OFFICE OF THE AUDITOR GENERAL

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Performance Audit
Report Highlights

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Program Audit of the
Business Interruption Grant Program

Background:

Legislative Audit Commission Resolution 159, adopted September 1, 2021, directed the Auditor General to conduct a performance audit of the Business Interruption Grant (BIG) program. The BIG program was developed to provide $585 million in economic relief for small businesses hit hardest by COVID-19.

The Department of Commerce and Economic Opportunity (DCEO) had responsibility for the development and implementation of the BIG program. DCEO entered into agreements with the Departments of Human Services (DHS) and Agriculture (DOA) to assist with other components of BIG.

Key Findings:

- DCEO could not provide documentation to show how or why it selected organizations to administer Round 1 of the BIG program. One of the grant administrators, as well as a DCEO official, appears to have not complied with conflict of interest policies at DCEO. **The BIG grant administrators were to distribute $580 million** in funds. An additional $5 million was to be administered by DOA.
- DCEO **initiated the small business component of the BIG program without having emergency administrative rules in place** for the administration of the program. Rules had not been implemented before the completion of Round 1 of the small business component of BIG. Additionally, even after the lack of timeliness for Round 1, DCEO was unable to amend the rules for Round 2 of the small business component of BIG timely. DCEO filed amended rules **12 days after the Round 2 application process had started**, a process that utilized a preference for certain types of businesses to receive preferential treatment in the selection process.
- DCEO allowed, without verification, BIG small business grant applicants to self-certify that they complied with all laws as well as reporting other pandemic funding. We found that not all applicants' certifications were accurate. Nonetheless, DCEO and its grant administrators awarded funding to these applicants.
- The BIG program was designated by the General Assembly to provide assistance for businesses that had **losses due to COVID-19**. DCEO utilized an eligibility category for the small business component of BIG that **was not specified in the Public Act passed** by the General Assembly. DCEO paid **over $11 million to 630 applicants** that applied under this eligibility designation.
- DCEO awarded small business applicants in Round 1 of the BIG program funding **when the businesses were not eligible** based on information submitted in the application. Our analysis found **196 ineligible applicants received $3.42 million**. Additionally, the application system developed by a DCEO grant administrator that was supposed to not allow ineligible applicants to submit finalized applications **failed to work as advertised**.
- DCEO oversight of the award selection process for the small business component of BIG was insufficient. Our testing of the selection process found significant deficiencies in both rounds.
  - In Round 1, we were **only able to concur with 8 percent** of the BIG awards from our sample. We determined that **16 percent** of the BIG awards, totaling $430,000, in our sample **were ineligible** for reasons such as revenues outside the criteria or restaurants providing outdoor dining. We also **questioned 76 percent** of the BIG awards, totaling $1,980,000, in our sample due to **lack of required documentation** being submitted by the applicant.
  - In Round 2, we were **only able to concur with 41 percent** of the BIG awards from our sample. We determined **that 29 percent** of the BIG awards in our sample had one or more questioned elements. Additionally, we determined that **30 percent of the awards made by DCEO in our Round 2 sampling were ineligible**. Finally,

questionable expenses from our selection-testing sample totaled **$1,335,708 – 28 percent of all funds awarded from the Round 2 sample**.

- DCEO utilized an award determination process which **failed to follow the directive of State statute** relative to funding for COVID-19 losses. By rounding loss amounts up to the next $5,000, DCEO **reduced the funding levels** while some applicants went without funding. In our selection testing work, we found 47 percent of the awards overpaid the documented losses by a total of $171,000. Our sample of 150 award winner cases was just over 2 percent of the total awards in Round 2 of the small business component of BIG.
- DCEO and its grant administrators for the small business component of BIG **awarded funding in excess of program policy**. Eleven business owners received funding for businesses in excess of the three for which each owner was eligible. **Total overpayment of funds totaled $220,000**. DCEO is responsible for overseeing grant programs, including ones in which program administrators are utilized.
- DCEO **failed to execute grant agreements** with grant administrators for the small business component of the BIG program **prior to** the grant administrators working on the BIG program. Further, DCEO **required funding applicants to submit multiple pieces of confidential information** to these grant administrators that were operating without an executed grant with the State of Illinois. Finally, DCEO was **unaware of the actual individuals** that would view this confidential information, even though some of these individuals were temporary staff hired by the grant administrators.
- DCEO **failed to maintain notifications to applicants** of the BIG program. Additionally, DCEO paid an outside vendor for a mass mailing system that did not maintain a retrieval function instead of utilizing a State system at the Department of Innovation and Technology, which could have been less costly and had the ability to retrieve the notifications.
- DCEO failed to monitor that the payment of small business component funding was provided within program guidelines. During our testing we found that in **49 percent (67 of 136) of the cases, the grant administrator failed to provide funding within 14 days of DCEO approval**.
- DCEO had **monitoring weaknesses** relative to the uses of funding provided as part of the small business component of the BIG program. DCEO **failed to conduct** routine monitoring of the funds provided under BIG and at times did not have documentation to conduct monitoring. The lack of documentation **made it impossible for DCEO to know if the same claimed losses were utilized by an applicant to obtain funding under different programs**.
- DCEO and its grant administrators failed to follow BIG program requirements relative to deducting previous awards from future BIG funding for the small business component of the program. This inaction resulted in the **overpayment of $4.29 million in BIG funds**.
- DCEO failed to monitor all terms of the grant agreements with grant administrators. The lack of monitoring resulted in one grant administrator **not providing tax information on $4.4 million in BIG funds to 305 sub-recipients**.
- DCEO **did not claw back funds** for noncompliance. DCEO became aware of instances of violations but did not initially have a system in place to manage businesses found to be in violation of law, regulations, and executive orders. DCEO **relied on the attestations of the recipient** that they would comply or were already complying with the mitigation efforts.
- Testing for the child care component and the livestock management component did not find any significant or pervasive issues. We concurred with all of the grant awards and grant denials in our sample.

Key Recommendations:

The audit report contains 15 recommendations directed to DCEO:

- DCEO should develop and maintain documentation on why and how it has selected grant administrators when DCEO delegates the responsibility for that administration to outside parties.
- DCEO should develop administrative rules for new grant programs prior to the initiation of the program.
- When DCEO allows grant applicants to self-certify information on the grant application, DCEO should develop controls to check those certifications for accuracy.
- DCEO should design grant application selection criteria that are aligned with directives in State statute.

- DCEO should make sure that eligibility criteria are followed when conducting a grant program and not allow ineligible applicants to receive funding.
- DCEO should, when utilizing grant administrators to make funding selections, conduct more extensive oversight by ensuring administrators understand the evaluation criteria and by reviewing a significant amount of application documentation to determine if awards were correctly made.
- DCEO should comply with requirements in State statute relative to award of funding for specific purposes.
- DCEO should take the steps necessary to ensure that grant awardees do not receive funds in excess of program policy.
- DCEO should, when utilizing outside grant administrators, ensure that grant agreements are executed prior to allowing the entities to work on the grant program. Additionally, when the grant administrators are able to view confidential information as part of the program, DCEO should develop procedures to monitor that the confidential documents are securely maintained.
- DCEO should maintain a history of notifications to applicants of grant programs it is responsible for when it decides to utilize a third party for those notifications.
- DCEO should, when allowing grant administrators to pay out grant funds, develop controls to ensure that payments are timely made by those grant administrators.
- DCEO should: conduct the monitoring that it develops for grant program criteria; follow contractual criteria it develops and obtain the documentation to support grant awards when a third party administrator is utilized to select grant recipients; comply with administrative rules and obtain documentation to demonstrate how grant funds are utilized; and conduct monitoring efforts to ensure that multiple sources of funding are not utilized for the same expenses.
- DCEO should take steps to ensure that grant administrators appropriately apply program requirements to applications including, when applicable, the deduction of previous awards. Additionally, DCEO should not approve awards until adequate review has been conducted.
- DCEO should take the steps necessary to ensure that the terms of grant agreements, including sending 1099 forms when applicable, are complied with by grant administrators.
- DCEO should have a system in place to manage notices of grant program violators and should enforce the program requirements it creates.

This performance audit was conducted by the staff of the Office of the Auditor General.

Report Digest

On September 1, 2021, the Legislative Audit Commission (LAC) adopted Resolution 159 directing the Auditor General to conduct a program audit of the Business Interruption Grant (BIG) program. The Resolution contained several issues to examine. Our assessment of these issues is shown in Digest Exhibit 1. (page 1)

Digest Exhibit 1
ASSESSMENT OF AUDIT DETERMINATIONS

Audit Determinations	Auditor Assessment
An examination of the application process, the documentation submitted, and the selection of grants by the Department of Commerce and Economic Opportunity (DCEO), the Department of Human Services (DHS), and the Department of Agriculture (DOA) for the BIG program.	• Auditors found the DCEO oversight of the award selection process for the small business component of BIG was insufficient. (pages 14-38)
An examination of the monitoring oversight by DCEO, DHS, and DOA for grant recipients including whether all eligibility requirements were satisfied and expenses submitted were allowable.	• Auditors found DCEO had significant deficiencies in the monitoring of the small business component of the BIG program. (pages 39-55)
An examination of how DCEO allocated funding in the BIG program to disproportionately impacted areas and whether the allocation was at least 30 percent of total funding.	• Auditors found that DCEO allocated funding based on the requirements in State statute for the BIG program. (pages 56-57)
An examination of DCEO compliance with prioritizing severely impacted businesses and industries.	• Auditors found that DCEO developed a listing of Disproportionately Impacted Areas (DIAs) for the BIG program. The listing, as stated in statute, was based on the COVID-19 levels and areas that had certain poverty levels. (pages 58-59)
An examination of the role of the Community Navigators, if any, in the selection of grant recipients in the BIG program.	• Auditors found DCEO only minimally utilized a few firms to provide technical outreach and assistance. Community Navigators were not utilized until the BIG successor program, Back to Business, was initiated. (pages 60-63)
An examination of the actions taken by DCEO, DHS, and DOA when a BIG participant was not in compliance with any step in the application process or made a material misrepresentation in reporting on the use of funds provided as part of the BIG program.	• Auditors found DCEO did not have a formal process to claw back funds that were paid to BIG recipients that were in violation of the terms of the BIG program. (pages 64-68)

Source: OAG assessment of the audit determinations contained in LAC Resolution 159.

Background

Public Act 101-636, effective June 10, 2020, amended the DCEO Law of the Civil Administrative Code by adding section 605-1050. This addition **created the BIG program to be administered by DCEO**. According to statute, the purpose of the BIG program was **to provide financial support to businesses that have experienced interruption of business or other adverse conditions attributable to the COVID-19 public health emergency** [20 ILCS 605/605-1050].

The BIG program was **designed** to fund three types of grants: small business, child care, and livestock management. See the adjacent text box for **the initial grant funding levels** for each type of grant. (page 2)

BIG Program Grant Funding Levels

Small Business - $290 million

Child Care - $290 million

Livestock Management - $5 million

Outsourcing the Small Business Component of the BIG Program

DCEO **outsourced the BIG program** to a number of grant administrators and community partners. These administrators were to **receive** applications for funding, **evaluate** the applications, **recommend** awards, and **make payments** to the sub-recipients. DCEO documentation indicated that it partnered with six grant administrators for the small business component and another (Illinois Network of Child Care Resource and Referral Agencies) for the child care component of the BIG program. The small business grant administrators were:

- Accion,
- Women's Business Development Center (WBDC),
- Chicago Urban League (CUL),
- SomerCor,
- Chicago Community Loan Fund (CCLF), and
- Chicago Neighborhood Initiatives (CNI). (page 2)

Lack of Documentation to Support Selection of Grant Administrators

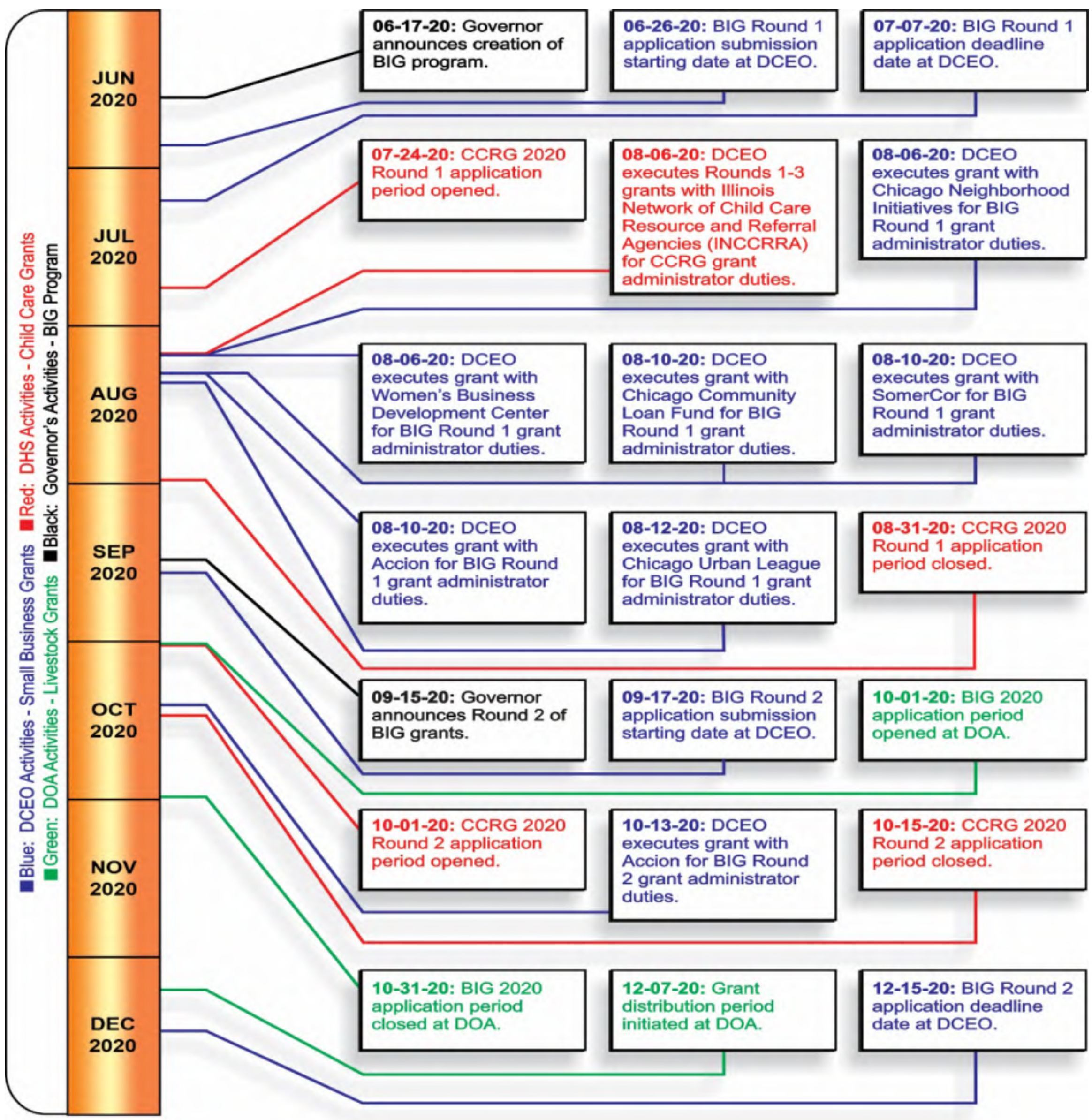
DCEO could not provide documentation to show how or why it selected organizations to administer the BIG program in Round 1. One of the grant administrators, as well as a DCEO official, appears to have not complied with conflict of interest policies at DCEO. **The BIG grant administrators were to distribute $580 million** in funds. An additional $5 million was to be administered by DOA.

During the entrance conference for the audit, DCEO officials reported that the use of grant administrators by DCEO for a grant program was an **entirely new process** due to the pandemic.

The decision to utilize grant administrators, as reported by DCEO, was made by a former Assistant Director and a former Chief of Staff. These individuals **also selected the administrators**. During our initial research for the audit, we found that the former Assistant Director developed a political campaign to run for 47th ward alderman in the City of Chicago. The lead for the main grant administrator from Accion made a $5,000 campaign contribution to the former Assistant Director on September 30, 2018. We questioned DCEO as to whether this was any sort of violation of conflict of interest policies for DCEO in the DCEO

Employee Policy Manual. **DCEO agreed with us** that the issue should have been reported to the DCEO Director as well as the DCEO Ethics Officer. However, the DCEO Ethics Officer **could find no documentation on any such disclosure** and the Director at the time is no longer with DCEO. DCEO also agreed with us that the Accion official should have reported this conflict of interest in the grant application, but did not. Digest Exhibit 2 provides a timeline for the contracting with grant administrators and the different selection periods for BIG. (pages 3-5, 76-77)

Digest Exhibit 2
TIMELINE OF EVENTS FOR THE BIG PROGRAM



Source: OAG developed from BIG program information.

Funding for the BIG Program

The federal government provided direct aid to the State of Illinois for COVID-19 responses. One piece of legislation that guided funding for BIG was the Coronavirus Aid, Relief and Economic Security (CARES) Act (enacted March 27, 2020).

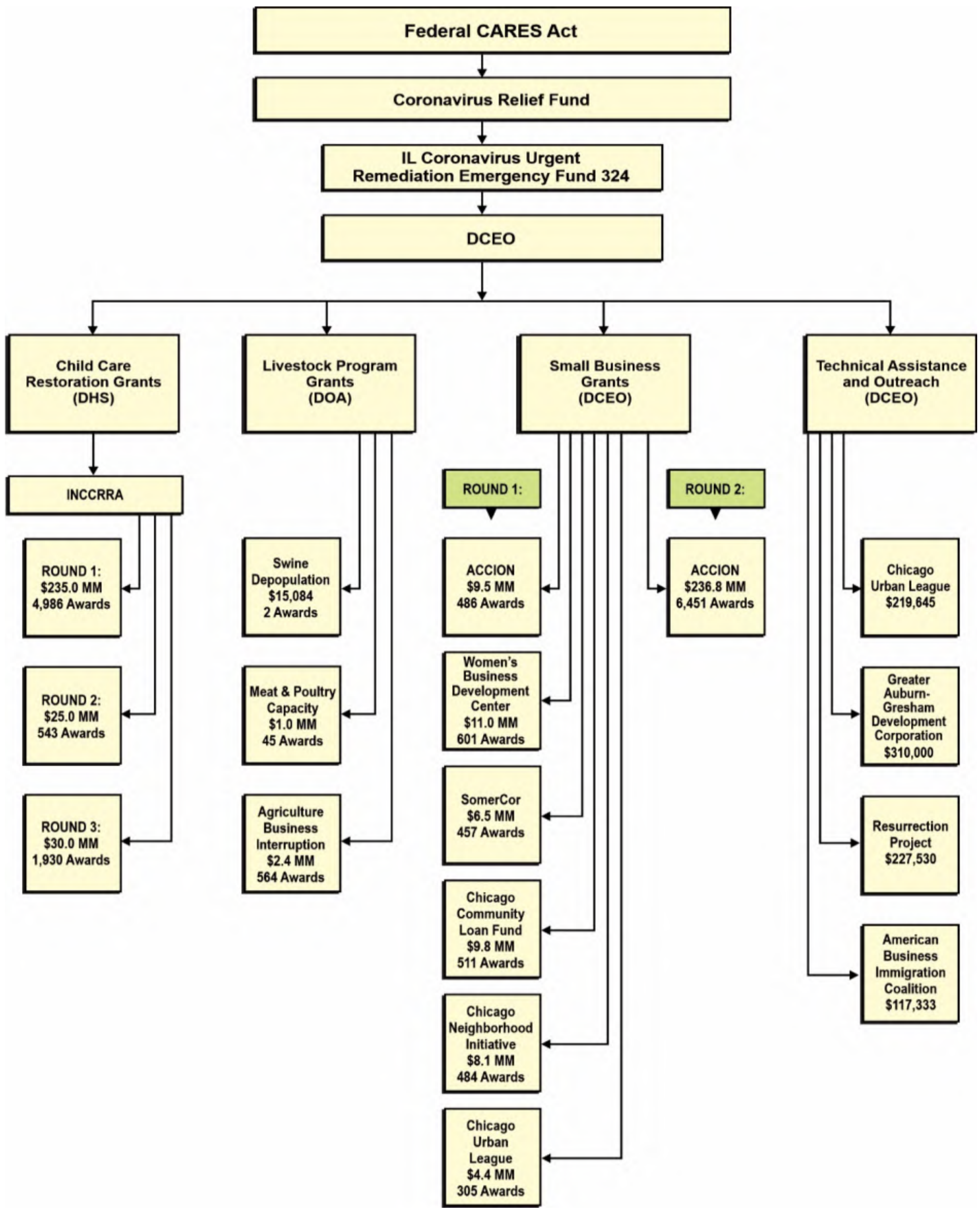
Federal funds were deposited in the Coronavirus Relief Fund (CRF), a fund created by the CARES Act. Public Act 101-637 included appropriations to support State government's costs of response, provide assistance to households and small businesses impacted by COVID-19, and provide pandemic related stability payments to healthcare providers. Digest Exhibit 3 provides a flow of the funding from the federal government through the BIG program. (pages 5-8)

Department of Commerce and Economic Opportunity

DCEO entered into an intergovernmental agreement (IGA) with DHS on July 8, 2020, relative to the child care portion of the BIG program. The IGA stipulated that DHS would **provide subject matter expertise** to assist DCEO in development and implementation of the Child Care Restoration Grant (CCRG) program. DCEO was to provide funding to qualified businesses through a third-party qualified partner. That third party ended up being the Illinois Network of Child Care Resource and Referral Agencies (INCCRRA).

For the livestock part of the BIG program, DCEO developed the relationship **differently** than it did with DHS. DCEO entered into a **grant agreement** with DOA, on October 15, 2020, **to provide sub-awards to eligible recipients**. DOA, unlike DHS in the child care portion of BIG, was to evaluate the applications and make award recommendations to DCEO for payment. The total amount to be awarded under this grant to DOA was $5,008,816, even though DOA did not utilize all the funds. DCEO took the approximately $1.6 million in unused livestock funds and added to the small business component of BIG and awarded grants in 2021. This was after DCEO reported all funds had been awarded in December 2020. (pages 8-9)

Digest Exhibit 3
FLOW OF CARES ACT FUNDING FOR THE BIG PROGRAM



Source: OAG developed from BIG program information.

Failure to Develop Timely Administrative Rules for the BIG Program

DCEO **initiated the small business component of the BIG program without having emergency administrative rules in place** for the administration of the program. Rules had not been implemented before the completion of Round 1 of the small business component of BIG. Additionally, even after the lack of timeliness for Round 1, DCEO was unable to amend the rules for Round 2 of the small business component of BIG timely. DCEO filed amended rules **12 days after the Round 2 application process had started**, a process that utilized a preference for certain types of businesses to receive preferential treatment in the selection process.

DCEO documentation touted the BIG program as a **$580 million** economic relief program for small businesses hit hardest by COVID-19.

Round 2 of the small business component made changes in the types of businesses that would receive BIG awards. This round focused on acutely distressed industries. DCEO proposed rules defining these new industries such as bus operating companies, amusement parks, event venues, indoor recreation, music venues, movie theaters, and performing arts venues. While DCEO did define the new industries, it did so **nearly two weeks after the initiation of Round 2**. (pages 9-13)

BIG Application Process

Our examination of the application process for the BIG program found a number of significant deficiencies.

Self-Certifications

DCEO allowed, **without verification**, BIG small business grant applicants to self-certify that they complied with all laws as well as reporting other pandemic funding. We found that not all applicants' certifications were accurate. Nonetheless, DCEO and its grant administrators awarded funding to these applicants.

Verifying the self-certifications may have avoided the following:

- During our Round 1 application award selection testing we found 2 percent (2 of 126) of the applicants **failed to accurately report Paycheck Protection Program (PPP) awards** on the application.
- During our Round 2 application award selection testing we found 29 percent (36 of 125) of the applicants **failed to accurately report PPP or other CARES Act funding** on the application. (pages 14-17)

Use of Non-Approved Selection Criteria

The BIG program was designated by the General Assembly to provide assistance for businesses that had **losses due to COVID-19**. DCEO utilized an eligibility category for the small business component of BIG that **was not specified in the Public Act passed** by the General Assembly. DCEO paid **over $11 million to 630 applicants** that applied under this eligibility designation. (pages 17-20)

Applications Outside Eligibility Criteria

DCEO awarded small business applicants in Round 1 of the BIG program funding **when the businesses were not eligible** based on information submitted in the application. Our analysis found **196 ineligible applicants received $3.42 million**. Additionally, the application system developed by a DCEO grant administrator that was supposed to not allow ineligible applicants to submit finalized applications **failed to work as advertised**.

During our review of the universe of Round 1 awards we found a number of applicants that were not eligible for BIG funds yet not only did the application system allow the applicant to complete the application process, DCEO and its grant administrators approved and funded the ineligible applicants. Digest Exhibit 4 presents the results of our review for the ineligible awards. Specifically:

- 41 applicants reported having revenues during 2019 that were **outside the range** for eligibility, yet were awarded $570,000;
- 154 applicants reported having on-site outdoor food or beverage services in violation of program guidelines, yet were awarded $2.83 million.
- 1 applicant applied in the "Other" category yet **did not list a zip code that was in a designated severely disproportionately impacted area**, but was awarded $20,000. (pages 20-23)

Digest Exhibit 4
BIG PROGRAM – INELIGIBLE APPLICANTS PROCESSED AND AWARDED
Small Business Component Round 1

Criteria Violated	Number of Ineligible Awards	BIG Funds Paid to Ineligible Applicants
Revenue Threshold in 2019		
Barbershops or Salon	25	$250,000
Other Category	16	$320,000
Provided On-Site Outdoor Dining	154	$2,830,000
Type of Business – Other category needs to be in a designated zip code	1	$20,000
Totals	196	$3,420,000

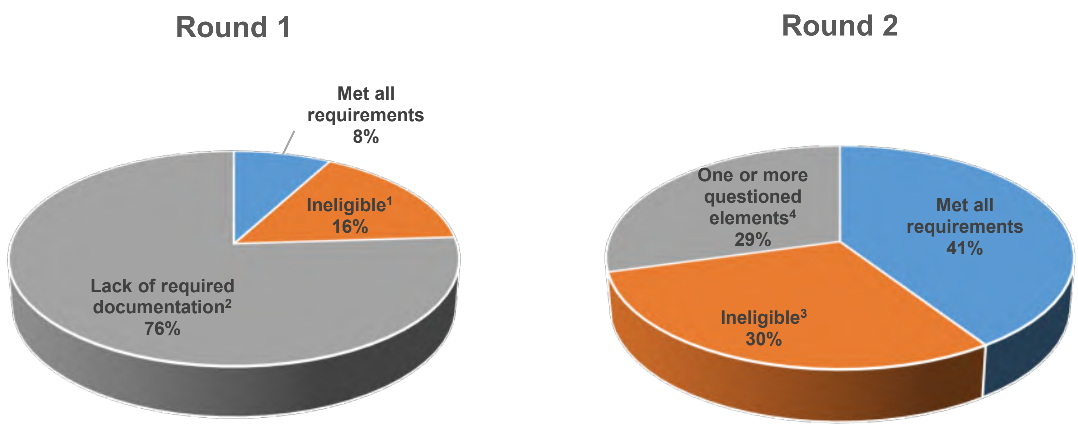
Source: OAG developed from DCEO BIG award information.

Award Selection Testing Results for Small Business Component

DCEO oversight of the award selection process for the small business component of BIG was insufficient. Our testing of the selection process found significant deficiencies in both rounds. In Round 1, we were **only able to concur with 8 percent** of the BIG awards from our sample. We determined that **16 percent** of the BIG awards, totaling $430,000, in our sample **were ineligible** for reasons such as revenues outside the criteria or restaurants providing outdoor dining. We also **questioned 76 percent** of the BIG awards, totaling $1,980,000, in our sample due to **lack of required documentation** being submitted by the applicant. In 9 of 150 applications, we found that the applicant was actually eligible for the BIG award yet the grant administrator denied the application. In Round 2, we were **only able to concur with 41 percent** of the BIG awards from our sample. We determined **that 29 percent** of the BIG awards in our sample had one or more questioned elements. Additionally, we determined that **30 percent of the awards made by DCEO in our Round 2 sampling were ineligible**. Finally, questionable expenses from our selection testing sample totaled **$1,335,708 – 28 percent of all funds awarded from the Round 2 sample**.

Digest Exhibit 5 summarizes testing results for Rounds 1 and 2 for the small business component of BIG. (pages 24-31)

Digest Exhibit 5
AWARD SELECTION TESTING RESULTS FOR SMALL BUSINESS COMPONENT
Round 1 and Round 2 Awards



Notes:

[1] Ineligible for reasons such as revenues outside the criteria or restaurants providing outdoor dining.

[2] Lack of required documentation such as failure to submit tax returns, submitting the incorrect business license or tax form, or submitting unsigned/undated tax returns.

[3] Ineligible for reasons such as an unallowable business, businesses that had revenue gains year over year, and businesses that did not submit all required documentation.

[4] One or more questioned elements such as failure to report other CARES Act funding and the award amount was incorrect based on supporting documentation.

Source: OAG analysis of sample of 150 Round 1 awards and 150 Round 2 awards.

Overpayment of COVID Losses by BIG Program

DCEO utilized an award determination process that **failed to follow the directive of State statute** relative to funding for COVID-19 losses. By rounding loss amounts up to the next $5,000, DCEO **reduced the funding levels** while some applicants went without funding. In our selection testing work, we found **47 percent of the awards overpaid the documented losses by a total of $171,000**.

Our sample of 150 award winner cases was **just over 2 percent of the total awards** in Round 2 of the small business component of BIG.

We randomly sampled 150 award winners from Round 2 of the small business component and found that 47 percent (71 of 150) received BIG award from DCEO and its grant administrators **in excess of the losses provided from documentation submitted by applicants** as part of the application process. These overpayments were due to the process of rounding losses up to the next $5,000 instituted by DCEO and its grant administrator. The overpayment amounted to $170,798 for the 71 awards, an average of $2,406.

See Digest Exhibit 6 for some examples of BIG payments that were over the documented losses of the applicant. (pages 31-34)

Digest Exhibit 6
BIG PROGRAM – PAYMENT EXAMPLES OVER COVID LOSSES
Small Business Component Round 2

Case Number	COVID Losses Based on Documentation Submitted	BIG Payment Amount	Excess Amount Paid Over COVID Losses
OAG Case 65	$647.71	$5,000.00	$4,352.29
OAG Case 83	$97.44	$5,000.00	$4,902.56
OAG Case 96	$20,726.26	$25,000.00	$4,273.74
OAG Case 113	$10,771.52	$15,000.00	$4,228.48
OAG Case 121	$572.14	$5,000.00	$4,427.86

Source: OAG developed from DCEO BIG program information.

Exception to Policy on the Number of Awards

DCEO and its grant administrators for the small business component of BIG **awarded funding in excess of program policy**. Eleven business owners received funding for businesses in excess of the three for which each owner was eligible. **Total overpayment of funds totaled $220,000**. DCEO is responsible for overseeing grant programs, including ones in which program administrators are utilized.

If DCEO and its grant administrators had conducted the selection process according to BIG program policy, there **would have been more funds available** for other applicants that went without funding. Instead, 11 business owners received more than the maximum number of BIG awards.

Business owners that applied for BIG **did nothing incorrect** when applying for funding for more than three of their businesses. The owners could not have known whether any of the businesses would have been awarded BIG funding. (pages 34-36)

Child Care Component and Livestock Management Component Testing

Testing for the child care component and the livestock management component did not find any significant or pervasive issues. We concurred with all of the grant awards and grant denials in our sample. (pages 36-38)

Monitoring the BIG Program

DCEO had significant deficiencies in the monitoring of the small business component of the BIG program.

Grant Administrators Working Without Executed Agreements

DCEO **failed to execute grant agreements** with grant administrators for the small business component of the BIG program **prior to** the grant administrators working on the BIG program. Further, DCEO **required funding applicants to submit multiple pieces of confidential information** to these grant administrators that were operating without an executed grant with the State of Illinois. Finally, DCEO was **unaware of the actual individuals** that would view this confidential information, even though some of these individuals were temporary staff hired by the grant administrators.

Digest Exhibit 7 provides the execution dates for the grant administrator agreements for the small business component with the initial payment dates and initial payment amounts to the grant administrators. During Round 1, the six administrators, on average, **worked on the BIG selection program for 44 days since the beginning of the application process prior to DCEO executing a contractual agreement** with the administrator.

Digest Exhibit 7
GRANT ADMINISTRATOR GRANT EXECUTION DATES
Small Business Component Rounds 1 and 2

Administrator	Application Start Date	Grant Execution Date	# Days from Application Start Date	Date of 1st Grant Payment	Amount of 1st Grant Payment
Accion	06/26/20	08/10/20	45	08/18/20	$12,125,000
Women's Business Development Center	06/26/20	08/06/20	41	08/18/20	$11,125,000
Chicago Urban League	06/26/20	08/12/20	47	08/18/20	$8,375,000
SomerCor	06/26/20	08/10/20	45	08/17/20	$8,125,000
Chicago Community Loan Fund	06/26/20	08/10/20	45	08/18/20	$11,625,000
Chicago Neighborhood Initiatives	06/26/20	08/06/20	41	08/17/20	$10,125,000
Accion – Round 2	09/17/20	10/13/20	26	10/16/20	$50,238,633

Source: OAG developed from grant documentation.

During Round 1 for the small business component of BIG, grant administrators were able to inspect information submitted by the applicants. Many of these pieces of information were **either sensitive** (such as veteran's status, race, ethnicity, gender, and home and email address) **or confidential by law** (such as FEIN, SSN, tax returns, and bank account information).

However, DCEO was unaware of who had access to this confidential information. On June 9, 2022, we were told, *"DCEO did not request the identities of the individuals evaluating applications under the BIG program. The grant administrator(s) was responsible for their staff and contractors as indicated by their grant agreement."* Two grant administrators told us they hired temporary contractors to complete work on BIG. (pages 39-42)

Lack of Documentation to Support Applicant Notifications

DCEO **failed to maintain notifications to applicants** of the BIG program. Additionally, DCEO paid an outside vendor for a mass mailing system that did not maintain a retrieval function instead of utilizing a State system at the Department of Innovation and Technology, which could have been less costly and had the ability to retrieve the notifications.

DCEO **did not conduct timely monitoring** of the process to utilize an outside vendor for notifications for the small business component of BIG. In February 2021, DCEO had to inform:

- Five applicants that, *"Due to a data error, you were previously sent a notification intended for a different award recipient that was mistakenly attached to your business and e-mail address. Note that the award amount below is different than in the previous notification you received."*
- Seven applicants that, *"It has come to our attention that you received a Business Interruption Grant but never received an official notification documenting the details of that grant."* (pages 42-46)

Timely Payment of BIG Awards

DCEO failed to monitor that the payment of small business component funding was provided within program guidelines. During our testing we found that in **49 percent (67 of 136) of the cases, the grant administrator failed to provide funding within 14 days of DCEO approval**. (pages 46-48)

Failure to Enforce Funding Monitoring

DCEO had **monitoring weaknesses** relative to the uses of funding provided as part of the small business component of the BIG program. DCEO **failed to conduct** routine monitoring of the funds provided under BIG and at times did not have documentation to conduct monitoring. The lack of documentation **made it impossible for DCEO to know if the same claimed losses were utilized by an applicant to obtain funding under different programs**.

Based on documentation obtained from DCEO during the audit, over two rounds, DCEO made **9,295 awards totaling $286,087,758** from the small business component of the BIG program. The six grant administrators that evaluated and paid small business award winners reported **conducting no monitoring of the funds disbursed**. During the audit, we found that DCEO **did not have any idea** what the funds were expended on by the award winners and relied on the award winners to expend the funds in compliance with the program.

We saw a number of correspondence related to how funds could be expended:

- In responding to an official from a member of the Illinois House on January 7, 2021, a DCEO official stated, *"You can spend it on a wide range of typical business expenses, and don't need to worry about tying those expenses to COVID response. It can be applied to expenses March through December 2020."*
- On January 29, 2021, a Round 2 award winner inquired to DCEO whether BIG funds were taxable and whether it needed to provide any proof of expenditures comparable to PPP (Paycheck Protection Program). A DCEO official reported, *"Yes it is taxable…No they don't need to have specific documented expenses like PPP."* (pages 48-52)

Failure to Deduct Previous Awards

DCEO and its grant administrators failed to follow BIG program requirements relative to deducting previous awards from future BIG funding for the small business component of the program. The result of the inaction resulted in the **overpayment of $4.29 million in BIG funds**.

During the audit, we received a universe of awards for the small business component of BIG for both Rounds 1 and 2 of the program. We compared the Round 1 and Round 2 winners against each other to determine which applicants had **received awards in both** rounds of the BIG program.

Our analysis found:

- **96 instances** where the applicant in Round 2 should not have received an award due to the amount of BIG funding received during Round 1 – the 96 applicants **should not have received $1,079,933**;
- **169 instances** where the applicant in Round 2 should have had awards adjusted based on the amount of funding received during Round 1 – the 169 applicants were **overpaid $3,210,000**. (pages 52-53)

Tax Reporting Issue

DCEO failed to monitor all terms of the grant agreements with grant administrators. The lack of monitoring resulted in one grant administrator **not providing tax information on $4.4 million in BIG funds to 305 sub-recipients**.

DCEO confirmed that funds provided from the BIG program were taxable and that grant administrators were to send 1099 forms to sub-recipients of BIG funds for tax purposes. (pages 54-55)

Compliance with Funding Allocations

DCEO allocated funding based on the requirements in State statute for the BIG program. Our analysis of BIG payment documentation showed 39 percent of the funding went to businesses located in DIAs of the State of Illinois. (pages 56-57)

Priority for Severely Impacted Industries

LAC Resolution 159 asked us to examine DCEO's compliance with prioritizing severely impacted businesses and industries. DIA's were generally not used during the selection process for BIG program. DCEO used the **economic impact** language found in the Public Act related to BIG Program and implemented it through inclusion of a severe DIA eligibility criteria in Round 1, which focused on property damage in areas with civil unrest. However, the use of these severe DIA eligibility criteria was different than how DIA was defined and excluded a number of zip codes that would have been otherwise eligible. (pages 58-59)

Community Navigators

LAC Resolution 159 asked us to conduct an examination of the role of the Community Navigators, if any, in the selection of grant recipients in the BIG program. According to DCEO's website, the Small Business Community Navigators program is a support program for small businesses in the State of Illinois, which is a hub and spoke model that brings together community organizations from across the State of Illinois. The Community Navigator awardees, or hubs, will provide support and training services to the spokes in their program, and the spokes will offer grassroots engagement with small businesses to assist with access to grants, marketing outreach, and technical assistance.

For the BIG program, which ended on June 30, 2021, we found that **Community Navigators were generally not utilized.** DCEO did conduct a competitive Notice of Funding Opportunity to contract with Community Navigators for the successor to BIG, the Back to Business program in FY22.

DCEO utilized four organizations to provide technical assistance and outreach (TA&O) for the BIG program. According to DCEO, *"The scope and breadth of the hub-and-spoke model used for community navigators in 2021 is much greater than that used for the TA&O partners [in 2020], but the concept was similar."* As shown in Digest Exhibit 8, the four partners, which signed grant agreements with DCEO, **received $874,508** for TA&O services. We also note that $191,646 or 22 percent of the funds received for technical assistance and outreach **were unused and returned**. (pages 60-63)

Digest Exhibit 8
BIG PROGRAM – TA&O FUNDING
Small Business Component Round 2

Entity	Total Amount Paid	Total Amount Used	Amount Returned	% of Total Returned
Greater Auburn Gresham Development Corporation	$310,000	$259,365	$50,635	16.3%
The Resurrection Project	$227,530	$206,186	$21,344	9.4%
Chicago Urban League	$219,645	$99,978	$119,667	54.5%
American Business Immigration Coalition	$117,333	$117,333	$0	0%
Total	$874,508	$682,862	$191,646	21.9%

Source: OAG developed from DCEO BIG program information.

Return of Funds

LAC Resolution 159 asked us to conduct an examination of the actions taken by DCEO, DHS, and DOA when a BIG participant was not in compliance with any step in the application process or made a material misrepresentation in reporting on the use of funds provided as part of the BIG program.

DCEO did not initially have a formal process to claw back funds that were paid to BIG recipients that were in violation of the terms of the BIG program. DCEO reported, *"It was developed after awards began to be distributed."*

DCEO **did not claw back funds** for noncompliance with the Executive Order. DCEO became aware of instances of violations but did not initially have a system in place to manage businesses found to be in violation of law, regulations, and executive orders. DCEO **relied on the attestations of the recipient** that they would comply or were already complying with the mitigation efforts.

During the audit, we found that DCEO was aware of businesses having signed the requirements and certifications document yet were not in compliance with all laws, regulations, and executive orders. DCEO became aware of notices of BIG Program violations from news stories, forwarded complaints, and internal agency reviews. Businesses most often having documented violations were restaurants failing to follow local mitigations and executive orders. We found that DCEO was not prepared to handle such notices of violation, did not have complete information on all violators, and did not always enforce a return of funds when such violations were confirmed. (pages 64-68)

Audit Recommendations

The audit report contains 15 recommendations directed to DCEO. DCEO generally agreed with the recommendations. The complete response from DCEO is included in this report as Appendix F.

This performance audit was conducted by the staff of the Office of the Auditor General.

SIGNED ORIGINAL ON FILE

JOE BUTCHER
Division Director

This report is transmitted in accordance with Sections 3-14 and 3-15 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

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