



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF REVENUE

State Compliance Examination
 For the Two Years Ended June 30, 2022

Release Date: October 12, 2023

FINDINGS THIS AUDIT: 18				AGING SCHEDULE OF REPEATED FINDINGS			
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	3	1	4	2020		6	
Category 2:	11	3	14	2018	4	9	
Category 3:	<u>0</u>	<u>0</u>	<u>0</u>	2007		8	
TOTAL	14	4	18				
FINDINGS LAST AUDIT: 10							

INTRODUCTION

The digest covers our Compliance Examination of the Department for the two years ended June 30, 2022. A separate Financial Audit as of and for the year ended June 30, 2022, was previously released on July 27, 2023. In total, this report contains 18 findings, 3 of which were reported in the Financial Audit.

SYNOPSIS

- (22-04) The Department was unable to provide adequate records substantiating the completeness of populations for one or more laws, regulations, or other requirements selected for testing. Therefore, we concluded the Department’s population records were not sufficiently precise and detailed under the Attestation Standards promulgated by the American Institute of Certified Public Accountants (AT-C § 205.36).
- (22-05) The Department did not prepare or publish reports of summary statistical information relating to license or permit applications of cigarette retailers as required by the Cigarette Tax Act (Act) (35 ILCS 130/).

- Category 1:** Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).
- Category 2:** Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.
- Category 3:** Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

COMPLETE POPULATIONS NOT PROVIDED

The Department of Revenue (Department) was unable to provide adequate records substantiating the completeness of populations for one or more laws, regulations, or other requirements. Due to these conditions, we concluded the Department's population records were not sufficiently precise and detailed under the Attestation Standards promulgated by the American Institute of Certified Public Accountants (AT-C § 205.36) to test the Department's compliance for certain testing areas.

Specifically, some of the issues we noted were:

Population for contractual agreements could not be provided

- While testing compliance with contractual agreements, we requested and the Department provided its contractual agreement populations and reconciliations for Fiscal Years 2021 and 2022. The Department was unable to provide reconciliations between the Agency Contract Report (SC14) or the Obligation Activity Report (SC15) for 5 of the 24 months (21%) requested. In addition, when comparing the SC14 reports to the Department's population, we noted eleven contracts found in the SC14 reports were not included in the Department's population.

Agency Workforce Report information could not be provided

- While testing compliance with Agency Workforce Reports, we requested the Department to provide support for reported employees and their salaries for Fiscal Years 2021 and 2022. However, the Department could not provide the requested documentation as it was not retained by the Department.

Personnel population could not be provided

- While testing compliance with personal services, we requested the Department's employee populations for employees who were hired, employees who had separated employment from the Department, and active employees as of the last payroll period for Fiscal Years 2021 and 2022. We noted several exceptions between the listings provided.

Population for water treatment facility applicants could not be provided

- While testing compliance with Property Tax Code (35 ILCS 200), we requested the Department provide a population of water treatment facility applicants for Fiscal Years 2021 and 2022, which have 2020 and 2021 assessments for tax purposes. However, the Department could not provide documentation to ensure the population was complete.

Even given the population limitations which hindered our ability to conclude whether the selected sample was representative of the population as a whole, we obtained the population provided by the Department for each of the areas the Department could not substantiate, selected a sample, and tested for compliance. Noncompliance for those samples selected are reported in Findings 2022-008 through 2022-011, 2022-013, and 2022-014. (Finding 4, pages 18-21) **This finding has been reported since 2018.**

We recommended the Department strengthen controls over the records maintained for each area in which a compliance requirement is present.

Department accepted the recommendation

The Department accepted the recommendation and stated it will review internal processes for accuracy to ensure complete populations are reported. As applicable, procedures will be updated and disseminated to staff.

INADEQUATE CONTROLS OVER THE CIGARETTE TAX ACT

Failure to prepare or publish reports of summary statistical information relating to license or permit applications of cigarette retailers

The Department did not prepare or publish reports of summary statistical information relating to license or permit applications of cigarette retailers as required by the Cigarette Tax Act (Act).

The Act (35 ILCS 130/) indicates in section 4g that the following parties are ineligible to receive a cigarette retailer's license: 1) persons convicted of a cigarette or tobacco-related felony if an investigation determines the person to not be sufficiently rehabilitated and 2) a corporation if any officer, manager, director or other shareholder owns more than 5% of the stock.

Further, the Act (35 ILCS 130/) indicates in section 4i that the Department must prepare, publicly announce, and publish a report of summary statistical information relating to new and renewal license or permit applications from the preceding calendar year, including information on denials, approvals, and applicants with prior conviction history.

Application process does not require background checks or a review of financial information

During testing, we noted the Department's application process for cigarette retailers currently does not include background checks for felony convictions or a review of financial information to determine if more than 5% of a corporation is owned by any officer, manager, director or stockholder. (Finding 5, page 22)

We recommended the Department enhance its application process to include a background check and financial review of the cigarette retailer applicants and to update its Bureau of Criminal Investigation database to include criminal conviction information in order to publish the required report.

Department accepted the recommendation

The Department accepted with the recommendation and stated it will modify the registration process and systemic edits to ensure ineligible applicants do not receive cigarette retailer licenses. In addition, the Department stated it will coordinate the publication of a report of summary statistical information relating to new and renewal license or permit applications from the preceding calendar year.

OTHER FINDINGS

The remaining findings are reportedly being given attention by the Department. We will review the Department’s progress towards the implementation of our recommendations in our next State compliance examination.

AUDITOR’S OPINION

The financial audit report was previously released. The auditors stated the Department as of and for the year ended June 30, 2022 are fairly stated in all material respects.

ACCOUNTANT’S OPINION

The accountants conducted a State compliance examination of the Agency for the two years ended June 30, 2022, as required by the Illinois State Auditing Act. The accountants qualified their report on State compliance for Findings 2022-001, 2022-002, 2022-004, and 2022-005. Except for the noncompliance described in these finding, the accountants stated the Agency complied, in all material respects, with the requirements described in the report.

This State compliance examination was conducted by RSM US, LLP.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

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

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

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