

**STATE OF ILLINOIS
ILLINOIS INDEPENDENT TAX TRIBUNAL**

COMPLIANCE EXAMINATION

For the Two Years Ended June 30, 2019

STATE OF ILLINOIS
ILLINOIS INDEPENDENT TAX TRIBUNAL
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2019

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TRIBUNAL OFFICIALS

Judges

Chief Administrative Law Judge	Mr. James Conway
Administrative Law Judge (1)	Mr. Brian Barov
Administrative Law Judge (2) (5/21/19 - 6/30/19)	Vacant
Administrative Law Judge (2) (11/7/18 - 5/20/19)	Mr. Michael Pieczonka
Administrative Law Judge (3)	Vacant

Administrative Services

Chief Administrative Officer	Ms. Kristene Callanta
Clerk	Vacant*
Reporter	Vacant*

*The Tribunal is statutorily required to appoint a clerk and reporter pursuant to the Illinois Independent Tax Tribunal Act (35 ILCS 1010/1-40). The vacancies above are considered noncompliance and are reported as part of Finding 2019-002 on page 12 of this report.

TRIBUNAL OFFICE

The Tribunal's office is located at:

Michael A. Bilandic Building
160 North LaSalle Street, Room N-506
Chicago, Illinois 60601



**Illinois Independent
Tax Tribunal**

*160 N. La Salle Street Room N506
Chicago, Illinois 60601*

*Phone: (312) 814-4285
Fax: (312) 814-4768
Email: ITT.TaxTribunal@
illinois.gov*

MANAGEMENT ASSERTION LETTER

November 13, 2020

Honorable Frank J. Mautino
Auditor General
State of Illinois
740 East Ash Street
Springfield, Illinois 62703-3154

Auditor General Mautino:

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 Illinois Independent Tax Tribunal (Tribunal). 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 Tribunal's compliance with the following specified requirements during the two-year period ended June 30, 2019. Based on this evaluation, we assert that during the years ended June 30, 2018, and June 30, 2019, the Tribunal has materially complied with the specified requirements listed below.

- A. The State of Illinois, Illinois Independent Tax Tribunal 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, Illinois Independent Tax Tribunal 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, Illinois Independent Tax Tribunal 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, Illinois Independent Tax Tribunal 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.

Yours truly,

Illinois Independent Tax Tribunal

SIGNED ORIGINAL ON FILE

James Conway,
Chief Administrative Law Judge

SIGNED ORIGINAL ON FILE

Kristene Callanta,
Chief Administrative Officer

STATE OF ILLINOIS
ILLINOIS INDEPENDENT TAX TRIBUNAL
STATE COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2019

COMPLIANCE REPORT

SUMMARY

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

ACCOUNTANT’S REPORT

The Independent Accountant’s Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations or disclaimers, but does contain a modified opinion on compliance and identifies a material weakness in internal control over compliance.

SUMMARY OF FINDINGS

<u>Number of</u>	<u>Current</u>	<u>Prior</u>
Findings	Report	Report
Findings	4	6
Repeated Findings	2	6
Prior Recommendations Implemented or Not Repeated	4	3

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Last Reported</u>	<u>Description</u>	<u>Finding Type</u>
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FINDINGS (STATE COMPLIANCE)

2019-001	10	2017	Inadequate Control over Filing Fees	Material Weakness and Material Noncompliance
2019-002	12	2017	Failure to Fully Implement the Illinois Independent Tax Tribunal Act of 2012	Significant Deficiency and Noncompliance
2019-003	14	New	Weaknesses in Cybersecurity Programs and Practices	Significant Deficiency and Noncompliance
2019-004	16	New	Lack of Due Diligence over ERP Transition	Significant Deficiency and Noncompliance

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<u>Item No.</u>	<u>Page</u>	<u>Last Reported</u>	<u>Description</u>	<u>Finding Type</u>
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PRIOR FINDINGS NOT REPEATED

A	17	2017	Inadequate Control over Reconciliations	
B	17	2017	Inadequate Accounting Records	
C	17	2017	Inadequate Segregation of Duties	
D	18	2017	Inadequate Control over Annual Reports to the General Assembly	

EXIT CONFERENCE

The Illinois Independent Tax Tribunal waived an exit conference in a correspondence from James Conway, Chief Administrative Law Judge, on November 4, 2020. The responses to the recommendations were provided by Judge Conway, in a correspondence dated November 13, 2020.

SPRINGFIELD OFFICE:

ILES PARK PLAZA
740 EAST ASH • 62703-3154
PHONE: 217/782-6046
FAX: 217/785-8222 • TTY: 888/261-2887
FRAUD HOTLINE: 1-855-217-1895



CHICAGO OFFICE:

MICHAEL A. BILANDIC BLDG. • SUITE 5-900
160 NORTH LASALLE • 60601-3103
PHONE: 312/814-4000
FAX: 312/814-4006
FRAUD HOTLINE: 1-855-217-1895

OFFICE OF THE AUDITOR GENERAL
FRANK J. MAUTINO

**INDEPENDENT ACCOUNTANT'S REPORT
ON STATE COMPLIANCE, ON INTERNAL CONTROL OVER COMPLIANCE, AND
ON SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES**

Honorable Frank J. Mautino
Auditor General
State of Illinois

Compliance

We have examined compliance by the State of Illinois, Illinois Independent Tax Tribunal's (Tribunal) with the specified 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 two years ended June 30, 2019. Management of the Tribunal is responsible for compliance with the specified requirements. Our responsibility is to express an opinion on the Tribunal's compliance with the specified requirements based on our examination.

The specified requirements are:

- A. The Tribunal 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 Tribunal 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 Tribunal 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 Tribunal 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.

Our examination was conducted 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*. Those standards, the Act, and the *Audit Guide* require that we plan and perform the examination to obtain reasonable assurance about whether the Tribunal complied with the specified requirements in all material respects. An examination involves performing procedures to obtain evidence about whether the Tribunal complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance with the specified requirements, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our modified opinion.

Our examination does not provide a legal determination on the Tribunal's compliance with the specified requirements.

Our examination disclosed material noncompliance with the following specified requirements applicable to the Tribunal during the two years ended June 30, 2019. As described in the accompanying Schedule of Findings as item 2019-001, the Tribunal had not complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations. In addition, the Tribunal had not ensured the State revenues and receipts collected by the Tribunal were in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts was fair, accurate, and in accordance with law.

In our opinion, except for the material deviation from the specified requirements described in the preceding paragraph, the Tribunal complied with the specified requirements during the two years ended June 30, 2019, in all material respects. However, the results of our procedures disclosed instances of noncompliance with the specified requirements, which are required to be reported in accordance with criteria established by the *Audit Guide* and are described in the accompanying Schedule of Findings as items 2019-002 through 2019-004.

The Tribunal's responses to the compliance findings identified in our examination are described in the accompanying Schedule of Findings. The Tribunal's responses were not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the responses.

The purpose of this report is solely to describe the scope of our testing and the results of that testing in accordance with the requirements of the *Audit Guide*. Accordingly, this report is not suitable for any other purpose.

Internal Control Over Compliance

Management of the Tribunal is responsible for establishing and maintaining effective internal control over compliance with the specified requirements (internal control).

In planning and performing our examination, we considered the Tribunal's internal control to determine the examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Tribunal's compliance with the specified requirements and to test and report on the Tribunal's internal control in accordance with the *Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of the Tribunal's internal control. Accordingly, we do not express an opinion on the effectiveness of the Tribunal's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, we did identify certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the specified requirements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material noncompliance with the specified requirements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as item 2019-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a 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 described in the accompanying Schedule of Findings as items 2019-002 through 2019-004 to be significant deficiencies.

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

The Tribunal's responses to the internal control findings identified in our examination are described in the accompanying Schedule of Findings. The Tribunal's responses were not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the responses.

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing based on the requirements of the *Audit Guide*. Accordingly, this report is not suitable for any other purpose.

Supplementary Information for State Compliance Purposes

Our examination was conducted for the purpose of forming an opinion on the Tribunal's compliance with the specified requirements. The accompanying supplementary information for the years ended June 30, 2018, and June 30, 2019, in Schedules 1 through 5 and the Analysis of Operations section are presented for purposes of additional analysis. Such information is the responsibility of Tribunal management. We have applied certain limited procedures as prescribed by the *Audit Guide* to the accompanying supplementary information for the years ended June 30,

2018, and June 30, 2019, in Schedules 1 through 5. We have not applied procedures to the accompanying supplementary information for the year ended June 30, 2017, in Schedules 3 through 5 and in the Analysis of Operations Section. We do not express an opinion, a conclusion, nor provide any assurance on the accompanying supplementary information in Schedules 1 through 5 or the Analysis of Operations Section.

SIGNED ORIGINAL ON FILE

JANE CLARK, CPA
Director of Financial and Compliance Audits

Springfield, Illinois
November 13, 2020

STATE OF ILLINOIS
ILLINOIS INDEPENDENT TAX TRIBUNAL
SCHEDULE OF FINDINGS – STATE COMPLIANCE
For the Two Years Ended June 30, 2019

2019-001. **FINDING** (Inadequate Control over Filing Fees)

The Illinois Independent Tax Tribunal (Tribunal) did not handle filing fees received with incorrectly filed petitions in accordance with State laws and regulations. In addition, the Tribunal did not timely remit Treasurer’s Drafts to complete the receipt process associated with properly filed petitions.

During testing, we noted the Tribunal receives petitions that are either immediately dismissed or dismissed with the ability to amend and refile. In either scenario, the Tribunal returns the petitioner’s original \$500 check or money order to the taxpayer through the mail. The Tribunal’s records indicated this occurred 23 times during Fiscal Year 2018 and 19 times during Fiscal Year 2019.

We noted the following noncompliance related to this process:

- The Tribunal did not process refunds, defined as repayments of fees paid in excess or in error to the State, through the standard voucher-warrant process as defined within the Statewide Accounting Management System (SAMS) (Procedure 11.10.40).
- The Tribunal did not have appropriation authority to issue refunds for the petitions which were denied or considered inadequate. The Tribunal's appropriation authority within the Illinois Independent Tax Tribunal Fund, Fund 0169, is as follows: Public Act 100-0021 appropriated \$168,700 in Fiscal Year 2018 and Public Act 100-0586 appropriated \$180,300 in Fiscal Year 2019 for operational expenditures, but neither Public Act included an appropriation to the Tribunal for paying refunds.

During both the prior examination and current examination, Tribunal management indicated it does not issue refunds as it believes the process it has in place of returning the original checks to the petitioners is adequate and efficient.

We also noted the Tribunal did not timely remit Treasurer’s Drafts related to properly filed petitions to the Office of the State Comptroller (Comptroller). Five of 60 (8%) Receipt Deposit Transmittals (RDTs) tested, totaling \$2,500, were not submitted to the Comptroller within a reasonable timeframe upon receipt of the Treasurer’s Draft. They were submitted between 2 and 22 days late. We determined 30 days to be a reasonable timeframe.

SAMS (Procedure 25.10.30) requires moneys received by the Tribunal in the form of checks, drafts, or similar instruments to be delivered to the State Treasurer for collection. The State Treasurer shall remit such collected funds to the Tribunal by Treasurer’s Draft. The draft shall be remitted to the Comptroller to be ordered into

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SCHEDULE OF FINDINGS – STATE COMPLIANCE
For the Two Years Ended June 30, 2019

the appropriate fund(s). Good internal controls require deposits to be processed timely to increase the balance of funds available for expenditure.

Management indicated the RDTs were not remitted timely due to employee error.

Failure to process remittances and issue refunds through the State’s normal procedures may result in lost checks, errors, and other irregularities. Additionally, failure to timely remit RDTs is considered noncompliance with SAMS and could lead to funds being misappropriated. (Finding Code No. 2019-001, 2017-004, 2015-004)

RECOMMENDATION

We recommend the Tribunal pay necessary refunds through the State’s voucher-warrant process and request an appropriation to pay refunds due. In addition, we recommend the Tribunal remit all RDTs to the Comptroller on a timely basis.

TRIBUNAL RESPONSE

We do not agree with the Auditor General’s recommendation. The Tax Tribunal cannot deposit checks for petitions that are deficient and cannot legally be accepted under the Tribunal statute. The Tax Tribunal has a written policy for when a petition is initially rejected for being deficient. If a petition cannot be accepted, any accompanying check will not be accepted as well and will be immediately returned to the petitioner. The fact a check is returned in a case that is not accepted is noted in the case order dismissing the case as well as in our internal docket system and our monthly fee/deposits reconciliations spreadsheets.

We agree with the Auditor General’s recommendation to timely submit RDT’s to the Comptroller. Certain RDT’s that were untimely were due to a conflict with timing on non-negotiable drafts and receipt batching. The conflict is now known to us.

ACCOUNTANT’S COMMENT

The issue within the finding is when a receipt is considered received under the State Officers and Employees Money Disposition Act as opposed to when the Tribunal can accept a petition given its limited jurisdiction under the Illinois Independent Tax Tribunal Act of 2012. To be received is commonly defined as “to be given, presented with, or paid,” and our position is the Tribunal has received a receipt when the mail is opened and a check or money order is located with the incomplete petition. Currently, the State Officers and Employees Money Disposition Act requires the Tribunal to deposit the entire remittance into the State Treasury.

If the Tribunal continues to disagree with our position, the Tribunal should seek a formal written opinion from the Office of the Attorney General.

STATE OF ILLINOIS
ILLINOIS INDEPENDENT TAX TRIBUNAL
SCHEDULE OF FINDINGS – STATE COMPLIANCE
For the Two Years Ended June 30, 2019

2019-002. **FINDING** (Failure to Fully Implement the Illinois Independent Tax Tribunal Act of 2012)

The Illinois Independent Tax Tribunal (Tribunal) did not comply with certain statutory requirements established within the Illinois Independent Tax Tribunal Act of 2012 (Act).

During testing, we noted the following:

- The Tribunal did not maintain a principal office located within Sangamon County.

The Act (35 ILCS 1010/1-35(a)) requires the Tribunal to maintain its principal offices in both Cook County and Sangamon County.

- The Tribunal did not appoint a clerk or reporter.

The Act (35 ILCS 1010/1-40(a)) requires the Tribunal to appoint a clerk and reporter.

- The Tribunal has not established requirements for the authentication of electronic submissions or legal signatures.

The Act (35 ILCS 1010/1-85(d)) requires the Tribunal to establish, by rule, reasonable requirements for the electronic submission of documents and records and the method and type of symbol or security procedure it will accept to authenticate electronic submissions or as a legal signature.

Tribunal management disagrees with these requirements of the Act. More specifically, management does not believe the caseload of the Tribunal warrants the cost of an additional office or additional employees.

Failure to maintain a principal office in Sangamon County, appoint a clerk and reporter, and establish rules for the electronic submission of documents represents noncompliance with the Act. (Finding Code No. 2019-002, 2017-005, 2015-008)

RECOMMENDATION

We recommend the Tribunal maintain an office in Sangamon County, appoint a clerk and reporter, and establish rules for the electronic submission of documents, or seek a legislative remedy.

STATE OF ILLINOIS
ILLINOIS INDEPENDENT TAX TRIBUNAL
SCHEDULE OF FINDINGS – STATE COMPLIANCE
For the Two Years Ended June 30, 2019

TRIBUNAL RESPONSE

We do not agree with the Auditor General’s recommendation. The Tax Tribunal will not hire additional employees, request that additional judges be appointed, or secure additional permanent office space in Springfield until the need arises and the related costs can be justified. The Tax Tribunal has been open for almost seven years and the statutorily mandated size of the office was a projection done prior to its operations commencing. The General Assembly has been advised through the Tax Tribunal’s yearly budget submissions and in budget hearings as to the Tribunal’s current and potential future staffing and facility needs. Moreover, our budget appropriations have been reduced to allow for a minimal budget to operate just our one office and with no additional hires. A legislative remedy to change the language of the statute should not be done at this time as being unduly burdensome and unnecessary as a stand-alone piece of legislation, but a legislative remedy will be sought when other legislative remedies or legislative enactments are being sought by the Tax Tribunal in the future.

Electronic signatures are not necessary to authenticate electronic submissions. Filings are typically submitted by the parties by email with expected addresses, reducing the need for further verification. No one is allowed to post any court submission directly to the Tax Tribunal’s docket system as only the judges, after reviewing a proposed filing, post the proposed filing to the docket. All parties’ public court filings and the Tax Tribunal’s orders/decisions are posted on the Tax Tribunal’s website so any false filing would be immediately noticeable to the parties and the court. As with the other sections of the Tax Tribunal statute listed in this finding that were enacted prior to the Tax Tribunal conducting operations, we will seek to delete this irrelevant statutory requirement through a legislative remedy when it is necessary to seek a legislative remedy to address a relevant component of the Tax Tribunal’s operations.

ACCOUNTANT’S COMMENT

Per the finding, the General Assembly mandated the Tribunal to have a principal office in Sangamon County and required the Tribunal to appoint both a reporter and a clerk to perform certain duties at the Tribunal. The primary responsibility of State agencies is to administer the functions given to them by the General Assembly in accordance with State law, as written. If the Tribunal believes compliance with a statute would result in an imprudent use of State resources, the Tribunal should seek a legislative remedy. In addition, if the Tribunal believes electronic signatures are not necessary and irrelevant to its operations, the Tribunal should seek a legislative remedy.

Further, the finding does not recommend the appointment of additional judges.

STATE OF ILLINOIS
ILLINOIS INDEPENDENT TAX TRIBUNAL
SCHEDULE OF FINDINGS – STATE COMPLIANCE
For the Two Years Ended June 30, 2019

2019-003. **FINDING** (Weaknesses in Cybersecurity Programs and Practices)

The Illinois Independent Tax Tribunal (Tribunal) had not implemented adequate internal controls related to cybersecurity programs and practices.

The Tribunal is charged with increasing public confidence in the fairness of the State tax system by resolving tax disputes between the Illinois Department of Revenue and the taxpayers. As a result, the Tribunal's system contains confidential or personal information such as name, address, Social Security number, and tax information.

The Illinois State Auditing Act (30 ILCS 5/3-2.2) requires the Auditor General to review State agencies and their cybersecurity program and practices. During our examination of the Tribunal's cybersecurity program and practices, we noted the Tribunal:

- Had not developed a formal, comprehensive, adequate, and communicated security program (policies, procedures, and processes) to manage and monitor regulatory, legal, environmental, and operational requirements;
- Had not conducted a risk assessment to identify and ensure adequate protection of information;
- Had not classified its data to ensure adequate protection; and,
- Had not evaluated and implemented appropriate controls to reduce the risk of attack.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001(3-4)) requires the Tribunal to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation and maintain accountability over the State's resources. Additionally, generally accepted information technology guidance, including the National Institute of Standards and Technology, endorses the development of well-designed and managed controls to protect systems and data.

Tribunal management indicated the deficiencies noted were due to employee error.

The lack of adequate cybersecurity programs and practices could result in unidentified risk and vulnerabilities and ultimately lead to the Tribunal's personal and confidential information being susceptible to cyber-attacks and unauthorized disclosure. (Finding Code No. 2019-003)

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SCHEDULE OF FINDINGS – STATE COMPLIANCE
For the Two Years Ended June 30, 2019

RECOMMENDATION

The Tribunal has the ultimate responsibility for ensuring confidential and personal information is protected from accidental or unauthorized disclosure. Specifically, we recommend the Tribunal:

- Perform a comprehensive risk assessment to identify and classify data to ensure adequate protection of confidential or personal information most susceptible to attack;
- Evaluate identified risks and implement appropriate controls to reduce risk; and,
- Establish and communicate the Tribunal’s security program (policies, procedures, and processes) to manage and monitor regulatory, legal, environmental, and operational requirements.

TRIBUNAL RESPONSE

We agree with the Auditor General’s recommendation. We recently concluded an Agency Business Workshop with DoIT. We received a Business Impact Analysis Validation Report on July 6, 2020.

STATE OF ILLINOIS
ILLINOIS INDEPENDENT TAX TRIBUNAL
SCHEDULE OF FINDINGS – STATE COMPLIANCE
For the Two Years Ended June 30, 2019

2019-004. **FINDING** (Lack of Due Diligence over ERP Transition)

The Illinois Independent Tax Tribunal (Tribunal) lacked due diligence over the transition to the Enterprise Resource Planning system (ERP).

On January 1, 2018, the Tribunal implemented the State’s ERP as its business process management system for tracking contracts, obligations, vouchers, and assets.

As part of the examination process, we requested the Tribunal’s documentation related to the conversion of data from their legacy systems in order to determine if their data had converted correctly. However, the Tribunal was unable to provide the requested documentation.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001(3-4)) requires the Tribunal to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation and maintain accountability over the State’s resources. Additionally, generally accepted information technology guidance endorses a process to ensure system development and data conversion activities are controlled, verified, and documented.

Tribunal management indicated the deficiencies noted were due to employee error.

The Tribunal’s lack of due diligence has resulted in the lack of assurance over the accuracy of the data converted. (Finding Code No. 2019-004)

RECOMMENDATION

We recommend the Tribunal establish adequate controls over the reconciliation and conversion of data converted during system development projects, such as the ERP.

TRIBUNAL RESPONSE

We agree with the Auditor General’s recommendation. We could not find any paperwork to validate the conversion. However, we believe all data converted during the ERP was done correctly as we have not noticed or become aware of even one instance of incorrect data input.

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SCHEDULE OF FINDINGS – NOT REPEATED FINDINGS
For the Two Years Ended June 30, 2019

A. **FINDING** (Inadequate Control over Reconciliations)

During the previous examination, the Illinois Independent Tax Tribunal (Tribunal) did not timely prepare and review reconciliations of the Tribunal's expenditure and receipt records to the State Comptroller's Records. In addition, the Tribunal did not submit all invoices received for payment to the State Comptroller.

During the current examination, we noted the Tribunal timely prepared and reviewed reconciliations of the Tribunal's expenditure and receipt records to the State Comptroller's Records. Finally, our sample testing indicated invoices received were submitted to the State Comptroller for payment. (Finding Code No. 2017-001, 2015-007)

B. **FINDING** (Inadequate Accounting Records)

During the previous examination, the Tribunal did not maintain accurate accounting records. The Tribunal maintained its internal accounting records on the modified accrual basis of accounting and the errors were found in the Tribunal's internal accounting records when reconciled to the Comptroller's records.

During the current examination, we noted the Tribunal maintained accurate accounting records. More specifically, our sample testing indicated no material errors when reconciling the Tribunal's internal accounting records to the Comptroller's records. (Finding Code No. 2017-002, 2015-002)

C. **FINDING** (Inadequate Segregation of Duties)

During the previous examination, the Tribunal did not maintain an adequate segregation of duties over its accounting and recordkeeping functions. More specifically, we noted the Tribunal's Chief Administrative Officer had authority to perform all parts of the receipt and expenditure transaction cycles.

During the current examination, the accountants noted the Tribunal has implemented mitigating controls, such as reviews and approval of all work being completed by the Chief Administrative Officer. This adequately segregated the duties and mitigated the risks associated with mishandling of receipts and expenditures due to inadequate segregation of duties. Additionally, the Tribunal previously entered activity directly into the Statewide Accounting Management System (SAMS), creating a greater need for segregation of duties. During the examination period, the Tribunal no longer has authority to directly enter activity into the SAMS, decreasing the risks associated with a lack of segregation of duties. (Finding Code No. 2017-003, 2015-006)

STATE OF ILLINOIS
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SCHEDULE OF FINDINGS – NOT REPEATED FINDINGS
For the Two Years Ended June 30, 2019

D. **FINDING** (Inadequate Control over Annual Reports to the General Assembly)

During the previous examination, the Tribunal did not ensure its annual reports to the General Assembly were complete and accurate.

During the current examination, our detail testing indicated the Tribunal ensured reports submitted to the General Assembly were complete and accurate. (Finding Code No. 2017-006, 2015-009)

STATE OF ILLINOIS
ILLINOIS INDEPENDENT TAX TRIBUNAL
SCHEDULE OF APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES
Expenditure Authority for Fiscal Year 2019

For the Sixteen Months Ended October 31, 2019

Public Act 100-0586	Expenditure Authority (Net of Transfers)	Lapse Period		Total Expenditures 16 Months Ended October 31	Balances Lapsed October 31
		Expenditures Through June 30	Expenditures July 1 to October 31		
APPROPRIATED FUNDS					
General Revenue Fund - 001					
Operational Expenses	\$ 607,000	\$ 506,793	\$ 19,328	\$ 526,121	\$ 80,879
Subtotal, Fund 001	<u>\$ 607,000</u>	<u>\$ 506,793</u>	<u>\$ 19,328</u>	<u>\$ 526,121</u>	<u>\$ 80,879</u>
Illinois Independent Tax Tribunal Fund - 169					
Operational Expenses	\$ 180,300	\$ 31,862	\$ 11,414	\$ 43,276	\$ 137,024
Subtotal, Fund 169	<u>\$ 180,300</u>	<u>\$ 31,862</u>	<u>\$ 11,414</u>	<u>\$ 43,276</u>	<u>\$ 137,024</u>
GRAND TOTAL - ALL FUNDS	<u>\$ 787,300</u>	<u>\$ 538,655</u>	<u>\$ 30,742</u>	<u>\$ 569,397</u>	<u>\$ 217,903</u>

Note 1: Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the State Comptroller's records as of October 31, 2019, and have been reconciled to Tribunal records.

Note 2: Expenditure amounts are vouchers approved for payment by the Tribunal and submitted to the State Comptroller for payment to the vendor.

STATE OF ILLINOIS
ILLINOIS INDEPENDENT TAX TRIBUNAL
SCHEDULE OF APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES
Expenditure Authority for Fiscal Year 2018

For the Sixteen Months Ended October 31, 2018

Public Act 100-0021	Expenditure Authority (Net of Transfers)	Lapse Period		Total Expenditures 16 Months Ended October 31	Balances Lapsed October 31
		Expenditures Through June 30	Expenditures July 1 to October 31		
FISCAL YEAR 2018					
APPROPRIATED FUNDS					
General Revenue Fund - 001					
Operational Expenses	\$ 607,000	\$ 333,953	\$ 17,414	\$ 351,367	\$ 255,633
Subtotal, Fund 001	<u>\$ 607,000</u>	<u>\$ 333,953</u>	<u>\$ 17,414</u>	<u>\$ 351,367</u>	<u>\$ 255,633</u>
Illinois Independent Tax Tribunal Fund - 169					
Operational Expenses	\$ 168,700	\$ 138,107	\$ 5,371	\$ 143,478	\$ 25,222
Subtotal, Fund 169	<u>\$ 168,700</u>	<u>\$ 138,107</u>	<u>\$ 5,371</u>	<u>\$ 143,478</u>	<u>\$ 25,222</u>
GRAND TOTAL - ALL FUNDS	<u>\$ 775,700</u>	<u>\$ 472,060</u>	<u>\$ 22,785</u>	<u>\$ 494,845</u>	<u>\$ 280,855</u>

Note 1: Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the State Comptroller's records as of October 31, 2018, and have been reconciled to Tribunal records.

Note 2: Expenditure amounts are vouchers approved for payment by the Tribunal and submitted to the State Comptroller for payment to the vendor.

Note 3: Notwithstanding anything within Public Act 100-0021 to the contrary, Public Act 100-0021 authorized the Tribunal to pay for all costs incurred prior to July 1, 2018, using either its Fiscal Year 2017 or Fiscal Year 2018 appropriations for non-payroll expenditures. The Analysis of Operations section of this report includes information from Tribunal management about the number of invoices and the total dollar amount of invoices from Fiscal Year 2016 and Fiscal Year 2017 held by the Tribunal to be submitted against either its Fiscal Year 2017 or Fiscal Year 2018 appropriation.

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

	Fiscal Year		
	2019 P.A. 100-0586	2018 P.A. 100-0021	2017 P.A. 099-0524 and Court-Ordered Expenditures
General Revenue Fund - 001			
Appropriations	\$ 607,000	\$ 607,000	
Expenditures			
Operational Expenses	\$ 526,121	\$ 351,367	\$ 417,808
Total Expenditures	\$ 526,121	\$ 351,367	\$ 417,808
Lapsed Balances	\$ 80,879	\$ 255,633	
Illinois Independent Tax Tribunal Fund - 169			
Appropriations	\$ 180,300	\$ 168,700	\$ 167,600
Expenditures			
Operational Expenses	\$ 43,276	\$ 143,478	\$ 22,785
Total Expenditures	\$ 43,276	\$ 143,478	\$ 22,785
Lapsed Balances	\$ 137,024	\$ 25,222	\$ 144,815
Budget Stabilization Fund - 686			
Appropriations	\$ -	\$ -	\$ 25,000
Expenditures			
Operational Expenses	\$ -	\$ -	\$ -
Total Expenditures	\$ -	\$ -	\$ -
Lapsed Balances	\$ -	\$ -	\$ 25,000
TOTAL - APPROPRIATED FUNDS			
Appropriations	\$ 787,300	\$ 775,700	\$ 192,600
Total Expenditures	\$ 569,397	\$ 494,845	\$ 440,593
Lapsed Balances	\$ 217,903	\$ 280,855	\$ 169,815

Note 1: Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the State Comptroller's records as of October 31, 2018, and October 31, 2019, and have been reconciled to Tribunal records.

Note 2: Expenditure amounts are vouchers approved for payment by the Tribunal and submitted to the State Comptroller for payment to the vendor.

Note 3: Notwithstanding anything within Public Act 100-0021 to the contrary, Public Act 100-0021 authorized the Tribunal to pay for all costs incurred prior to July 1, 2018, using either its Fiscal Year 2017 or Fiscal Year 2018 appropriations for non-payroll expenditures. The Analysis of Operations section of this report includes information from Tribunal management about the number of invoices and the total dollar amount of invoices from Fiscal Year 2016 and Fiscal Year 2017 held by the Tribunal to be submitted against either its Fiscal Year 2017 or Fiscal Year 2018 appropriation.

STATE OF ILLINOIS
ILLINOIS INDEPENDENT TAX TRIBUNAL
**COMPARATIVE SCHEDULE OF CASH RECEIPTS AND
RECONCILIATION OF CASH RECEIPTS TO DEPOSITS
REMITTED TO THE STATE COMPTROLLER**

For the Fiscal Years Ended June 30,

<u>Illinois Independent Tax Tribunal Fund - 169</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Filing Fees	\$ 82,000	\$ 80,500	\$ 90,500
Record Fees	-	-	304
Comptroller Refunds	1,086	-	-
Total Cash Receipts per Tribunal Records	<u>\$ 83,086</u>	<u>\$ 80,500</u>	<u>\$ 90,804</u>
Add: Deposits in Transit, Beginning of Year	12,500	2,000	1,500
Less: Deposits in Transit, End of Year	1,500	12,500	2,000
Total Cash Receipts per State Comptroller	<u><u>\$ 94,086</u></u>	<u><u>\$ 70,000</u></u>	<u><u>\$ 90,304</u></u>

STATE OF ILLINOIS
 ILLINOIS INDEPENDENT TAX TRIBUNAL
 COMPLIANCE EXAMINATION
SCHEDULE OF CHANGES IN STATE PROPERTY
 For the Two Years Ended June 30, 2019

	<u>Equipment</u>
Balance at July 1, 2017	\$ 54,487
Additions	-
Deletions	-
Net Transfers	<u>-</u>
Balance at June 30, 2018	<u><u>\$ 54,487</u></u>
Balance at July 1, 2018	\$ 54,487
Additions	-
Deletions	-
Net Transfers	<u>-</u>
Balance at June 30, 2019	<u><u>\$ 54,487</u></u>

Note: This schedule has been derived from the Tribunal's records, which were reconciled to property reports submitted to the Office of the State Comptroller.

STATE OF ILLINOIS
ILLINOIS INDEPENDENT TAX TRIBUNAL
AGENCY FUNCTIONS AND PLANNING PROGRAM
For the Two Years Ended June 30, 2019
(NOT EXAMINED)

Tribunal Functions

The Illinois Independent Tax Tribunal (Tribunal) was established by the Illinois Independent Tax Tribunal Act of 2012 (35 ILCS 1010). The Tribunal began operations on January 1, 2014.

The Tribunal was created to increase public confidence in the fairness of the State’s tax system. A major component of the Tribunal’s mission is to foster the settlement of tax disputes to the extent possible and, in cases where litigation is necessary, provide taxpayers with a fair, independent, and tax-expert forum to resolve disputes between taxpayers and the Department of Revenue. To achieve this objective, the Tribunal conducts administrative hearings to adjudicate disputes prior to the taxpayer being required to pay the disputed amount.

The Tribunal, an independent agency of the State of Illinois, functions as an administrative law court under the executive branch of government. The Tribunal’s hearings are open to the public and all court documents, including documents filed by taxpayers or the Department of Revenue and the Tribunal’s orders for each case, are posted on the Tribunal’s website, www.illinois.gov/taxtribunal. The Tribunal’s limited jurisdiction only arises when both of the following two conditions are satisfied:

- 1) The Department of Revenue has issued a Notice of Deficiency, Notice of Tax Liability, Notice of Claim Denial, or Notice of Penalty Liability to a taxpayer when either:
 - the aggregate amount of a tax year or audit period exceeds \$15,000, exclusive of interest and penalties; or,
 - the aggregate total of interest and penalties exceeds \$15,000 in cases assessing only interest and/or penalties.

- 2) The Notice of Deficiency, Notice of Tax Liability, Notice of Claim Denial, or Notice of Penalty Liability involves one of the following tax statutes:

1)	Illinois Income Tax Act	12)	Cigarette Tax Act
2)	Use Tax Act	13)	Cigarette Use Tax Act
3)	Service Use Tax Act	14)	Tobacco Products Tax Act of 1995
4)	Service Occupation Tax Act	15)	Hotel Operators’ Occupation Tax Act
5)	Retailers’ Occupation Tax Act	16)	Electricity Excise Tax Law
6)	Public Utilities Revenue Act	17)	Aircraft Use Tax Law
7)	Motor Fuel Tax Law	18)	Watercraft Use Tax Law
8)	Gas Revenue Tax Act	19)	Uniform Penalty and Interest Act
9)	Gas Use Tax Law	20)	Telecommunications Excise Tax Act
10)	Water Company Invested Capital Tax Act	21)	Telecommunications Infrastructure Maintenance Fee Act
11)	Automobile Renting Occupation and Use Tax Act	22)	Coin-Operated Amusement Device and Redemption Machine Tax Act

STATE OF ILLINOIS
ILLINOIS INDEPENDENT TAX TRIBUNAL
AGENCY FUNCTIONS AND PLANNING PROGRAM
For the Two Years Ended June 30, 2019
(NOT EXAMINED)

Tribunal Planning

The Chief Administrative Law Judge and Chief Administrative Officer prepare a proposed annual budget and submit it to the Governor's Office of Management and Budget for review and approval and submit the final proposed budget to the House and Senate. The Tribunal reports budgeting metrics to the Governor's Office of Management and Budget on a quarterly and annual basis. Also, an annual report is prepared for the House and Senate based on information requested and per statutory requirements.

The Tribunal has codified its procedural rules within the Illinois Administrative Code (86 Ill. Admin. Code 5000). Each year, the Chief Administrative Law Judge reviews proposed changes to the Tribunal's administrative rules and procedures with the Chicago Bar Association's State and Local Tax Committee, the Illinois State Bar Association's State and Local Tax Committee, and the Tax Federation of Illinois. When new administrative rules need to be implemented, proposed administrative rule changes are submitted to the Joint Committee on Administrative Rules for ultimate approval and publication by the Secretary of State in the Illinois Register.

STATE OF ILLINOIS
ILLINOIS INDEPENDENT TAX TRIBUNAL
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For the Two Years Ended June 30, 2019
(NOT EXAMINED)

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN FISCAL YEARS 2019 AND 2018

General Revenue Fund - 001

Operational Expenses

The increase in expenditures was due to the Tribunal paying approximately \$100,000 of personal services and related expenses from the Illinois Independent Tax Tribunal Fund (169) at the direction of the Governor's Office of Management & Budget for budget stabilization in Fiscal Year 2018. These expenses were paid from the General Revenue Fund in Fiscal Year 2019.

Illinois Independent Tax Tribunal Fund - 169

Operational Expenses

The decrease in expenditures was due to the Tribunal paying approximately \$100,000 of personal services and related expenses from the Illinois Independent Tax Tribunal Fund (169) at the direction of the Governor's Office of Management & Budget for budget stabilization in Fiscal Year 2018. These expenses were paid from the General Revenue Fund in Fiscal Year 2019.

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN FISCAL YEARS 2018 AND 2017

Illinois Independent Tax Tribunal Fund - 169

Operational Expenses

The decrease in expenditures was due to the Tribunal paying approximately \$100,000 of personal services and related expenses from the Illinois Independent Tax Tribunal Fund (169) at the direction of the Governor's Office of Management & Budget for budget stabilization in Fiscal Year 2018. These expenses were paid from the General Revenue Fund in Fiscal Year 2017.

STATE OF ILLINOIS
ILLINOIS INDEPENDENT TAX TRIBUNAL
ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS
For the Two Years Ended June 30, 2019
(NOT EXAMINED)

ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS BETWEEN FISCAL YEARS 2019 AND 2018

Illinois Independent Tax Tribunal Fund – 169

No significant variations were noted between Fiscal Years 2019 and 2018.

ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS BETWEEN FISCAL YEARS 2018 AND 2017

Illinois Independent Tax Tribunal Fund – 169

Filing Fees

The decrease in filing fee receipts was due to the decrease in individuals filing claims with the Tribunal. The number of filing fee receipts is expected to vary from year to year based on the number of claims filed with the Tribunal.

STATE OF ILLINOIS
ILLINOIS INDEPENDENT TAX TRIBUNAL
ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING
For the Two Years Ended June 30, 2019
(NOT EXAMINED)

FISCAL YEAR 2019

General Revenue Fund - 001

There were no instances of significant lapse period spending by the Tribunal during Fiscal Year 2019.

Illinois Independent Tax Tribunal Fund - 169

The lapse period spending was due to the timing of when billings were received for revolving funds and other intergovernmental transactions. The Tribunal has no control over when the other agencies bill the Tribunal. The Tribunal paid the billings when they were received.

FISCAL YEAR 2018

General Revenue Fund - 001

There were no instances of significant lapse period spending by the Tribunal during Fiscal Year 2018.

Illinois Independent Tax Tribunal Fund - 169

There were no instances of significant lapse period spending by the Tribunal during Fiscal Year 2018.

STATE OF ILLINOIS
ILLINOIS INDEPENDENT TAX TRIBUNAL
BUDGET IMPASSE DISCLOSURES
For the Two Years Ended June 30, 2019
(NOT EXAMINED)

Payment of Prior Year Costs in Future Fiscal Years

Article 74 of Public Act 099-0524 authorized the Tribunal to pay Fiscal Year 2016 costs using the Tribunal's Fiscal Year 2017 appropriations for non-payroll expenditures. The Tribunal had two outstanding invoices at the closure of the Fiscal Year 2016 Lapse Period on August 31, 2016. These invoices were referred to the Court of Claims during Fiscal Year 2017. As such, the Tribunal did not use its Fiscal Year 2017 appropriations to pay its Fiscal Year 2016 costs.

In addition, Article 998 of Public Act 100-0021 authorized the Tribunal to pay its unpaid Fiscal Year 2016 and Fiscal Year 2017 costs using either the Tribunal's Fiscal Year 2017 or Fiscal Year 2018 appropriations for non-payroll expenditures. The Tribunal did not have any outstanding invoices from Fiscal Year 2017 unpaid after the closure of the Fiscal Year 2017 Lapse Period on September 30, 2017. Therefore, the Tribunal did not use its Fiscal Year 2018 appropriations to pay its Fiscal Year 2016 or Fiscal Year 2017 costs.

STATE OF ILLINOIS
 ILLINOIS INDEPENDENT TAX TRIBUNAL
AVERAGE NUMBER OF EMPLOYEES
 For the Two Years Ended June 30, 2019
 (NOT EXAMINED)

The following table, prepared from the Tribunal's records, presents the average number of employees, by function, for the Fiscal Years Ended June 30,

<u>Division</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<i>Judges</i>			
Chief Administrative Law Judge	1	1	1
Administrative Law Judge	2	1	1
<i>Administrative Services</i>			
Chief Administrative Officer	1	1	1
Clerk ¹	0	0	0
Reporter ¹	0	0	0
Total Full-Time Equivalent Employees	<u>4</u>	<u>3</u>	<u>3</u>

¹ The Tribunal is statutorily required to appoint a clerk and reporter pursuant to the Illinois Independent Tax Tribunal Act (35 ILCS 1010/1-40). The vacancies above are considered noncompliance and are reported as part of Finding 2019-002 on page 12 of this report.