$ 12,991,149
<b>State Trust Funds:</b>			
<b>County Auto Renting Tax Fund</b>	869		
Automobile Renting Tax		\$ 232,514	\$ 57,940
<b>County Option Motor Fuel Tax Fund</b>	190		
Retailers' Occupation (Sales) Tax		\$ 31,503,313	\$ 31,377,882
<b>County Public Safety ROT Fund</b>	219		
Retailers' Occupation (Sales) Tax		\$ 75,737,652	\$ 77,104,342

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**COMPARATIVE SCHEDULE OF CASH RECEIPTS**  
For the Fiscal Year Ending June 30,

FUND/TAX SOURCE	FUND	2010	2009
<b>County Water Commission Tax Fund</b>	084		
Retailers' Occupation (Sales) Tax		\$ 29,979,994	\$ 29,542,104
<b>Flood Prevention Occupation Tax Fund</b>	558		
Retailers' Occupation (Sales) Tax		\$ 10,976,960	\$ 2,283,764
<b>Home Rule County ROT Fund</b>	139		
Retailers' Occupation (Sales) Tax		\$ 646,329,270	\$ 653,827,975
<b>Home Rule Municipal ROT Fund</b>	138		
Retailers' Occupation (Sales) Tax		\$ 710,280,455	\$ 714,811,397
<b>Home Rule Municipal Soft Drink Retailers' Occupation Tax Fund</b>	097		
Retailers' Occupation (Sales) Tax		\$ 8,667,145	\$ 8,525,787
<b>Illinois Tourism Tax Fund</b>	452		
Hotel Operators' Occupation Tax		\$ 15,265,123	\$ 17,094,549
<b>McCormick Place Expansion Fund</b>	377		
Retailers' Occupation (Sales) Tax		\$ 69,284,235	\$ 53,266,333
<b>Metro-East Mass Transit Tax Fund</b>	841		
Retailers' Occupation (Sales) Tax		\$ 28,636,726	\$ 26,543,105
<b>Metro-East Park and Recreation Fund</b>	717		
Retailers' Occupation (Sales) Tax		\$ 4,371,001	\$ 3,800,594
<b>Metropolitan Pier and Exposition Fund</b>	337		
Retailers' Occupation (Sales) Tax		\$ 34,061,744	\$ 33,320,194
Hotel Operators' Occupation Tax		33,571,291	39,446,699
Automobile Renting Tax		25,507,326	27,012,181
Total Metropolitan Pier and Exposition Fund		\$ 93,140,361	\$ 99,779,074
<b>Municipal Auto Renting Tax Fund</b>	868		
Automobile Renting Tax		\$ 5,381,018	\$ 5,681,106
<b>Municipal Telecommunications Fund</b>	719		
Public Utility Tax		\$ 277,616,918	\$ 301,145,261
<b>Non-Home Rule Municipal ROT Tax Fund</b>	088		
Retailers' Occupation (Sales) Tax		\$ 89,359,209	\$ 89,482,062
<b>RTA Sales Tax Trust Fund</b>	812		
Retailers' Occupation (Sales) Tax		\$ 861,992,645	\$ 903,040,176
<b>School Facility Occupation Tax Fund</b>	498		
Retailers' Occupation (Sales) Tax		\$ 11,163,359	\$ 4,474,384
<b>Sports Facility Tax Trust Fund</b>	229		
Hotel Operators' Occupation Tax		\$ 28,808,960	\$ 33,836,632
<b>Tax Suspense Trust Fund</b>	583		
Tax Suspense		\$ 15,328	\$ 43,884

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**COMPARATIVE SCHEDULE OF CASH RECEIPTS**  
For the Fiscal Year Ending June 30,

FUND/TAX SOURCE	FUND	2010	2009
<b>Tennessee Valley Authority Trust Fund</b>	861		
Tennessee Valley Authority Payments		\$ 280,595	\$ 259,845
<b>Debt Service Funds:</b>			
<b>Capital Projects Fund</b>	694		
Retailers' Occupation (Sales) Tax		\$ 39,000,000	\$ -
Liquor		17,324,761	-
Total Capital Projects Fund		\$ 56,324,761	\$ -
<b>Federal Trust Funds:</b>			
<b>Revenue Federal Trust Fund</b>	140		
General Office		\$ 3,894	\$ -
<b>Rehabilitation Services Fund</b>	798		
General Office		\$ 36,002	\$ -
<b>Protest Fund:</b>			
Income and Replacement Tax	401	\$ 28,551,210	\$ 28,284,290
Retailers' Occupation (Sales) Tax		4,138,549	27,846,588
Liquor		54,541,189	-
Illinois Racing Board		-	14,481,446
Public Utility Tax		-	89,114
Total Protest Fund		\$ 87,230,948	\$ 70,701,438
<b>Total Receipts Collected by the Department</b>		<b>\$ 29,072,627,784</b>	<b>\$ 31,811,206,233</b>
Items not considered collections by the Department:			
Federal Home Investment Trust Fund Receipts		\$ 8,747,830	\$ 31,034,802
Repayment from the Sports Facility Authority		27,512,700	25,836,747
Repayment from the Illinois Housing Development Authority (IHDA) Pursuant to Law		175,975	13,067,041
Loan Repayment from the IHDA - Principal		4,920,606	5,467,445
Transfer from the Local Government Distributive Fund		3,750,000	5,000,000
Prior Year Warrant Voids		9,508,228	9,703,374
Loan Repayment from the IHDA - Interest		2,008,208	2,045,938
Administrative Fee from the Illinois Sports Facility Authority		1,119,455	1,493,746
Prior Year Refunds		1,139,845	788,200
Private Organization or Individual		500,000	500,000
Unidentified Tax Source		317,702	84,979
Yearly Payment from Commonwealth Edison to IHDA		45,050	21,700
		\$ 59,745,599	\$ 95,043,972
<b>Total Deposits into the State Treasury</b>		<b>\$ 29,132,373,383</b>	<b>\$ 31,906,250,205</b>

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**RECONCILIATION OF CASH RECEIPTS TO DEPOSITS**  
**REMITTED TO THE STATE COMPTROLLER**  
For the Fiscal Years Ended June 30,

<b>Receipts</b>	2010	2009
Tax and fee collections, including assessments, penalties, and interest:		
Income: individual, corporate, and personal property replacement tax	\$ 12,145,654,682	\$ 13,568,046,406
Sales:		
State, municipal, county, county water commission, RTA, MED retailers' and service occupation tax	11,371,000,169	11,924,707,140
Public Utilities:		
Message, gas, electric	1,757,284,685	1,885,368,966
Motor Fuel Tax	1,259,807,572	1,301,973,767
Other:		
Underground Storage Tank	70,385,408	69,289,856
Cigarette, Cigarette Use, and Other Tobacco Products	573,048,712	583,582,189
Racing Privilege	6,946,299	6,835,017
Hotel Operator and Occupation	249,224,689	286,343,669
Liquor	230,149,306	157,725,265
Vehicle Use	34,922,306	32,360,136
Real Estate Transfer	55,743,859	58,510,203
Bingo	2,426,531	2,505,927
Coin Operated Amusement Device	1,748,847	2,979,872
Automobile Renting	59,994,445	63,539,988
Replacement Vehicle	-	327
Charitable Games	577,427	552,067
Pull Tabs and Jar Games	5,054,755	5,345,929
Riverboat Gambling	-	537,019,353
Solid Waste	84,290	32,517
Lottery	1,190,663,997	1,121,495,830
Liquor Control Commission	13,318,405	13,284,279
Illinois Racing Board	-	16,776,634
Miscellaneous Collections	10,308,397	5,793,165
<b>Total Receipts</b>	<b>\$ 29,038,344,781</b>	<b>\$ 31,644,068,502</b>
Items not considered collections by the Department	67,337,877	95,043,972
Unallocated Collections:		
Beginning of year <sup>1</sup>	67,184,095	(27,920,663)
End of year	(23,976,496)	5,250,582
Collections reported, but not yet deposited into clearing:		
Beginning of year <sup>1</sup>	184,902,318	169,828,128
End of year	(200,914,766)	(186,449,469)
Balances in State Treasurer's clearing account:		
Beginning of year <sup>1</sup>	70,828,915	389,469,784
End of year	(71,333,341)	(183,040,631)
<b>Deposits into the State Treasury</b>	<b>\$ 29,132,373,383</b>	<b>\$ 31,906,250,205</b>

<sup>1</sup>The beginning of year balances were adjusted to reflect the separation of the Illinois Gaming Board and Illinois Racing Board from the Department of Revenue on July 1, 2009.

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES**  
For the Year Ended June 30, 2010

**General Revenue Fund (001)**

Extra Help

The decrease was due to the extra help line being rolled into the personal services line and not using per diem employees during FY10.

State Contributions to State Employees' Retirement System

The decrease was due to the Department not receiving a General Revenue Fund appropriation for employees' retirement contributions. The General Assembly appropriated money directly to the retirement system.

Contractual Services, Travel, Commodities, Printing, Equipment, Electronic Data Processing, Telecommunications, Operation of Automotive Equipment, Shared Services Center, and Other Tax Refunds

The decrease was due to General Revenue Fund operations appropriations being issued as lump sums in FY10.

Additional Compensation for Local Assessors, State's Share of County Supervisors of Assessments or County Assessors' Salaries, Additional Compensation for County Treasurers, Annual Stipend for Sheriffs, and Annual Stipend to County Coroners

The decrease was due to General Revenue Fund grants being issued as operational expenses, awards, grants, and permanent improvements lump sums in FY10.

Operational Expenses, Awards, Grants and Permanent Improvements

The increase was due to General Revenue Fund grants being issued as operational expenses, awards, grants, and permanent improvements lump sums in FY10.

Operational Expenses

The increase was due to General Revenue Fund operations appropriations being issued as lump sums in FY10.

State Contributions to State Employees' Retirement System – Continuing Appropriated Funds

The decrease was due to the retirement rate being appropriated at 17.8%, but actually paying out 21.049%, in FY09. A continuing appropriation was established in FY09 to pay the remaining amount owed to State Employees' Retirement System. For FY10, this line item was not appropriated for General Revenue Fund personal services.

**Motor Fuel Tax Fund (012)**

State Contributions to State Employees' Retirement System

The increase was due to the retirement rate increasing from 21.05% in FY09 to 28.377% in FY10.

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES**  
For the Year Ended June 30, 2010

**Motor Fuel Tax Fund (012) (cont.)**

Contractual Services

The decrease was due to reduced intergovernmental expenditures from deconsolidating the Department's security guards from the Department of Central Management Services.

Reimbursement to International Fuel Tax Agreement Member States

The decrease was due to IFTA jurisdictions netting payments owed to other jurisdictions with payments owed to their own jurisdiction after January 1, 2010.

Motor Fuel Tax Refunds

The increase was due to several large refunds paid to a company denaturing gas and turning it into ethanol.

State Contributions to State Employees' Retirement System – Continuing Appropriated Funds

The decrease was due to the retirement rate being appropriated at 17.8%, but actually paying out 21.049%, in FY09. A continuing appropriation was established in FY09 to pay the remaining amount owed to State Employees' Retirement System. In FY10, this appropriation was established in full.

**Underground Storage Tank Fund (072)**

State Contributions to State Employees' Retirement System

The increase was due to the retirement rate increasing from 21.05% in FY09 to 28.377% in FY10.

**Illinois Gaming Law Enforcement Fund (085)**

Personal Services

The decrease was due to a reduction in staff from insufficient available cash within the fund to support appropriated expenditures.

Group Insurance

The decrease was due to a reduction in staff from insufficient available cash within the fund to support appropriated expenditures.

Electronic Data Processing

The decrease was due to insufficient available cash within the fund to support appropriated expenditures.

Grant for Allocation to Local Law Enforcement Agencies

The increase was due to the grant allocation not being made in FY09 due to insufficient available cash to make the grant distribution that is normally made during lapse period. See Finding 10-31.

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES**  
For the Year Ended June 30, 2010

**State Gaming Fund (129)**

Personal Services, State Contributions to State Employees' Retirement System, State Contributions to Social Security, Group Insurance, Contractual Services, Travel, Telecommunications, Operation of Automotive Equipment, Illinois State Police, Distributions to Local Governments for Admissions and Wagering Tax, and State Contributions to State Employees' Retirement System – Continuing Appropriated Funds

The decrease was due to the separation of the Illinois Gaming Board from the Department of Revenue, effective July 1, 2009.

**Rental Housing Support Program Fund (150)**

Grants to Provide Rental Assistance to the Rental Housing Support Program

The decrease was due to higher than normal expenditures in FY09 due to the carryover of unexpended funds from prior years. The FY10 expenditures relied on new collections and a reduced carryover from prior years.

**Business District Sales Tax Fund (160)**

Shared Revenue Payments – Nonappropriated Fund

The increase was due to an increase in qualifying business districts from 33 to 44 in FY10.

**Sports Facility Tax Trust Fund (229)**

Shared Revenue Payments – Nonappropriated Fund

The decrease was due to less cash available to distribute after the repayment of a specific statutory amount to the General Revenue Fund.

**Illinois Racing Board Fingerprint License Fund (248)**

Contractual Services – Nonappropriated Fund

The decrease was due to the separation of the Illinois Racing Board from the Department of Revenue, effective July 1, 2009.

**Illinois Racing Board Charity Fund (271)**

Grants to Non-Profit Organizations – Nonappropriated Fund

The decrease was due to the separation of the Illinois Racing Board from the Department of Revenue, effective July 1, 2009.

**Income Tax Refund Fund (278)**

Income Tax Refunds – Continuing Appropriated Fund

The decrease was due to deposits into the fund decreasing due to lower income tax receipts. Refunds are limited, by statute, to the available cash balance in the fund.

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES**  
For the Year Ended June 30, 2010

**Illinois Racing Board Grant Fund (280)**

Shared Revenue Payments – Nonappropriated Fund

The decrease was due to the separation of the Illinois Racing Board from the Department of Revenue, effective July 1, 2009.

**Illinois Affordable Housing Trust Fund (286)**

Grants, Mortgages, Loans, or for the Purpose of Securing Bonds

The decrease was due to reduced cash collections from a reduction in the volume and value of real estate transactions.

**Federal HOME Investment Trust Fund (338)**

Illinois HOME Investment Partnerships Program

The decrease was due to the slowdown in the housing and construction market and funds being paid directly to the Illinois Housing Development Authority from Federal stimulus programs.

Balances Reappropriated

The decrease was due to the General Assembly not reappropriating an amount during FY10.

**Tax Compliance and Administration Fund (384)**

State Contributions to State Employees' Retirement System

The increase was due to the retirement rate increasing from 21.05% in FY09 to 28.377% in FY10.

Electronic Data Processing

The decrease was due to insufficient available cash within the fund to support appropriated expenditures.

**Illinois Tourism Tax Fund (452)**

Shared Revenue Payments – Nonappropriated Fund

The decrease was due to hotel tax collections decreasing 15% in FY10 and the Department adjusting the distribution to the local government to account for fund sweeps pursuant to the State Finance Act. See Finding 10-32.

**Predatory Lending Database Program Fund (478)**

Grants for the Predatory Lending Database Program

The decrease was due to fewer grants awarded during the second year of the program.

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES**  
For the Year Ended June 30, 2010

**School Facility Occupation Fund (498)**

Shared Revenue Payments – Nonappropriated Fund

The increase was due to three additional counties imposing the tax during FY10.

**Flood Prevention Occupation Fund (558)**

Shared Revenue Payments – Nonappropriated Fund

The increase was due to an entire year of disbursements being paid to local governments, compared to paying three months of disbursements in FY09 after the imposition of the tax.

**Horse Racing Fund (632)**

Personal Services, State Contributions to State Employees' Retirement System, State Contributions to Social Security, Group Insurance, Contractual Services, Telecommunications, Laboratory Program, and Regulation of Racing Program

The decrease was due to the separation of the Illinois Racing Board from the Department of Revenue, effective July 1, 2009.

**State Lottery Fund (711)**

State Contributions to State Employees' Retirement System

The increase was due to the retirement rate increasing from 21.05% in FY09 to 28.377% in FY10.

Equipment

The decrease was due to the purchase of seven Dodge Grand Caravans and modular furniture in FY09, compared to only four Dodge Grand Caravans in FY10.

Shared Services Center

The decrease was due to a reduction of headcount from six to four in FY10.

State Contributions to State Employees' Retirement System – Continuing Appropriated Funds

The decrease was due to the retirement rate being appropriated at 17.8%, but actually paying out 21.049%, in FY09. A continuing appropriation was established in FY09 to pay the remaining amount owed to State Employees' Retirement System. In FY10, this appropriation was established in full.

Interfund Cash Transfers – Nonappropriated Fund

The increase was due to FY10 being the first year Lottery receipts were transferred to the Capital Projects Fund, pursuant to Public Act 96-034, for the State's construction program.

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES**  
For the Year Ended June 30, 2010

**Personal Property Tax Replacement Fund (802)**

State Contributions to State Employees' Retirement System

The increase during FY10 was due to the retirement rate increasing from 21.05% in FY09 to 28.377% in FY10.

State Contributions to State Employees' Retirement System – Continuing Appropriated Funds

The decrease was due to the retirement rate being appropriated at 17.8%, but actually paying out 21.049%, in FY09. A continuing appropriation was established in FY09 to pay the remaining amount owed to State Employees' Retirement System. In FY10, this appropriation was established in full.

**Dram Shop Fund (821)**

State Contributions to State Employees' Retirement System

The increase during FY10 was due to the retirement rate increasing from 21.05% in FY09 to 28.377% in FY10.

Shared Services Center

The increase was due to an increase in headcount from zero to one during FY10.

Tobacco Study

The increase was due to an increase in headcount from one to two during FY10, an increase in the State pay plan, and entering into a personal service contract with a Tobacco Compliance Specialist in FY10 that had been vacant for most of FY09.

**County Automobile Renting Tax Fund (869)**

Shared Revenue Payments – Nonappropriated Fund

The increase was due to a tax rate change by a local government increasing receipts for distribution in FY10.

**Senior Citizens' Real Estate Deferred Tax Revolving Fund (930)**

Payments to Counties

The increase was due to \$2.3 million in grant payments being carried over from FY09 to FY10 due to a low cash balance in the fund. See Finding 10-31.

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS**  
For the Year Ended June 30, 2010

**State Gaming Fund (129)**

The decrease was due to the separation of the Illinois Gaming Board from the Department of Revenue, effective July 1, 2009.

**Business District ROT Fund (160)**

The increase was due to an increase in qualifying business districts from 33 to 44 in FY10.

**Ticket for the Cure Fund (208)**

The decrease was due to a decrease in lottery sales related to the special ticket depositing proceeds into the Ticket for the Cure Fund.

**Fingerprint License Fund (248) and Racing Board Grant Fund (280)**

The decrease was due to the separation of the Illinois Racing Board from the Department of Revenue, effective July 1, 2009.

**Racing Board Charity Fund (271)**

The decrease was due to the separation of the Illinois Racing Board from the Department of Revenue, effective July 1, 2009. In addition, the Department recorded a \$27,060 negative receipt adjustment to this fund during FY10 to correct a prior year error.

**McCormick Place Expansion Fund (377)**

The increase was due to deposits of sales taxes, hotel taxes, and automobile renting taxes into the Metropolitan Pier and Exposition Fund (337) not being sufficient to meet the Metropolitan Pier and Exposition Authority's bond indebtedness. The shortage was deposited into the McCormick Place Expansion Fund (377) from the State's share of sales taxes.

**Protest Fund (401)**

The increase was due to an increase in the amount tax liability paid under protest during FY10.

**Common School Fund (412)**

The decrease was due to the overall decline in cigarette, cigarette use, public utility, bingo, and pull tab tax collections.

**Multiple Sclerosis Research Fund (429)**

The decrease was due to a decrease in lottery sales related to the special ticket depositing proceeds into the Multiple Sclerosis Research Fund.

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS**  
For the Year Ended June 30, 2010

**Quality of Life Endowment Fund (437)**

The increase was due to an increase in lottery sales related to the special ticket depositing proceeds into the Quality of Life Endowment Fund.

**School Facility Occupation Fund (498)**

The increase was due to an increase in counties imposing the tax from one to three in FY10.

**Supplemental Low Income Energy Assistance Fund (550)**

The increase was due to the enactment of Public Act 96-033, which increased the tax rate for utilities servicing more than 100,000 customers and required utilities meeting statutory criteria to make a combined one-time payment of \$22 million in FY10.

**Flood Prevention Occupation Fund (558)**

The increase was due to the fund beginning to receive tax collections during the fourth quarter of FY09. In FY10, the fund received a full year of tax collections.

**International Tourism Fund (621)**

The decrease was due to the overall decline in collections from the State's share of hotel taxes.

**Capital Projects Fund (694)**

The increase was due to FY10 being the first year of activity for this fund.

**Metro East Park and Recreation Fund (717)**

The increase was due to the deposit percentage increasing from .0003% to .0004%.

**Quarterhorse Purse Fund (785)**

The increase was due to FY10 being the first year of activity for this fund.

**Personal Property Tax Replacement Tax Fund (802)**

The decrease was due to the overall decline in business income tax collections.

**County Automobile Renting Tax Fund (869)**

The increase was due to the Department determining certain automobile rental tax collections should have been reported to Rock Island County instead of the City of Moline during FY10.

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING**  
For the Year Ended June 30, 2010

**Motor Fuel Tax Fund (012)**

Electronic Data Processing

The Department paid June payroll, equipment vouchers approved after June 30, and Information Technology (IT) bills from the Department of Central Management Services (CMS) during the Lapse Period. The Department's billings from CMS required adjustment and verification due to charges for the Illinois Racing Board (IRB) appearing on the Department's bills after the July 1, 2009 separation.

Administration of the Motor Fuel Tax Enforcement Grant from USDOT

The Department paid for two Ford Expeditions and one Chevrolet Impala procured during the fiscal year during the Lapse Period.

**Home Rule Municipal ROT Fund (138)**

Electronic Data Processing

The Department paid CMS IT bills during the Lapse Period due to inaccuracies on the bills. The Department's billings from CMS required adjustment and verification due to charges for the IRB appearing on the Department's bills after separation on July 1, 2009.

**Rental Housing Support Program Fund (150)**

Administration of the Rental Housing Support Program

The Department paid the reimbursement of administrative expenses for the final two quarters of FY10 during the Lapse Period.

Grants to Provide Rental Assistance to the Rental Housing Support Program

The Department paid for several projects received late in FY10 during the Lapse Period.

**County Option Motor Fuel Tax Fund (190)**

Electronic Data Processing

The Department paid CMS IT bills during the Lapse Period due to inaccuracies on the bills. The Department's billings from CMS required adjustment and verification due to charges for the IRB appearing on the Department's bills after separation on July 1, 2009.

**Illinois Tax Increment Fund (281)**

Electronic Data Processing

The Department paid CMS IT bills during the Lapse Period due to inaccuracies on the bills. The Department's billings from CMS required adjustment and verification due to charges for the IRB appearing on the Department's bills after separation on July 1, 2009.

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING**  
For the Year Ended June 30, 2010

**Illinois Tax Increment Fund (281) (cont.)**

Grants for Distribution to Local Tax Increment Finance Districts

The Department paid the fourth quarter allocation to TIF districts during the Lapse Period.

**Illinois Affordable Housing Trust Fund (286)**

Administration of the Illinois Affordable Housing Act

The Department paid the reimbursement of administrative expenses for the final two quarters of FY10 during the Lapse Period.

**Tax Compliance and Administration Fund (384)**

Electronic Data Processing

The Department paid CMS IT bills during the Lapse Period due to inaccuracies on the bills. The Department's billings from CMS required adjustment and verification due to charges for the IRB appearing on the Department's bills after separation on July 1, 2009.

**Predatory Lending Database Program Fund (478)**

Grants for the Predatory Lending Database Program

The Department paid for several projects received late in FY10 during the Lapse Period.

**State Lottery Fund (711)**

Equipment

The Department paid for four Dodge Grand Caravans procured during the fiscal year during the Lapse Period.

Developing and Promoting Lottery Games

The Department paid for FY10 contractual expenses associated with Lottery private manager RFP advisor during the Lapse Period, as the advisor's services occurred at the end of FY10.

Interfund Cash Transfers – Non-Appropriated Fund

The Department transferred Lottery receipts to the Capital Projects Fund, pursuant to Public Act 96-034, for the State's construction program during the lapse period.

**Personal Property Tax Replacement Fund (802)**

Electronic Data Processing

The Department paid June payroll, expenditures related to a system implementation through June 30, 2010, and CMS IT bills during the Lapse Period. The Department's billings from CMS required adjustment and verification due to charges for the IRB appearing on the Department's bills after separation on July 1, 2009.

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING**  
For the Year Ended June 30, 2010

**Dram Shop Fund (821)**

Electronic Data Processing

The Department paid CMS IT bills during the Lapse Period due to inaccuracies on the bills. The Department's billings from CMS required adjustment and verification due to charges for the IRB appearing on the Department's bills after separation on July 1, 2009.

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**ANALYSIS OF ACCOUNTS RECEIVABLE**  
For the Fiscal Year Ended June 30, 2010  
(In Thousands)

Accounts Receivable Relating to Taxes Receivable

	<b>Retailer Occupation Tax (ROT)</b>	<b>Business Income Tax (BIT)</b>	<b>Withholding Income Tax (WIT)</b>	<b>Individual Income Tax (IIT)</b>	<b>Excise Tax</b>	<b>Totals</b>
<b><u>Non-Protest</u></b>						
<b><u>Current:</u></b>	\$ -	\$ -	\$ -	\$ -	\$ 43,580	\$ 43,580
<b><u>Past Due:</u></b>						
1 - 90 days	\$ 30,938	\$ 20,326	\$ 6,691	\$ 69,504	\$ 8,147	\$ 135,606
91 - 180 days	18,699	17,708	7,482	22,578	1,725	68,192
181 days - 1 year	42,901	16,992	5,590	27,779	5,719	98,981
1 year <= 2 years	47,406	22,264	13,166	42,052	8,637	133,525
2 years <= 3 years	28,389	15,023	8,973	36,993	2,362	91,740
3 years <= 4 years	22,764	5,521	7,041	22,807	1,153	59,286
4 years <= 5 years	24,167	3,401	3,353	23,299	1,262	55,482
5 years <= 10 years	52,259	5,328	11,073	50,269	17,332	136,261
10 years <= 20 years	21,202	1,017	3,659	32,027	2,756	60,661
>20 years	14,210	252	305	1,976	880	17,623
<b>Total Past Due</b>	<b>\$ 302,935</b>	<b>\$ 107,832</b>	<b>\$ 67,333</b>	<b>\$ 329,284</b>	<b>\$ 49,973</b>	<b>\$ 857,357</b>
<b>Gross Receivables</b>	<b>\$ 302,935</b>	<b>\$ 107,832</b>	<b>\$ 67,333</b>	<b>\$ 329,284</b>	<b>\$ 93,553</b>	<b>\$ 900,937</b>
<b>Estimated Uncollectible</b>	<b>\$ (258,138)</b>	<b>\$ (64,687)</b>	<b>\$ (57,698)</b>	<b>\$ (241,526)</b>	<b>\$ (40,060)</b>	<b>\$ (662,109)</b>
<b>Total Net Receivables</b>	<b>\$ 44,797</b>	<b>\$ 43,145</b>	<b>\$ 9,635</b>	<b>\$ 87,758</b>	<b>\$ 53,493</b>	<b>\$ 238,828</b>
	<b>Retailer Occupation Tax (ROT)</b>	<b>Business Income Tax (BIT)</b>	<b>Withholding Income Tax (WIT)</b>	<b>Individual Income Tax (IIT)</b>	<b>Excise Tax</b>	<b>Totals</b>
<b><u>Protest</u></b>						
<b><u>Current:</u></b>	\$ -	\$ -	\$ -	\$ -	\$ 897	\$ 897
<b><u>Past Due:</u></b>						
1 - 90 days	\$ 39,787	\$ 2,733	\$ 1,722	\$ 4,658	\$ 1,602	\$ 50,502
91 - 180 days	3,883	2,184	35	1,324	76	7,502
181 days - 1 year	11,649	-	-	213	547	12,409
1 year <= 2 years	22,063	7,985	211	164	1,009	31,432
2 years <= 3 years	7,243	1,058	193	80	19	8,593
3 years <= 4 years	6,234	13	-	510	1	6,758
4 years <= 5 years	926	690	-	123	-	1,739
5 years <= 10 years	34,434	4,243	-	883	4	39,564
10 years <= 20 years	77	18	-	-	1	96
>20 years	-	-	-	-	-	-
<b>Total Past Due</b>	<b>\$ 126,296</b>	<b>\$ 18,924</b>	<b>\$ 2,161</b>	<b>\$ 7,955</b>	<b>\$ 3,259</b>	<b>\$ 158,595</b>
<b>Gross Receivables</b>	<b>\$ 126,296</b>	<b>\$ 18,924</b>	<b>\$ 2,161</b>	<b>\$ 7,955</b>	<b>\$ 4,156</b>	<b>\$ 159,492</b>
<b>Estimated Uncollectible</b>	<b>\$ (84,014)</b>	<b>\$ (13,439)</b>	<b>\$ (429)</b>	<b>\$ (2,890)</b>	<b>\$ (1,533)</b>	<b>\$ (102,305)</b>
<b>Total Net Receivables</b>	<b>\$ 42,282</b>	<b>\$ 5,485</b>	<b>\$ 1,732</b>	<b>\$ 5,065</b>	<b>\$ 2,623</b>	<b>\$ 57,187</b>

Note: See the Reconciliation of the Analysis of Accounts Receivable to the Taxes Receivable Footnote in the Financial Statements on page 197 of this Report.

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**ANALYSIS OF ACCOUNTS RECEIVABLE**  
For the Year Ended June 20, 2010  
(In Thousands)

Other Accounts Receivable

	<u>Lottery - Charges for Sales</u>	<u>Totals</u>
<b><u>Non-Protest</u></b>		
<b><u>Current:</u></b>	\$ 4,470	\$ 4,470
<b><u>Past Due:</u></b>		
1 - 90 days	\$ 228	\$ 228
91 - 180 days	299	299
181 days - 1 year	-	-
1 year <= 2 years	7,955	7,955
2 years <= 3 years	-	-
3 years <= 4 years	-	-
4 years <= 5 years	-	-
5 years <= 10 years	-	-
10 years <= 20 years	-	-
>20 years	-	-
<b><u>Total Past Due</u></b>	<b><u>\$ 8,482</u></b>	<b><u>\$ 8,482</u></b>
<b>Gross Receivables</b>	\$ 12,952	\$ 12,952
<b><u>Estimated Uncollectible</u></b>	<b><u>\$ (6,660)</u></b>	<b><u>\$ (6,660)</u></b>
<b><u>Total Net Receivables</u></b>	<b><u>\$ 6,292</u></b>	<b><u>\$ 6,292</u></b>
	<u>Lottery - Charges for Sales</u>	<u>Totals</u>
<b><u>Protest</u></b>		
<b><u>Current:</u></b>	\$ -	\$ -
<b><u>Past Due:</u></b>		
1 - 90 days	\$ -	\$ -
91 - 180 days	-	-
181 days - 1 year	-	-
1 year <= 2 years	-	-
2 years <= 3 years	-	-
3 years <= 4 years	-	-
4 years <= 5 years	-	-
5 years <= 10 years	-	-
10 years <= 20 years	-	-
>20 years	-	-
<b><u>Total Past Due</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>
<b>Gross Receivables</b>	\$ -	\$ -
<b><u>Estimated Uncollectible</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>
<b><u>Total Net Receivables</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**ANALYSIS OF ACCOUNTS RECEIVABLE**  
For the Year Ended June 30, 2010  
(Not Examined)

**Collection Methods**

The Department of Revenue (Department) utilizes several different methods to collect past due receivables.

The Department has an in-house Collections Bureau consisting of field collectors, researchers, and levy units to collect past due receivables. For small balance and aged receivables, the Department utilizes the services of external private collection agencies on a contingent fee basis.

The Department utilizes several different types of offsets, including:

- internal refund offsets;
- State Comptroller offsets;
- federal refund offsets with the U.S. Department of the Treasury;
- professional license revocations and holds with other State agencies;
- City of Chicago business license clearances;
- certificate of registration revocations and renewals;
- liquor license revocations and holds;
- lottery retailer license suspensions, applications and renewals; and,
- auto dealer license renewals with the Office of the Secretary of State.

Further, the Department also utilizes tax liens and assistance from the Office of the Attorney General to collect past due receivables.

**Taxes Paid under Protest**

Taxes paid under protest are received by the Department and are remitted to the State Treasurer, who holds such monies in a special fund known as the "Protest Fund." The taxpayer making a payment under protest has 30 days to file a complaint in chancery court and secure a temporary injunction. If an injunction is not secured within 30 days of deposit, the State Treasurer transfers the money to the appropriate fund in the State Treasury.

Amounts paid under protest in any one fiscal period do not necessarily bear a direct relationship to such monies in another fiscal period, but depend on the frequency of challenges made by taxpayers to the various aspects of the multiple tax laws and regulations.

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**RECONCILIATION OF THE ANALYSIS OF ACCOUNTS RECEIVABLE  
TO THE TAXES RECEIVABLE FOOTNOTE IN FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2010  
(In Thousands)

<b>Analysis of Accounts Receivable</b>			
Non-Protest Gross Receivable	\$	900,937	
In Protest Gross Receivable		159,492	
Total Gross Taxes Receivable		<u>1,060,429</u>	\$ 1,060,429
 <b>Miscellaneous Departmental Adjustments</b>			
Lapse Period Collections	\$	1,008,460	
Agency Fund Assets		3,738	
Fund 930 Not Reported in Financial Statements		(43,061)	
Funds Reported by Other Agencies		(921)	
IOC Adjustment		(21,568)	
Other Receivables		(9,375)	
Reclassification		(2,400)	
Total Departmental Adjustments		<u>934,873</u>	\$ 934,873
<b>Total Gross Taxes Receivable</b>			<u>\$ 1,995,302</u>
 <b>Less: Allowance for Uncollectible Taxes</b>			
Non-Protest Uncollectible	\$	(662,109)	
In Protest Uncollectible		(102,305)	
Total Allowance for Uncollectible		<u>(764,414)</u>	\$ (764,414)
<b>Total, Net Taxes Receivable per Footnote 4*</b>			<u><u>\$ 1,230,888</u></u>

\* The Department's Financial Statement Report for the fiscal year ending June 30, 2010 has been released under a separate cover.

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**ANALYSIS OF OPERATIONS**  
For the Year Ended June 30, 2010

**AGENCY FUNCTIONS AND PLANNING PROGRAM**

**General Operations**

The Department of Revenue (Department) was established by the Civil Administrative Code of 1917 and is empowered to administer, collect, enforce and determine the distribution of the taxes imposed by the State's major tax acts. The Department collects approximately 64 percent of the receipts deposited into the General Revenue Fund.

A significant portion of the Department's total effort relates to the collection of the Retailers' Occupation and Related Taxes (ROT), income taxes, and personal property replacement taxes. The revenue collected from these sources approximates 81 percent of taxes collected by the Department. The remaining 19 percent of the Department's revenue is derived from the following taxes which the Department is empowered to collect:

Public Utilities:

- Electricity Excise Tax
- Telecommunications Excise Tax
- Telecommunications Infrastructure Maintenance Fee
- Energy Assistance and Renewable Energy
- Gas and Gas Use Taxes
- Invested Capital Tax and Electricity Distribution Tax
- Hotel Operators' Occupation Tax
- Automobile Renting Occupation and Use Tax
- Tire User Fee
- Vehicle Use Tax
- Motor Fuel and Motor Fuel Use Taxes
- Cigarette and Cigarette Use Taxes
- Liquor Gallonage Tax
- Racing Privilege Tax
- Bingo Tax and License Fees
- Real Estate Transfer Tax
- Coin-Operated Amusement Device Tax
- Dry-Cleaning Solvent Tax and License Fees
- Charitable Games Tax and License Fees
- Pull Tabs and Jar Games Tax and License Fees
- Underground Storage Tank Tax and Environmental Impact Fee
- Tobacco Products Tax
- Qualified Solid Waste Energy Facility Payments
- Senior Citizens Real Estate Tax Deferral Repayments
- Tennessee Valley Authority Payments

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**ANALYSIS OF OPERATIONS**  
For the Year Ended June 30, 2010

**General Operations – Continued**

The Department administers and enforces the ordinances and resolutions of local governmental units that impose the following taxes:

<b>Tax</b>	<b>Administrative Fee</b>
Chicago Home Rule Use Tax	2 %
Chicago Soft Drink Tax	2 %
County Automobile Renting Tax	2 %
Municipal Automobile Renting Tax	1.6%
County Public Safety Tax	-
County School Facility Occupation Tax	2%
County Flood Protection District	2%
County Supplemental Tax	-
County Water Commission Tax	-
Home Rule County Option Motor Fuel Tax	2 %
Home Rule County Retailers' Occupation Tax	-
Home Rule Municipal Retailers' Occupation Tax	-
Illinois Sports Facilities Tax	4 %
Metro East Transit District Retailers' Occupation Tax	2 %*
Metropolitan Pier and Exposition Authority Tax	2 %
Municipal Hotel Operators' Occupation Tax	4 %
Regional Transportation Authority Retailers' Occupation Tax	-
Tennessee Valley Authority Payments	-
Simplified Municipal Telecommunications Tax	0.5%

\*The Metro-East administrative fee is only withheld on tangible personal property that is titled or registered with a State agency. See Finding 10-12.

The administrative fee is withheld to cover the administrative costs in rendering the collection service for the local governmental units.

In 1973, the Department was given the responsibility for administering and enforcing the "Senior Citizens' and Disabled Persons' Property Tax Relief Act" and the "Additional Tax Relief Act." These acts grant relief payments to senior citizens and disabled persons for real estate and other taxes. Contrary to the Department's primary mission of collecting taxes, its responsibility in this regard is to disburse funds.

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**ANALYSIS OF OPERATIONS**  
For the Year Ended June 30, 2010

**General Operations – Continued**

**Operating Expense Analysis**

Operating expenses are not reduced for the fees collected by the Department for administering the Metropolitan Pier and Exposition Authority Taxes, County Water Commission Retailers' Occupation Taxes, Municipal Hotel Operators' Occupation Tax, Illinois Sports Facilities, and Municipal and County Automobile Renters' Occupation Use Tax. The fees collected are as follows:

<u>Years Ended June 30,</u>	<u>Fees Deposited in General Revenue Fund</u>	<u>Fees Deposited in Tax Compliance and Administrative Fund</u>
2010	\$1,650,793	\$802,590
2009	\$2,147,281	\$826,632
2008	\$2,222,554	\$843,521

Operating expenses, derived by using only operations spending, subtracting out the General Revenue Fund transfers into the Senior Citizens Real Estate Deferred Tax Revolving Fund, the Nursing Home Fund, Illinois Affordable Housing Costs, and equipment purchases from appropriated expenditures for the 14 months ended August 31, 2010, 2009, and 2008 per \$1,000 of tax collected is summarized below.

<u>Years Ended June 30,</u>	<u>Tax Collections (in thousands)</u>	<u>Operating Expenses (in thousands)</u>	<u>\$1,000 of Tax Collection</u>
2010	\$27,838,029	\$182,486	\$6.56
2009	\$31,699,064	\$196,248	\$6.19
2008	\$36,332,411	\$175,779	\$4.84

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**ANALYSIS OF OPERATIONS**  
For the Year Ended June 30, 2010

**Agency Functions**

The mission statement of the Department of Revenue (Department) is to maximize collection of revenues for the State of Illinois; ensure the integrity of the State's wagering activities; and effectively regulate the manufacture, distribution and sale of alcoholic beverages; all in a manner that promotes fair and consistent enforcement of State laws.

The primary responsibility of the Department is to serve as the tax collection agency for State government and for local governments. The Department also administers the State's lottery and regulates the manufacture, distribution and sale of alcoholic beverages. In addition, the Department oversees local property tax assessments and functions as the funding agent for the Illinois Housing Development Authority.

The current Director of the Department is Mr. Brian A. Hamer. The Department's headquarters is located at 101 West Jefferson Street; Springfield, Illinois.

**Divisions of the Department**

The Department's operations are divided into the following primary areas:

**Account Processing**

This area processes, controls, and stores State tax returns and associated documents. In addition, tax processing maintains taxpayer accounts.

**Tax Enforcement/Bureau of Audits**

Through field and in-house audit activities, Tax Enforcement promotes voluntary compliance with State tax laws by review of tax records to ensure the establishment and payment of all taxes due. The collections function pursues the collection of delinquent taxes and assists taxpayers with the accurate completion of State tax returns. This function also promotes voluntary compliance through determination of criminal noncompliance and recommendation for prosecution of criminal violations of State tax law.

**Taxpayer Services**

This area includes the Customer Services Bureau and Problems Resolutions Office. It also has jurisdiction over the Central Registration Division.

**Information Services**

This area provides application development, oversees automation support, and maintains daily computer operations.

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**ANALYSIS OF OPERATIONS**  
For the Year Ended June 30, 2010

**Agency Functions – Continued**

**Administrative Services**

This area includes major support functions for the Department including: Human Resource Management, Revenue Accounting, and Property Management. Human Resource Management is responsible for training, benefit coordination, Equal Employment Opportunity advocacy, labor relations and coordination of personnel and payroll. Administrative Services also coordinates the purchase and payment of items procured through a voucher processing system, as well as centralized printing, mail, and facility coordination services.

**Other Divisions of the Department**

**Liquor Control Commission**

The Liquor Control Commission regulates the manufacture, distribution, and sale of alcoholic beverages.

**Lottery**

The Lottery program administers lottery wagering activities in Illinois.

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**ANALYSIS OF OPERATIONS**  
For the Year Ended June 30, 2010

### **Planning Program**

The Department's mission is "to maximize collections of revenues for the State of Illinois; ensure the integrity of the state's wagering activities; and effectively regulate the manufacture, distribution and sale of alcoholic beverages; all in a manner that promotes fair and consistent enforcement of State laws." In order to meet this goal, the Department adopted a four-year strategic plan covering FY08 through FY11 in June 2007. As part of the planning process, the Department identified the following key priorities:

- 1) Enforcement
  - a) Enhance identification of underreporting and non-filing by expanding data capture, incorporating third-party data sources, and improving analysis
  - b) Expand audit coverage across tax types to increase voluntary compliance
  - c) Employ tailored collection strategies to recover tax debt owed to the State
  - d) Improve efforts to identify, investigate and prosecute tax fraud
  
- 2) Efficiency and Effectiveness
  - a) Improve processing workflow, taxpayer service and compliance by replacing core tax processing systems with an integrated solution
  - b) Increase front-end processing efficiency through increased electronic filing and data capture technology
  - c) Upgrade call center technology to improve taxpayer service, automate delinquent tax debt collection, and improve Lottery player hotline functionality
  - d) Increase transfers to the Common School Fund through new and revitalized games, innovative marketing and an increased retailer base
  
- 3) Sound Policy
  - a) Develop and advocate legislation to eliminate unfair and unsound tax advantages
  - b) Continue underage drinking compliance effort targeted at and tailored for identified problem areas

Every two weeks, the Department's Associate Director, Chief of Staff, Chief Financial Officer, Chief Counsel, and various managers (Audit, Collections, Information Services, Account Processing, Administrative Services, Communications/Policy, and Labor Relations) have meetings to discuss the status of the Department's plans and identify improvements that can be made to improve the Department's operations.

Each quarter, the Department monitors the Strategic Plan's implementation progress through a Quarterly Management Report. The Quarterly Management Report reports on recent progress in achieving the Department's goals, key performance metrics, and benchmarks to check the Department's progress in meeting its goals.

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**COMPARATIVE ANALYSIS OF THE INCOME TAX REFUND FUND**  
For the Fiscal Year Ending June 30, 2010  
(Not Examined)

**REFUNDS APPROVED AND PAID**

	Individual Income Tax (IIT)			Business Income Tax (BIT)			Personal Property Replacement Tax		
	FY10	FY09	% Increase (Decrease)	FY10	FY09	% Increase (Decrease)	FY10	FY09	% Increase (Decrease)
Receipts, Net	\$ 938,060,359	\$ 1,011,836,882	(7%)	\$300,508,520	\$ 370,384,461	(19%)	\$184,569,112	\$ 225,680,828	(18%)
Less:									
Tax Refunds Paid	1,331,536,439	1,217,575,299	9%	823,688	179,818,026	(100%)	121,941	120,854,515	(100%)
Interest Paid	2,244,333	2,566,657	(13%)	16,735	37,529,330	(100%)	4,257	19,444,233	(100%)
Transfers Out* <sup>1</sup>	32,723	8,956	265%	10,483	3,278	220%	95,336,821	95,332,380	0%
Receipts Over (Under)									
Expenditures and Transfers Out	\$ (395,753,136)	\$ (208,314,030)	90%	\$299,657,614	\$ 153,033,827	96%	\$ 89,106,093	\$ (9,950,300)	(996%)

**REFUNDS APPROVED BUT UNPAID**

	Individual Income Tax (IIT)			Business Income Tax (BIT)			Personal Property Replacement Tax		
	FY10	FY09	% Increase (Decrease)	FY10	FY09	% Increase (Decrease)	FY10	FY09	% Increase (Decrease)
Tax Refunds Approved but Unpaid	\$ 43,573,648	\$ 5,309,247	721%	\$396,899,250	\$ 128,116,203	210%	\$255,895,569	\$ 82,601,236	210%
Estimated Unpaid Accrued Interest	55,091	2,062	2572%	23,171,400	2,137,964	984%	14,939,455	1,378,424	984%
Total Payable at June 30, 2009	\$ 43,628,739	\$ 5,311,309	721%	\$420,070,650	\$ 130,254,167	223%	\$270,835,024	\$ 83,979,660	223%

Auditor's Note: During FY09, the Department began paying Business and Personal Property Replacement Tax refunds on a hardship basis.

<sup>1</sup> See Finding 10-27 for Personal Property Replacement Tax Issue

\* Statutory Transfers Pursuant to the Illinois Income Tax Act (35 ILCS 5/901(d)) and the State Finance Act (30 ILCS 105/6z-27)

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**SCHEDULE OF AGED REFUNDS PAYABLE**  
For the Fiscal Year Ending June 30, 2010  
(Not Examined)

The following charts represent the age (date from which interest accrues), number, and corresponding liability of income tax refunds held by the Department of Revenue at June 30, 2010 due to cash shortages in the Income Tax Refund Fund.

<b>Business Income and Personal Property Replacement Tax</b>			
Refund Created Date	Original Refund Amount Payable	Interest Payable at June 30, 2010	Number Held
01/01/2008 - 03/31/2008	\$ 487,660	\$ 50,436	38
04/01/2008 - 06/30/2008	46,567	5,445	37
07/01/2008 - 09/30/2008	1,329,845	144,138	45
10/01/2008 - 12/31/2008	11,579,930	822,357	138
01/01/2009 - 03/31/2009	67,951,582	3,556,804	3,579
04/01/2009 - 06/30/2009	153,601,683	8,792,047	12,442
07/01/2009 - 09/30/2009	61,543,821	4,761,036	10,991
10/01/2009 - 12/31/2009	109,791,466	7,299,920	9,623
01/01/2010 - 03/31/2010	126,203,007	4,924,942	7,525
04/01/2010 - 06/30/2010	120,259,258	7,753,730	8,711
<b>TOTAL</b>	<b>\$ 652,794,819</b>	<b>\$ 38,110,855</b>	<b>53,129</b>

<b>Individual Income Tax</b>			
Refund Created Date	Original Refund Amount Payable	Interest Payable at June 30, 2010	Refunds Held
04/01/2009 - 06/30/2009	\$ 1	\$ -	1
07/01/2009 - 09/30/2009	-	-	0
10/01/2009 - 12/31/2009	31	-	1
01/01/2010 - 03/31/2010	11,305	180	32
04/01/2010 - 06/30/2010	43,562,311	54,911	123,245
<b>TOTAL</b>	<b>\$ 43,573,648</b>	<b>\$ 55,091</b>	<b>123,279</b>

Source: Department of Revenue Records

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**AVERAGE NUMBER OF EMPLOYEES**  
For the Year Ended June 30, 2010

	<b>FY10</b>	<b>FY09</b>
	<b>Average</b>	<b>Average</b>
	<b>Headcount</b>	<b>Headcount</b>
<b>Tax Operations</b>		
General Revenue	1,230	1,239
Motor Fuel Tax	237	213
County Motor Fuel Tax	6	6
Illinois Gaming Law Enforcement	4	9
Personal Property Tax Replacement	160	158
Underground Storage Tank	11	12
Home Rule Municipal Retailers' Occupation Tax	6	6
Illinois Tax Increment	4	4
Tax Compliance and Administration	36	35
<b>Total Tax Operations</b>	<b>1,694</b>	<b>1,682</b>
<b>Illinois Gaming Board</b>		
State Gaming	<b>0*</b>	<b>77</b>
<b>Liquor Control Commission</b>		
Dram Shop	<b>42</b>	<b>42</b>
<b>Illinois Racing Board</b>		
Horse Racing	<b>0*</b>	<b>53</b>
<b>Illinois State Lottery</b>		
State Lottery	<b>176</b>	<b>176</b>
<b>Shared Services</b>		
General Revenue	29	55
Motor Fuel Tax	6	5
Dram Shop	1	0
Horse Racing	1	1
State Gaming	2	2
State Lottery	4	6
<b>Total Shared Services</b>	<b>43</b>	<b>69</b>
<b>TOTAL DEPARTMENT</b>	<b>1,955</b>	<b>2,099</b>

\* The reduction in headcount reflects the separation of the Illinois Gaming Board and the Illinois Racing Board from the Department of Revenue on July 1, 2009.

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**EMERGENCY PURCHASES**  
For the Year Ended June 30, 2010

The Department reported the following emergency purchases to the Office of the Auditor General during Fiscal Year 2010:

<u>DESCRIPTION OF EMERGENCY PURCHASE</u>	<u>AMOUNT</u>
The Department contracted with a vendor on an emergency basis so the Department could have time to publish a new IFB and complete the bidding process for its Customer Relations Management System (CRM).	\$ 19,119
The Lottery contracted with a vendor with significant lottery experience to develop test scripts for complete customer acceptance testing for the implementation of the new Powerball game.	<u>24,823</u>
<b>TOTAL COST</b>	<u><u>\$ 43,942</u></u>

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**AUDIT COLLECTIONS STATISTICS**  
For the Year Ended June 30, 2010  
(Not Examined)

The following tables provide an analysis of the revenue collected by audit staff of the Department compared to the costs associated with the audit:

**Audit Collections per Audit Staff:**

	<b><u>Revenue Collections (Audits)</u></b>	<b><u>Audit Staff (Average)</u></b>	<b><u>Revenue / Audit Staff</u></b>
<b>FY05</b>	\$205,616,197	437	\$470,518
<b>FY06</b>	\$214,020,180	464	\$461,250
<b>FY07</b>	\$290,791,333	476	\$610,906
<b>FY08</b>	\$284,833,027	495	\$575,420
<b>FY09</b>	\$183,863,341	492	\$373,706
<b>FY10</b>	\$235,650,635	493	\$477,993

**Audit Collections per Audit Related Expenditures:**

	<b><u>Revenue Collections</u></b>	<b><u>Audit Related Expenditures</u></b>	<b><u>Revenue / \$ Spent</u></b>
<b>FY05</b>	\$205,616,197	\$37,131,256	\$5.5
<b>FY06</b>	\$214,020,180	\$38,033,371	\$5.6
<b>FY07</b>	\$290,791,333	\$41,707,747	\$7.0
<b>FY08</b>	\$284,833,027	\$47,275,341	\$6.0
<b>FY09</b>	\$183,863,341	\$50,165,301	\$3.7
<b>FY10</b>	\$235,650,635	\$38,916,363	\$6.1

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**SERVICE EFFORTS AND ACCOMPLISHMENTS**  
For the Year Ended June 30, 2010  
(Not Examined)

Administer State and Local Tax Laws:

Mission Statement: To maximize collection of revenues for the State of Illinois.

Program Goals:

Objectives:

1. Enhance tax enforcement.
  - a. Re-deploy resources to focus on enforcement.
2. Improve efficiency and effectiveness.
  - a. Expand electronic filing and payment offerings.
3. Advocate sound tax policies.
  - a. Close tax loopholes and eliminate unjustified tax avoidance schemes.
  - b. Develop accurate revenue forecasts.
4. Improve the quality and accessibility of taxpayer education and information.
  - a. Increase self-help and interactive tax assistance options.

Funds:

- General Revenue Fund
- Motor Fuel Tax – State Fund
- Transportation Regulatory Fund
- Underground Storage Tank Fund
- Home Rule Municipal Retailers' Occupation Tax Fund
- Illinois Department of Revenue Federal Trust Fund
- State and Local Sales Tax Reform Fund
- Regional Transportation Authority Occupation and Use Tax Replacement Fund
- County Option Motor Fuel Tax Fund
- Income Tax Refund Fund
- Debt Collection Fund
- Illinois Tax Increment Fund
- Tax Compliance and Administration Fund
- Local Government Distributive Fund
- Municipal Telecommunications Fund
- Personal Property Tax Replacement Fund

Statutory Authority: 35 ILCS

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**SERVICE EFFORTS AND ACCOMPLISHMENTS**  
For the Year Ended June 30, 2010  
(Not Examined)

Administer State and Local Tax Laws

	Fiscal Year 2008 Actual	Fiscal Year 2009 Actual	Fiscal Year 2010 Target/ Projected	Fiscal Year 2010 Actual	Fiscal Year 2011 Target/ Projected
<b>Input Indicators</b>					
Total expenditures all sources (in thousands)	\$ 4,666,692	\$ 4,491,499	\$ 6,384,846	\$ 3,990,195	\$ 5,368,133
Total expenditures - State appropriated funds (in thousands)	\$ 503,038	\$ 510,846	\$ 519,129	\$ 448,151	\$ 883,133
Average monthly full-time equivalents	1,684	1,742	1,762	1,682	1,821
Total expenditures - operations (State appropriated funds - in thousands)	\$ 175,779	\$ 191,307	\$ 186,677	\$ 171,214	\$ 183,638
Total expenditures - grants and refunds (State appropriated funds - in thousands)	\$ 327,259	\$ 319,539	\$ 332,451	\$ 276,987	\$ 699,495
<b>Output Indicators</b>					
Number of State and local taxes administered	70	68	70	70	70
State and local tax and fee collections (in millions)	\$ 36,332	\$ 30,622	\$ 31,000	\$ 29,132	\$ 30,000
Number of tax return documents processed- includes alternatively filed methods	17,210,322	17,384,066	17,300,000	17,238,162	17,318,500
Number of individual income tax returns processed	6,119,040	6,132,529	6,100,000	5,946,127	5,950,000
Number of individual income tax refunds issued	3,948,748	4,103,427	4,100,000	3,978,800	4,000,000
Number of direct deposits	2,111,507	2,323,594	2,419,000	2,418,002	2,500,000
Number of new registration applications processed	83,253	86,706	87,000	100,831	100,000
Number of active registration accounts	869,135	907,497	910,000	951,156	960,000
Delinquent tax debt cases closed	375,495	311,887	315,000	359,779	360,000
Delinquent tax debt collections (in thousands)	\$ 403,263	\$ 413,498	\$ 400,000	\$ 461,808	\$ 465,000
Number of phone calls answered on toll-free assistance lines	662,427	769,998	800,000	982,233	1,000,000

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**SERVICE EFFORTS AND ACCOMPLISHMENTS**  
For the Year Ended June 30, 2010  
(Not Examined)

Administer State and Local Tax Laws - (Continued)

	Fiscal Year 2008 Actual	Fiscal Year 2009 Actual	Fiscal Year 2010 Target/ Projected	Fiscal Year 2010 Actual	Fiscal Year 2011 Target/ Projected
<b><u>Outcome Indicators</u></b>					
Number of individual income tax returns filed electronically	3,174,857	3,435,449	3,700,000	3,585,127	4,000,000
Percent of individual income tax returns filed electronically	52%	56%	61%	60%	68%
Percent of tax and fee collections received via electronic funds transfer (EFT)	61%	66%	67%	67%	68%
Total tax and fee collections received via Electronic Funds Transfer (EFT) (in millions)	\$ 20,020	\$ 19,863	\$ 20,000	\$ 19,407	\$ 20,000
Average number of days from receipt of registration application to mailing of certificate	12.6	8.0	8.0	8.1	8.6
Average number of days from receipt of payment until deposit	1.0	1.0	1.0	1.0	1.0
Percent of dollars deposited on same day as receipt	90%	92%	92%	94%	94%
Percent of accurately and timely filed individual income tax returns	92%	91%	91%	90%	91%
Average number of days to issue an individual income tax refund	30.2	30.6	30.0	43.4	35.0
<b><u>Efficiency/Cost-Effectiveness</u></b>					
Cost to collect \$1,000 of tax and fees (in dollars)	\$ 4.80	\$ 6.20	\$ 6.00	\$ 5.90	\$ 6.10
Tax and fee collections per staff (in millions)	\$ 21.6	\$ 17.6	\$ 17.6	\$ 17.3	\$ 16.4
Delinquent tax debt collections per dollar spent on delinquent debt collection process (in dollars)	\$ 27	\$ 26	\$ 26	\$ 29	\$ 30

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**SERVICE EFFORTS AND ACCOMPLISHMENTS**  
For the Year Ended June 30, 2010  
(Not Examined)

Liquor Control Commission:

Mission Statement: To effectively regulate the manufacture, distribution, and sale of alcoholic beverages, and reduce youth access to tobacco products.

Program Goals:

Objectives:

1. Ensure Statewide compliance with the provisions, rules and regulations of the Liquor Control Act of 1934.
2. Reduce youth access to tobacco products in Illinois.
3. Review and determine eligibility of business entities to hold a liquor license in the State of Illinois.
4. Develop a public awareness campaign related to minimum-age liquor laws and to educate retail liquor establishments on how to guard against illegal sales and services to minors.

Funds: Dram Shop Fund

Statutory Authority: 235 ILCS 5/1 et seq.

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**SERVICE EFFORTS AND ACCOMPLISHMENTS**  
For the Year Ended June 30, 2010  
(Not Examined)

<u>Liquor Control Commission</u>	Fiscal Year 2008 Actual	Fiscal Year 2009 Actual	Fiscal Year 2010 Target/ Projected	Fiscal Year 2010 Actual	Fiscal Year 2011 Target/ Projected
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**Input Indicators**

Total expenditures all sources (in thousands)	\$ 5,410.6	\$ 5,524.5	\$ 8,497.4	\$ 5,895.8	\$ 7,877.4
Total expenditures - State appropriated funds (in thousands)	\$ 5,410.6	\$ 5,524.5	\$ 8,497.4	\$ 5,895.8	\$ 7,877.4
Average monthly full-time equivalents	39.0	43.0	49.0	42.0	50.0

**Output Indicators**

Inspections- Total	18,742	17,915	18,000	17,466	17,500
Licenses Issued	27,104	28,125	28,500	28,643	28,750

**Outcome Indicators**

Liquor inspections compliance rate	63.3%	62.0%	80.0%	65.5%	70.0%
Tobacco retailers compliance rate on State Annual Survey	94.7%	87.5%	90.0%	94.0%	94.0%

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**SERVICE EFFORTS AND ACCOMPLISHMENTS**  
For the Year Ended June 30, 2010  
(Not Examined)

Lottery:

Mission Statement: To help generate revenue for public education through the sale of entertaining lottery tickets.

Program Goals:

Objectives:

1. To develop and market lottery games that maximizes public participation and focus public attention on the Lottery as the preferred choice for legal gaming.
  - a. Develop a multi-faceted public relations/earned media campaign that builds public awareness and approval of the Lottery's role in public education funding.
  - b. Develop game and/or marketing changes to enhance sales of under performing online game portfolio.
  - c. Continue to grow game sales by increasing the use and proliferation of later point-of-purchase technology.
  
2. To award all prizes and incentives in a timely, efficient and secure manner.

Funds: State Lottery Fund

Statutory Authority: 20 ILCS 1605

STATE OF ILLINOIS  
DEPARTMENT OF REVENUE  
**SERVICE EFFORTS AND ACCOMPLISHMENTS**

For the Year Ended June 30, 2010

(Not Examined)

<u>Lottery</u>	Fiscal Year 2008 Actual	Fiscal Year 2009 Actual	Fiscal Year 2010 Target/ Projected	Fiscal Year 2010 Actual	Fiscal Year 2011 Target/ Projected
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**Input Indicators**

Total expenditures - all sources (in thousands)	\$ 2,078,228.4	\$ 2,095,506.3	\$ 2,192,880.0	\$ 2,196,644.1	\$ 2,283,000.0
Total expenditures - State appropriated funds (in thousands)	\$ 344,884.5	\$ 366,542.7	\$ 381,250.4	\$ 401,784.4	\$ 457,770.2
Average monthly full-time equivalents	179.0	187.0	182.0	176.0	194.0
Operating Expenses (in millions)	\$ 49.8	\$ 55.8	\$ 66.6	\$ 60.8	\$ 67.7

**Output Indicators**

Sales (in millions)	\$ 2,078.2	\$ 2,095.6	\$ 2,192.9	\$ 2,196.6	\$ 2,306.6
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**Outcome Indicators**

Transfers to the Common School Fund (in millions)	\$ 657.0	\$ 625.0	\$ 650.0	\$ 625.0	\$ 631.9
Percentage of sales transferred to the Common School Fund	31.6%	29.8%	29.6%	28.5%	27.4%