STATE OF ILLINOIS

OFFICE OF THE AUDITOR GENERAL

MANAGEMENT AND PROGRAM AUDIT

ILLINOIS DEPARTMENT OF COMMERCE AND ECONOMIC OPPORTUNITY – ADMINISTRATION OF ITS ECONOMIC DEVELOPMENT PROGRAMS

FEBRUARY 2006

WILLIAM G. HOLLAND

AUDITOR GENERAL

SPRINGFIELD OFFICE:
ILES PARK PLAZA
740 EAST ASH • 62703-3154
PHONE: 217/782-6046
FAX: 217/785-8222 • TTY: 888/261-2887

CHICAGO OFFICE:
MICHAEL A. BILANDIC BLDG. · SUITE S-900
160 NORTH LASALLE · 60601-3103
PHONE: 312/814-4000
FAX: 312/814-4006

OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

To the Legislative Audit Commission, the Speaker and Minority Leader of the House of Representatives, the President and Minority Leader of the Senate, the members of the General Assembly, and the Governor:

This is our report of the Management and Program Audit of the Department of Commerce and Economic Opportunity's administration of its economic development programs.

The audit was conducted pursuant to House Resolution Number 671. This audit was conducted in accordance with generally accepted government auditing standards and the audit standards promulgated by the Office of the Auditor General at 74 Ill. Adm. Code 420.310.

The audit report is transmitted in conformance with Section 3-14 of the Illinois State Auditing Act.

WILLIAM G. HOLLAND
Auditor General

Springfield, Illinois
February 2006

REPORT DIGEST

MANAGEMENT AND PROGRAM AUDIT

ILLINOIS DEPARTMENT OF COMMERCE AND ECONOMIC OPPORTUNITY

ADMINISTRATION OF ITS ECONOMIC DEVELOPMENT PROGRAMS

Released: February 2006

State of Illinois
Office of the Auditor General

WILLIAM G. HOLLAND
AUDITOR GENERAL

To obtain a copy of the report contact:
Office of the Auditor General
Iles Park Plaza
740 East Ash Street
Springfield, IL 62703
(217) 782-6046 or
TTY: (888) 261-2887

This report is also available on the worldwide web at:
http://www.state.il.us/auditor

SYNOPSIS

In Fiscal Year 2004, the Department of Commerce and Economic Opportunity (DCEO) spent $945 million of which $850 million was for grants. Most, if not all, of this spending was for economic development efforts. DCEO funds or provides assistance for a large variety of projects to encourage economic development. In our audit work we found issues in the following areas:

- DCEO reports projected jobs to be created or retained instead of the actual jobs created or retained. In addition, DCEO's computer systems for performance measures did not track projected jobs vs. actual jobs.
- DCEO altered its performance measurement methodology to include employees that received training in its reported job creation and retention numbers.
- DCEO had difficulty in providing support for the jobs created and retained that were reported. For 8 of 10 jobs performance measures in our sample, documentation did not agree with the amount reported.
- Most of DCEO's other reported performance measures we reviewed did not agree with underlying documentation; 73 percent (57 of 78) of the figures we tested did not agree.
- In our sample of performance measures, we concluded that 45 percent (18 of 40) were good measures that could be used to help assess the effectiveness of the related programs while 20 percent (8 of 40) were poor measures that provided little insight into program effectiveness.
- Some DCEO programs had good monitoring requirements, but some programs did not. Twenty percent of projects we tested (20 of 99) did not require any additional monitoring reports other than a single closeout report.
- While none of DCEO's bureaus have established their own procedures, eight of eleven bureaus have completed some type of review of the efficiency or effectiveness of the agency's economic development programs.
- DCEO did not have a system to track statutory mandates to ensure that mandates are fulfilled and obsolete mandates can be addressed. We identified some unfulfilled mandates in our testing.

REPORT CONCLUSIONS

In Fiscal Year 2004 the Department of Commerce and Economic Opportunity (DCEO) spent $945 million of which $850 million was for grants. Most, if not all, of this spending was for economic development efforts. DCEO funds or provides assistance for a large variety of projects to encourage economic development. The projects vary in size and type and can take a long time to produce intended results. The Department of Commerce and Economic Opportunity operates many programs which are related to economic development. DCEO programs were organized into eleven bureaus or program areas.

JOBS AS A PERFORMANCE MEASURE

The Department of Commerce and Economic Opportunity reports projected jobs to be created or retained instead of the actual jobs created or retained. In addition, DCEO's computer systems for performance measures did not track projected jobs vs. actual jobs. This comparison would be valuable and could be used to compare the success of individual projects and the programs as a whole.

DCEO altered its performance measurement methodology to include employees that received training in its reported job creation and retention numbers. At the beginning of Fiscal Year 2005, DCEO made the decision to start counting employees that received training through the Employer Training Investment Program (ETIP) as jobs created or jobs retained. Including these employees greatly increased jobs numbers reported in the Public Accountability Report and in reports to the Governor's Office of Management and Budget (GOMB).

The number of jobs created and retained varied between the two main DCEO sources where it was tracked. When jobs numbers are not reported consistently, the accuracy of any jobs numbers reported becomes questionable. Our testing showed that neither system used by DCEO for tracking jobs created and retained captured all projects. In addition, one system included projects where it was questionable that the grant would have created or retained the number of jobs listed.

DCEO had difficulty in providing support for the jobs created and retained that were reported in the Public Accountability Report and in quarterly management reports to GOMB. The documentation provided did not agree with the amount reported in 8 of the 10 jobs performance measures in our sample. For two jobs measures in our sample, the documentation provided to support the reported jobs created/retained numbers conflicted with documentation provided to support another measure.

OTHER PERFORMANCE MEASURES

Most of the Department of Commerce and Economic Opportunity's reported performance measures we reviewed did not agree with underlying documentation. Performance measures are indicators used to help assess how well programs have realized their objectives. In our testing of performance measures, 73 percent (57 of 78) of the figures we tested did not agree with underlying documentation. Reasons that reported amounts could not be supported included calculation errors, numbers changing in a database, and the inability to locate supporting documentation due to staffing changes.

In our sample of performance measures, we concluded that 45 percent (18 of 40) were good measures that could be used to help assess the effectiveness of the related programs while 20 percent (8 of 40) were poor measures that provided little insight into program effectiveness. The remaining 14 measures (35 percent) in our sample were potentially good measures but deficiencies identified with those measures limited their usefulness.

While performance measures were informally reviewed on a periodic basis, DCEO did not have a system in place that required periodic review. DCEO did not document reviews conducted when updating and changing performance measures.

Several performance measures were calculated incorrectly. In our sample, 13 of 40 (33%) performance measures examined contained some type of calculation error for the numbers reported. In some cases this was due to incorrect data being used or a mathematical error when calculating the measure. However, in one case, DCEO calculated the measure differently than the way it was defined.

MONITORING

Some DCEO programs had good monitoring requirements, but some programs did not. We reviewed monitoring and reporting procedures DCEO uses to ensure that it receives timely and accurate information from grant recipients. Although DCEO had developed standardized grant agreements for programs, reporting requirements varied significantly among them. During testing, we found that 20 percent of projects (20 of 99) did not require any additional reports other than a single closeout report required after the end of a grant period. In addition, most grant agreements did not contain any monitoring requirements for site visits.

In our testing we found that DCEO programs did not consistently receive monitoring reports or follow up on late or missing monitoring reports required of their grant recipients. Forty-one percent of projects we reviewed (34 of 83) did not receive required reports. In addition, DCEO programs did not receive required reports in a timely manner for 60 percent of projects (50 of 83). We found that over 70 percent of projects reviewed (34 of 47) containing untimely program reports did not receive any follow-up by DCEO.

In addition to monitoring performed by program staff, DCEO has three central units that perform monitoring. Grants may be monitored centrally through the Grant Monitoring Unit, External Audits, and the Closeout Unit. We found that these units generally did an effective job.

OTHER ISSUES

While none of DCEO's bureaus have established their own periodic efficiency or effectiveness review procedures, eight of eleven bureaus have completed some type of review of the efficiency or effectiveness of the agency's economic development programs. Some statutory or federal requirements do exist and some ad hoc reviews have been performed. Seven of DCEO's bureaus have review requirements in Illinois statute or in federal rules or procedures. One bureau had taken steps to review programmatic efficiency or effectiveness without statutory or federal requirements. Three DCEO bureaus have no procedures for periodic review of efficiency and no reviews had been performed.

The Corporate Accountability for Tax Expenditures Act (Act) includes requirements to assure that recipients of economic development assistance comply with their agreements and, if they do not comply, assistance may be recaptured. However, the Act does not affect a large number of DCEO bureaus or a large proportion of DCEO grant expenditures. Of the Department's eleven bureaus, the Act's definition of developmental assistance to businesses affects only two bureaus.

DCEO did not have a system to track statutory mandates to ensure that mandates are fulfilled and obsolete mandates can be addressed. DCEO officials were aware of this problem and noted that they were developing a corrective action plan. Unfulfilled mandates that we identified were:

- DCEO did not fulfill all of its statutory reporting requirements. In our testing of reports that were required by statute to be completed, 40 percent (6 of 15) were not completed prior to our request.

- The Illinois Coal Development Board, chaired by the Director of DCEO, was not seated by the DCEO Director and has not met to provide advice on expenditures.

BACKGROUND

On May 30, 2004, the Illinois House of Representatives adopted House Resolution 671. The Resolution directed the Auditor General to conduct a management and program audit of the Department of Commerce and Economic Opportunity's administration of its economic development programs. The Resolution directed that the audit include, but need not be limited to, the following determinations:

(i) Whether DCEO's economic development programs are operated in conformity with applicable federal and State requirements;

(ii) Whether DCEO has established and implemented procedures to periodically review both the efficiency and effectiveness of its economic development programs;

(iii) Whether DCEO has in place appropriate monitoring and reporting procedures to ensure that it receives timely and accurate information from its grant and loan recipients;

(iv) Whether DCEO's reported performance measures are periodically reviewed and adequately supported by underlying documentation; and

(v) Whether DCEO's performance measures indicate that its economic development programs are effective in accomplishing their stated purposes. (page 4)

ECONOMIC DEVELOPMENT PROGRAMS

The Department of Commerce and Economic Opportunity operates many programs which are related to economic development. DCEO programs are organized into bureaus or program areas. These areas or bureaus within DCEO may contain only one program (like the Film Office) but some contain many programs, like Business Development which includes over ten programs. The Bureau of Workforce Development was moved from the Department of Employment Security in Fiscal Year 2004. Digest Exhibit 1 shows DCEO expenditures by bureau for Fiscal Years 2004 and 2005.

Digest Exhibit 1
DCEO EXPENDITURES BY BUREAU
Fiscal Years 2004 and 2005 (in millions)

	Total Expenditures	
Bureau	FY04	FY05
Illinois FIRST / Local Projects	$ 245.1	$ 2.0
Community Development	317.6	75.7
Business Development	32.8	44.0
Technology & Industrial Competitiveness	44.8	50.4
Workforce Development	199.6	156.9
Tourism	46.4	46.0
Office of Coal Development & Marketing	20.0	22.8
Office of Trade and Investment	5.3	5.2
Illinois Film Office	1.4	1.5
Energy Conservation	22.5	13.4
Recycling and Waste Management	9.5	6.8
TOTALS [1]	$ 944.8	$ 424.5

[1] Totals do not add due to rounding.

Source: DCEO data summarized by OAG.

(pages 4-6)

JOBS AS A PERFORMANCE MEASURE

Jobs created and retained is one of the most important measures of performance for economic development agencies like DCEO. Although not all programs are driven by job creation, the creation of new jobs and the retention of existing jobs is an underlying goal of many of DCEO's economic development programs. The ability to accurately track the number of jobs created and retained is important in assessing the success of a particular project or a program.

DCEO reports projected jobs to be created or retained instead of the actual jobs created or retained.

Projected Vs. Actual Jobs

DCEO reports projected jobs to be created or retained instead of the actual jobs created or retained. DCEO reports the projected jobs when the grant agreement or tax credit agreement is signed. There are two problems with this practice. First, if counted immediately, it is likely that jobs are counted in a period different than when the jobs will actually be created. Second, it is unlikely that projects will create the exact number of jobs projected. Some projects may create more jobs than are projected while other projects may be unsuccessful and create fewer jobs than projected.

The WINS system, which was created to track jobs created and retained, did not track actual jobs created and retained vs. projected jobs created and retained. A comparison of actual jobs created to the projected jobs created would provide a valuable management tool that could be used to compare the success of individual projects and the programs as a whole.

We recommended that DCEO report actual jobs created, along with projected jobs to be created, and clearly identify whether reported figures are projected or actual jobs created or retained. We also recommended that DCEO develop a system to accurately measure and track jobs created and retained. (pages 14-26)

ETIP Jobs

DCEO altered its performance measurement methodology to include employees that received training in its reported job creation and retention numbers.

DCEO altered its performance measurement methodology to include employees that received training in its reported job creation and retention numbers. At the beginning of Fiscal Year 2005, DCEO made the decision to start counting employees that received training through the Employer Training Investment Program (ETIP) as jobs created or jobs retained. ETIP provides grants that reimburse companies for up to 50 percent of the cost of training their employees. ETIP grants can be given to individual businesses or to intermediary organizations offering multi-company training.

Prior to 2004, employees trained through ETIP (which was formerly known as the Industrial Training Program) were reported in the Public Accountability Report as:

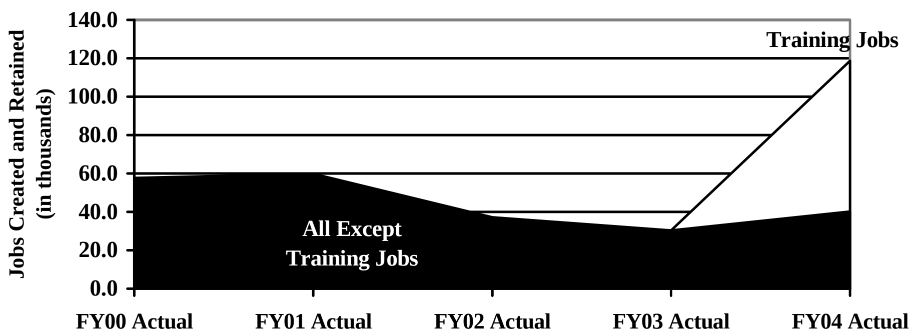
- Number of Industrial Training Program (ITP) trainees (new & upgraded).

At the beginning of Fiscal Year 2005, DCEO decided to start counting ETIP trainees as jobs created and retained. For the 2004 Public Accountability Report the name of the measure was changed to:

- Number of jobs created and retained through the Employer Training Investment Program (ETIP).

Digest Exhibit 2 shows the combined jobs created and retained reported in the Public Accountability Reports for Fiscal Years 2000 to 2004. The decline in jobs in 2002 and 2003 was due to the decline in jobs created by the Market Development Division in the Bureau of Business Development and by the Film Office. In 2004, jobs jumped substantially with the inclusion of the ETIP trainees as jobs created and retained.

Digest Exhibit 2
JOBS REPORTED IN PUBLIC ACCOUNTABILITY REPORTS



Note: Jobs reported in this exhibit are an aggregation of all jobs measures in the Public Accountability Report and therefore include double counting. Some large projects receive benefits from more than one program and jobs are then reported in more than one program in the Public Accountability Report data.

Source: Public Accountability Report data summarized by OAG.

Typical DCEO economic development programs, where the number of jobs created and retained is used to measure performance, involve providing assistance for business development or expansion that will create jobs. Conversely, an ETIP grant for training employees does not create jobs but instead provides funding to help train newly hired or existing employees. We recommended that DCEO discontinue its current practice of reporting employees that receive training through the Employer Training Investment Program as jobs created and retained. (pages 27-29)

Supporting Documentation for Reported Jobs Numbers

DCEO had difficulty providing support for the jobs created and retained that were reported.

DCEO had difficulty providing support for the jobs created and retained that were reported in the Public Accountability Report and in quarterly management reports to GOMB. In our sample of 40 performance measures, 10 involved jobs created or retained. The documentation provided did not agree with the number of jobs reported in 8 of the 10 performance measures in our sample. In addition, for two jobs measures in our sample, the documentation provided to support the reported numbers conflicted with documentation provided to support another measure. (pages 31-32)

Conflicting Jobs Numbers

The number of jobs created and retained varied between the two main DCEO sources where it was tracked. When jobs numbers are not reported consistently, the accuracy of any jobs numbers reported becomes questionable. Our testing showed that neither system used by DCEO for tracking jobs created and retained captured all projects. In addition, one system included projects where it was questionable that the grant would have created or retained the number of jobs listed. (pages 21-23)

OTHER PERFORMANCE MEASURES

The fourth audit determination asked us to determine whether DCEO's reported performance measures are periodically reviewed and adequately supported by underlying documentation. Performance measures are indicators used to help assess how well programs have realized their objectives. DCEO reports performance measures in two main ways: annually through the Comptroller's Public Accountability Report and quarterly to the Governor's Office of Management and Budget. (page 33)

Periodic Review of Performance Measures

While performance measures were informally reviewed on a periodic basis, DCEO did not have a system in place that required periodic review. DCEO did not document reviews conducted when updating and changing performance measures.

A review system should allow each bureau to submit proposed changes to its performance measures through a formalized process and receive feedback on why those changes were or were not accepted. During our review at DCEO, one individual was responsible for the reporting of performance measures and working with GOMB and the Comptroller's Office to decide what measures are reported. A DCEO official said that meetings were held with the bureaus and with GOMB regarding performance measures. However, documentation was not maintained regarding these discussions to change and update performance measures. We recommended that DCEO ensure that a structured process is in place to review performance measures on a periodic basis. (page 36-39)

Supporting Documentation For Performance Measures

Most of DCEO's reported performance measures we reviewed did not agree with underlying documentation.

Most of the Department of Commerce and Economic Opportunity's reported performance measures we reviewed did not agree with underlying documentation. In our testing of performance measures, 73 percent (57 of 78) of the figures reported did not agree with underlying documentation. (See Digest Exhibit 3.) Reasons that reported amounts could not be supported included calculation errors, numbers changing in a database, and the inability to locate supporting documentation due to staffing changes.

Digest Exhibit 3
DID PERFORMANCE MEASURES AGREE WITH UNDERLYING DOCUMENTATION

	Agree with Documentation?		
	Yes	**No**	**Total**
FY03	9	21	30
FY04	9	29	38
FY05 year to date	3	7	10
Total	**21**	**57**	**78**

Source: OAG summary of testing results.

Several performance measures were calculated incorrectly. In our sample, 13 of 40 (33%) performance measures examined contained some type of calculation error for the numbers reported. In some cases this was due to incorrect data being used or a mathematical error when calculating the measure. In one case, DCEO calculated the measure differently than the way it was defined. We recommended that DCEO ensure that performance measures are calculated correctly and adequately supported by underlying documentation. (page 39-42)

Effectiveness of Performance Measures

The fifth audit determination asked us to determine whether DCEO's performance measures indicate that its economic development programs are effective in accomplishing their stated purposes. In our sample of performance measures, we concluded that 45 percent (18 of 40) were good measures that could be used to help assess the effectiveness of the related programs while 20 percent (8 of 40) were poor measures that provided little insight into program effectiveness. The remaining 14 measures (35 percent) in our sample were potentially good measures but deficiencies identified with those measures limited their usefulness.

Good Measures

Several performance measures in our sample were good measures that could be used to help assess the effectiveness of the program being measured. In our sample of 40 performance measures, we classified 18 (45 percent) as good measures. When making this assessment we considered the following factors:

- Whether the measure was appropriately titled so that the title reflects what was being measured;
- Whether the measure was defined properly;
- Whether the measure was calculated properly according to the definition;
- Whether this measure could be used to determine if DCEO's economic development programs were effective; and
- Whether there were other problems with the measure that brought into question the validity of the measure.

One example of a performance measure classified as good from our sample is Small Business Development Center (SBDC) New Businesses Started, from the Bureau of Business Development. It measures the number of new business starts that received assistance from a SBDC. One of Business Development’s primary purposes is to help new businesses. This measure provides a direct indicator of effectiveness by reporting the number of new businesses started as reported by the Small Business Development Centers. More details on good measures are included in Chapter Three of the audit report.

Poor Measures

We classified 8 of 40 (20 percent) performance measures in our sample as poor measures that provide little insight into program effectiveness. One example of a performance measure classified as poor from our sample is Win Rate, from the Bureau of Business Development. It measures the number of projects successfully completed divided by the number of projects worked. This measure is poorly titled and defined. The user of the report would not know what this was measuring. In addition, a reasonable person could assume a project was not successfully completed until the purpose of the project, such as an expansion of a facility, was achieved. However, DCEO defines a project as successful once the company accepts an incentive package from the State. Additionally, DCEO included projects as “Wins” even though the projects were later cancelled. There were also several projects worked by DCEO that were not counted as either wins or losses.

Could Be Good Measure But…

The remaining 14 measures (35 percent) in our sample were potentially good measures but deficiencies identified with those measures limited their usefulness. Deficiencies included:

- The use of projected numbers instead of actual results;
- Poorly defined measures that should be examined to improve the usefulness of the measure;
- Measures that were calculated differently from their definitions; and
- Measures with no supporting documentation, which limited a full assessment of the measures.

Some of the deficiencies with these measures were similar to deficiencies in the measures classified as poor measures. The difference between the two groups of measures is that these measures, if not for the deficiencies cited, had the potential to measure program effectiveness.

Assessing the effectiveness of programs is important. One tool that can be used to assess effectiveness is reported performance measures. However, if performance measures reported are not valid measures they will not be a good tool to assess program effectiveness. Additionally, if measures are not appropriately titled or defined, or if they are not calculated correctly, users cannot effectively use those measures. We recommended that DCEO examine its reported performance measures to ensure that the measures are useful and could be used to assess the effectiveness of its economic development programs. (pages 43-49)

MONITORING

Some DCEO programs had good monitoring requirements, but some programs did not.

Some programs of the Department of Commerce and Economic Opportunity had good monitoring requirements, but some programs did not. We reviewed monitoring and reporting procedures DCEO used to ensure that it receives timely and accurate information from grant recipients. Although DCEO had developed standardized grant agreements for programs, reporting requirements varied significantly among them. During testing, we found that 20 percent of projects (20 of 99) did not require any additional reports other than a single closeout report required after the end of a grant period. In addition, most grant agreements did not contain any monitoring requirements for site visits.

DCEO programs did not consistently receive monitoring reports or follow up on late or missing monitoring reports required of their grant recipients. Forty-one percent of projects we reviewed (34 of 83) did not receive required reports. In addition, DCEO programs did not receive required reports in a timely manner for 60 percent of projects (50 of 83) reviewed. We found that over 70 percent of projects reviewed (34 of 47) containing untimely program reports did not receive any follow-up by DCEO. We recommended that DCEO follow up when required monitoring reports from grant and loan recipients are not received at all, are not received timely, or if information received is not accurate.

We found the centralized Grant Monitoring, External Audit, and the Closeout units generally did an effective job.

In addition to monitoring performed by program staff, DCEO has three central units that perform monitoring. Grants may be monitored centrally through the Grant Monitoring Unit, External Audits, and the Closeout Unit. We found that these units generally did an effective job.

Although centralized monitoring fulfills some of DCEO's monitoring needs and program monitoring fulfills some needs, monitoring inconsistencies exist among the bureaus. As a result, some programs have minimal requirements and some have significant requirements. In addition, some programs did comprehensive site visits and regularly followed up on missing monitoring reports while some programs did not. We recommended that DCEO review its monitoring and reporting procedures to assure that consistent information is required to fulfill both program and Departmental needs. Procedures should consider timeliness and accuracy of submitted information and consider requirements such as reports, site visits, and follow up for grant and loan recipients. (pages 51-60)

MEASURING EFFICIENCY AND EFFECTIVENESS

The establishment and implementation of procedures to periodically review both the efficiency and effectiveness of the Department of Commerce and Economic Opportunity's programs is fundamental to the advancement of the State's economic development goals. The periodic review of both efficiency and effectiveness allows the State to evaluate whether its programs are achieving desired results with a minimum of expense and waste. Digest Exhibit 4 summarizes review requirements and reviews performed.

Effectiveness **–** having an effect or producing a desired result.

Efficiency **–** producing a desired effect with a minimum of effort, expense, or waste.

The second determination of House Resolution 671 required the OAG to determine whether DCEO has established and implemented procedures to periodically review both the efficiency and effectiveness of its economic development programs. *Effectiveness* is defined as having an effect or producing a desired result, such as an agency goal or objective. Additionally, *efficiency* is defined as producing a desired effect with a minimum of effort, expense, or waste. We recommended that DCEO establish and implement procedures to periodically review both the efficiency and effectiveness of its economic development programs. (pages 61-67)

Digest Exhibit 4
PERIODIC REVIEW REQUIREMENTS AND COMPLETED REVIEWS BY DCEO BUREAU

Bureau	FY04 Expenditures in Millions	Has the Bureau Developed Written Procedures?	Statutory or Federal Requirements Exist	Statutory or Federal Requirements Done	Have Other Reviews (non-required) Been Completed?
Illinois FIRST	$245.1	No	No	N/A	No
Community Development	$317.6	No	Yes	Yes	No
Business Development [1]	$32.8	No	Yes [1]	Yes [1]	No
Technology & Industrial Comp.	$44.8	No	Yes	Yes	No
Workforce Development	$199.6	No	Yes	Yes	No
Tourism	$46.4	No	No	N/A	Yes
Coal Development & Marketing	$20.0	No	Yes	Yes	No
Trade and Investment	$5.3	No	No	N/A	No
Film Office	$1.4	No	Yes	Part [2]	No
Energy Conservation	$22.5	No	Yes	Yes	No
Recycling & Waste Management	$9.5	No	No	N/A	No
Total [3]	$944.8				

[1] The Enterprise Zone Program has a requirement. It is 1 of 13 programs in the Bureau.
[2] The required evaluation was completed but did not address job creation, used mostly projected numbers for film revenue, and did not provide estimates of tax credits.
[3] Total does not add due to rounding.

Source: OAG summary of DCEO procedures and reviews.

COMPLIANCE WITH STATUTORY PROVISIONS

DCEO did not have a system to track statutory mandates.

The Department of Commerce and Economic Opportunity did not have a system to track statutory mandates to ensure that mandates are fulfilled and obsolete mandates can be addressed. DCEO officials were aware of this problem and noted that they were developing a corrective action plan. We recommended that DCEO continue its efforts to develop a system to track compliance with statutes and address statutes that are obsolete.

DCEO did not fulfill all of its statutory reporting requirements. In our testing of reports that were required by statute to be completed, 40 percent (6 of 15) were not completed prior to our request. We recommended that DCEO assure that all required statutory reports are completed as required and fulfill statutory requirements. If statutory requirements are obsolete, the Department should work to eliminate those requirements.

The Illinois Coal Development Board, chaired by the Director of DCEO, was not seated by the DCEO Director and had not met to provide advice on expenditures related to coal development functions that exceeded $40 million in Fiscal Years 2003 and 2004. We recommended that DCEO work to assure that members of the Coal Development Board are appointed and should assure that the Board meets as required to fulfill its advisory functions

The Corporate Accountability for Tax Expenditures Act (Act) includes requirements to assure that recipients of economic development assistance comply with their agreements and, if they do not comply, assistance may be recaptured. However, the Act does not affect a large number of DCEO program groups or a large proportion of DCEO grant expenditures. Of the Department's eleven bureaus, the Act's definition of developmental assistance to businesses affects only two bureaus.

DCEO published progress reports from companies receiving assistance as required by the Corporate Accountability for Tax Expenditures Act but the published information does not allow readers to determine whether the recipient was in compliance with the development assistance agreement. In addition, 26 percent of reports included discrepancies in the data that were reported. We recommended that DCEO assure that all reports required under the Corporate Accountability for Tax Expenditures Act include all required information and that data reported is complete and meaningful. (pages 69-81)

RECOMMENDATIONS

The audit report contains 14 recommendations, 13 of which are noted in this digest. In addition, we recommended that DCEO continue its efforts to develop a more useable computerized system to support the needs of the Department.

The Illinois Department of Commerce and Economic Opportunity generally agreed with the recommendations. Appendix F to the audit report contains the Department's complete responses.

WILLIAM G. HOLLAND
Auditor General

WGH\EKW

February 2006

TABLE OF CONTENTS

Chapter One

INTRODUCTION AND BACKGROUND

REPORT CONCLUSIONS

In Fiscal Year 2004, the Department of Commerce and Economic Opportunity (DCEO) spent $945 million of which $850 million was for grants. Most, if not all, of this spending was for economic development efforts. DCEO funds or provides assistance for a large variety of projects to encourage economic development. The projects vary in size and type and can take a long time to produce intended results. The Department of Commerce and Economic Opportunity operates many programs which are related to economic development. DCEO programs were organized into eleven bureaus or program areas.

JOBS AS A PERFORMANCE MEASURE

The Department of Commerce and Economic Opportunity reports projected jobs to be created or retained instead of the actual jobs created or retained. In addition, DCEO's computer systems for performance measures did not track projected jobs vs. actual jobs. This comparison would be valuable and could be used to compare the success of individual projects and the programs as a whole.

DCEO altered its performance measurement methodology to include employees that received training in its reported job creation and retention numbers. At the beginning of Fiscal Year 2005, DCEO made the decision to start counting employees that received training through the Employee Training Investment Program (ETIP) as jobs created or jobs retained. Including these employees greatly increased jobs numbers reported in the Public Accountability Report and in reports to the Governor's Office of Management and Budget (GOMB).

The number of jobs created and retained varied between the two main DCEO sources where it was tracked. When jobs numbers are not reported consistently, the accuracy of any jobs numbers reported becomes questionable. Our testing showed that neither system used by DCEO for tracking jobs created and retained captured all projects. In addition, one system included projects where it was questionable that the grant would have created or retained the number of jobs listed.

DCEO had difficulty in providing support for the jobs created and retained that were reported in the Public Accountability Report and in quarterly management reports to GOMB. The documentation provided did not agree with the amount reported in 8 of the 10 jobs performance measures in our sample. For two jobs measures in our sample, the documentation provided to support the reported jobs created/retained numbers conflicted with documentation provided to support another measure.

OTHER PERFORMANCE MEASURES

Most of the Department of Commerce and Economic Opportunity's reported performance measures we reviewed did not agree with underlying documentation. Performance measures are indicators used to help assess how well programs have realized their objectives. In our testing of performance measures, 73 percent (57 of 78) of the figures we tested did not agree with underlying documentation. Reasons that reported amounts could not be supported included calculation errors, numbers changing in a database, and the inability to locate supporting documentation due to staffing changes.

In our sample of performance measures, we concluded that 45 percent (18 of 40) were good measures that could be used to help assess the effectiveness of the related programs while 20 percent (8 of 40) were poor measures that provided little insight into program effectiveness. The remaining 14 measures (35 percent) in our sample were potentially good measures but deficiencies identified with those measures limited their usefulness.

While performance measures were informally reviewed on a periodic basis, DCEO did not have a system in place that required periodic review. DCEO did not document reviews conducted when updating and changing performance measures.

Several performance measures were calculated incorrectly. In our sample, 13 of 40 (33%) performance measures examined contained some type of calculation error for the numbers reported. In some cases this was due to incorrect data being used or a mathematical error when calculating the measure. However, in one case, DCEO calculated the measure differently than the way it was defined.

MONITORING

Some DCEO programs had good monitoring requirements, but some programs did not. We reviewed monitoring and reporting procedures DCEO uses to ensure that it receives timely and accurate information from grant recipients. Although DCEO had developed standardized grant agreements for programs, reporting requirements varied significantly among them. During testing, we found that 20 percent of projects (20 of 99) did not require any additional reports other than a single closeout report required after the end of a grant period. In addition, most grant agreements did not contain any monitoring requirements for site visits.

In our testing we found that DCEO programs did not consistently receive monitoring reports or follow up on late or missing monitoring reports required of their grant recipients. Forty-one percent of projects we reviewed (34 of 83) did not receive required reports. In addition, DCEO programs did not receive required reports in a timely manner for 60 percent of projects (50 of 83). We found that over 70 percent of projects reviewed (34 of 47) containing untimely program reports did not receive any follow-up by DCEO.

In addition to monitoring performed by program staff, DCEO has three central units that perform monitoring. Grants may be monitored centrally through the Grant Monitoring Unit, External Audits, and the Closeout Unit. We found that these units generally did an effective job.

OTHER ISSUES

While none of DCEO's bureaus have established their own periodic efficiency or effectiveness review procedures, eight of eleven bureaus have completed some type of review of the efficiency or effectiveness of the agency's economic development programs. Some statutory or federal requirements do exist and some ad hoc reviews have been performed. Seven of DCEO's bureaus have review requirements in Illinois statute or in federal rules or procedures. One bureau had taken steps to review programmatic efficiency or effectiveness without statutory or federal requirements. Three DCEO bureaus had no procedures for periodic review of efficiency and no reviews had been performed.

The Corporate Accountability for Tax Expenditures Act (Act) includes requirements to assure that recipients of economic development assistance comply with their agreements and, if they do not comply, assistance may be recaptured. However, the Act does not affect a large number of DCEO bureaus or a large proportion of DCEO grant expenditures. Of the Department's eleven bureaus, the Act's definition of developmental assistance to businesses affects only two bureaus.

DCEO did not have a system to track statutory mandates to ensure that mandates are fulfilled and obsolete mandates can be addressed. DCEO officials were aware of this problem and noted that they were developing a corrective action plan. Unfulfilled mandates that we identified were:

- DCEO did not fulfill all of its statutory reporting requirements. In our testing of reports that were required by statute to be completed, 40 percent (6 of 15) were not completed prior to our request.

- The Illinois Coal Development Board, chaired by the Director of DCEO, was not seated by the DCEO Director and had not met to provide advice on expenditures.

BACKGROUND

On May 30, 2004, the Illinois House of Representatives adopted House Resolution 671. The Resolution directed the Auditor General to conduct a management and program audit of the Department of Commerce and Economic Opportunity's administration of its economic development programs. The Resolution directed that the audit include, but need not be limited to, the following determinations:

(i) Whether DCEO's economic development programs are operated in conformity with applicable federal and State requirements;

(ii) Whether DCEO has established and implemented procedures to periodically review both the efficiency and effectiveness of its economic development programs;

(iii) Whether DCEO has in place appropriate monitoring and reporting procedures to ensure that it receives timely and accurate information from its grant and loan recipients;

(iv) Whether DCEO's reported performance measures are periodically reviewed and adequately supported by underlying documentation; and

(v) Whether DCEO's performance measures indicate that its economic development programs are effective in accomplishing their stated purposes.

ECONOMIC DEVELOPMENT PROGRAMS

The Department of Commerce and Economic Opportunity operates many programs which are related to economic development. DCEO programs were organized into bureaus or program areas. These areas or bureaus within DCEO may contain only one program (like the Film Office) but some contain many programs, like Business Development which includes over ten programs. The Bureau of Workforce Development was moved from the Department of Employment Security in Fiscal Year 2004. The newest bureau, which was created in February 2005, is Homeland Security Market Development which seeks to attract and support businesses engaged in the homeland security industry. Exhibit 1-1 shows administrative and program areas in an Organization Chart that we developed based on a more complex one provided by DCEO. Because it was added so recently, Homeland Security is not included in our Organization Chart, and we did not do testing of any incentives provided.

A separate Supplemental Appendix to this Report includes a program summary with more data on each of the bureaus. The program summaries include a mission statement for the bureau, goals and objectives, an organization chart for the area, a discussion or exhibit of expenditures and headcount, a discussion or exhibit of numbers of grants, loans, and assistance provided, and a list of economic development programs within each bureau including a brief description of each program. Also included are our testing results and summaries of bureau performance measures.

Exhibit 1-1
DCEO CONDENSED ORGANIZATION CHART

Source: DCEO information summarized by OAG.

DCEO Bureaus and Expenditures

The DCEO's organization chart that we prepared does not directly correspond to the programmatic areas on which we report. The areas about which we report are bureaus with programs and their associated funding. The programmatic areas that we report on are shown below in Exhibit 1-2. With the bureaus in the Exhibit, expenditures are shown for Fiscal Years 2003 to 2005.

Exhibit 1-2
DCEO EXPENDITURES BY BUREAU
Fiscal Years 2003 to 2005 (in millions)

	Total Expenditures		
Bureau	FY03	FY04	FY05
Illinois FIRST / Local Projects	$310.4	$245.1	$ 2.0
Community Development	320.0	317.6	75.7
Business Development	53.7	32.8	44.0
Technology & Industrial Competitiveness	51.4	44.8	50.4
Workforce Development	N/A	199.6	156.9
Tourism	43.5	46.4	46.0
Office of Coal Development & Marketing	23.4	20.0	22.8
Office of Trade and Investment	15.8	5.3	5.2
Illinois Film Office	1.4	1.4	1.5
Energy Conservation	15.8	22.5	13.4
Recycling and Waste Management	9.1	9.5	6.8
TOTALS [1]	$ 844.6	$ 944.8	$424.5

[1] Totals do not add due to rounding.

Source: DCEO data summarized by OAG.

The Film and Trade Offices are the only areas where the majority of their expenditures are for purposes other than grants (100% and 93% respectively). Tourism also has a significant proportion in other direct expenditures (47%), which is due to the fact that a large portion is spent on a contract to assist the Bureau of Tourism in the planning and execution of marketing and advertising programs to promote Illinois tourism. The total expenditures for this contract were $6.8 million in Fiscal Year 2004 and $13.3 million in Fiscal Year 2005.

There is also another Tourism Bureau contract for $1 million for an agency to serve as the public relations agent for the Bureau of Tourism. Additionally, other large contracts exist for public relations or marketing that relate to job growth and quality of life.

Another way to look at DCEO expenditures is to use classifications used in the Comptroller's system. Exhibit 1-3 shows that in Fiscal Year 2004 the category Awards and Grants accounted for 90 percent of expenditures. Exhibit 1-3 also shows expenditures by type which allow a clearer breakdown of categories of expenditures.

As the Exhibit shows, Salaries and Benefits is the second largest category but accounts for only four percent of total expenditures. The fourth largest category is Debt Service which is 1.4 percent of total expenditures.

Exhibit 1-3
EXPENDITURES BY TYPE
Fiscal Year 2004 (in millions)

	$	%
Awards and Grants	$850.0	90.0%
Salaries and Benefits	$37.4	4.0%
Contractual Services	$28.2	3.0%
Debt Service	$13.7	1.4%
Purchase of Investments	$3.4	0.4%
Electronic Data Processing	$1.7	0.2%
Telecommunications	$1.7	0.2%
Efficiency Initiatives	$1.7	0.2%
Travel / Auto	$1.2	0.1%
Printing	$1.0	0.1%
Miscellaneous	$4.8	0.5%
Total	$944.8	

Source: Comptroller data summarized by OAG.

Exhibit 1-4
FEDERAL PROPORTION OF DCEO FUNDS
Fiscal Year 2004

Bureau	Percent Federal
Community Development	66%
Business Development	11%
Technology & Industrial Compet.	2%
Workforce Development	100%
Energy Conservation	22%
General Administration	23%
DCEO overall	44%

Source: DCEO data summarized by OAG.

Another way to look at DCEO expenditures is to analyze the portion that is from federal funds. Only five of the bureaus have federal funds; further, a portion of administrative expenditures are paid with federal funds. Those bureaus are shown in Exhibit 1-4 along with the proportion of funds that are federal. As can be seen, Workforce Development is 100 percent a federal program with the Bureau of Community Development also having a large federal portion (66%) in Fiscal Year 2004. Because Community and Workforce Development are among the largest bureaus, DCEO overall is 44 percent federally funded.

Changes in Funding

Several significant changes in DCEO funding by bureau have happened over the last few years. First, Workforce Development was moved from the Department of Employment Security to DCEO in Fiscal Year 2004. Next, two federal weatherization programs were moved from the Bureau of Community Development at DCEO in Fiscal Year 2005 to the Department of Public Aid. Those programs were the Low Income Home Energy Assistance Program (LIHEAP) and the Illinois Home Weatherization Assistance Program (IHWAP). Also, there were no Illinois FIRST grants in Fiscal Year 2005 because there were no appropriations approved for that purpose. According to agency officials, in Fiscal Year 2006, DCEO has focused on Illinois FIRST projects that had been partially paid out but were waiting for the rest of the money and also on projects where there was a signed agreement in place.

TAX CREDITS

Exhibit 1-5 **TAX CREDIT PROGRAMS** Fiscal Year 2004
Illinois Film Tax Incentive Program
Economic Development for a Growing Economy (EDGE) Tax Credit Program
Enterprise Zone Program
High Impact Business Program
Source: DCEO program information analyzed by OAG.

In addition to expenditures to encourage economic development, DCEO also offers tax credits through four different programs. Those four programs are shown in Exhibit 1-5. For two of the programs, the Film and EDGE programs, DCEO is responsible for reviewing materials submitted by approved businesses and preparing a tax certificate which identifies the total tax credit that the business is eligible for. The amount of credit the business actually receives is dependant upon income and tax liability of the firm. Both of these programs provide a credit or reduction of tax liability. EDGE allows the credits for a ten year period and allows the credits to be carried forward to five future years when the business has profit and associated taxable income. Recent changes in the film tax credit made by Public Act 94-0171 will also allow carry forward for five years. Film credits are for the time when the film is being produced but can also be carried forward.

For both of these programs, credits are based on actual jobs that are created or retained. Businesses submit documentation of the job creation or retention for EDGE and production companies submit documentation of the temporary jobs that are created related to film productions. As noted earlier, DCEO program people review those documents and prepare a tax credit certificate that the business would submit with its tax return. Calendar Year 2004 was the first year for film tax credits. EDGE credits have been available since 1999. Exhibit 1-6 shows the number and dollar value of tax credit certificates issued by DCEO for 2003 and 2004. Amounts in Exhibit 1-6 are amounts that DCEO certified in 2003 and 2004. When and if a business can take a credit is dependent upon when it has a tax liability, at which time, the business can take all or a portion of the credit. Exhibit 1-7 shows the amounts that businesses had taken in 2004.

The other two tax credit programs are enterprise zone related. The first is the actual Enterprise Zone Program. Businesses choosing to locate or expand in an enterprise zone may be eligible for the following incentives among others:

1) Investment Tax Credit found in the Illinois Income Tax Act;
2) Utility Tax Exemption found in the Public Utilities Act;
3) Machinery and Equipment/Pollution Control Facilities Sales Tax Exemption found in the Retailers' Occupation Tax Act; and
4) Building Material Sales Tax Exemption found in the Retailers' Occupation Tax Act.

In addition to the State incentives offered by the program, each zone may offer distinctive local incentives to enhance business development projects such as waivers of business licensing and permit fees and special local financing programs.

Exhibit 1-6
DCEO TAX CREDIT CERTIFICATES ISSUED
Calendar Years 2003 and 2004
($ in millions)

	Certificates	Credits
No film tax credits in 2003		
EDGE 2003	39	$19.0
Total 2003	39	$19.0
Film 2004	20	$6.4
EDGE 2004	35	$19.5
Total 2004	55	$25.9

Source: DCEO data summarized by OAG.

Enterprise zones are designated by municipalities or counties based on criteria identified in the Illinois Enterprise Zone Act (20 ILCS 655). Once a zone has been designated by ordinance, DCEO must certify the zone in accordance with the Act. In addition, businesses who make a specified investment and create or retain a specified number of jobs can apply and be certified to receive the machinery and equipment and utility tax exemptions. During 2003 and 2004, 63 companies applied and were certified or renewed for one or more of these additional exemptions.

The second enterprise zone type program is the High Impact Business Program which offers similar benefits to large-scale development projects not located in an enterprise zone. Incentives include investment tax credits, a State sales tax exemption on building materials, an exemption from State tax on utilities and an expanded State sales tax exemption on purchases of personal property used or consumed in the manufacturing or assembly process or in the operation of a pollution control facility. Businesses must apply and be certified. DCEO certified one and renewed one high impact business in each year for 2003 and 2004. To be certified, applying businesses must:

Exhibit 1-7

TAX CREDITS FOR ENTERPRISE ZONE, HIGH IMPACT BUSINESS, AND ECONOMIC DEVELOPMENT FOR A GROWING ECONOMY (EDGE)

(2004 data in thousands)

Type [2]	Corporate Income	Phone & Electricity Excise	Gas Revenue	Gross Receipts (Public Utility Fund)	Sales & Use	Grand Total
EDGE Tax Credit	$5,200					$5,200
High Impact Business Investment Credit (HIB)	$1,540					$1,540
Enterprise Zone Investment Credit	$6,520					$6,520
Enterprise Zone and Foreign Trade Zone Dividend Subtractions	$1,000					$1,000 [1]
Enterprise Zone and **HIB** Interest Subtractions	$1,431					$1,431
Enterprise Zone and **HIB** Jobs Tax Credit	$6					$6
Enterprise Zone Charitable Contribution Subtraction	$938					$938
Enterprise Zone, Foreign Trade Zone, **HIB** Exemption		$34,907	$1,748			$36,655 [1]
Enterprise Zone Revenue Exemption				$26		$26
Building Materials within **Enterprise Zone** exemption					$4,176	$4,176
Designated Tangible Personal Property within **Enterprise Zone** Exemption (includes **HIB**)					$26,678	$26,678
Grand Total	$16,635	$34,907	$1,748	$26	$30,854	$84,170

[1] DCEO has no responsibility for Foreign Trade Zones and that portion cannot be broken out.

[2] Because the **Film Tax Credit** was not established until 2004, no data had been reported.

Source: Comptroller data summarized by OAG.

- Make a $12 million investment which will be placed in service in a qualified property which intends to create 500 full-time equivalent jobs at a designated location in Illinois or;

- Make a $30 million investment which will be placed in service in a qualified property and intends to retain 1,500 full-time jobs at a designated location in Illinois; and

- Submit to the department a written statement that the investments would not be placed in service and the jobs created or retained would not occur without tax credits or exemptions.

Exhibit 1-7 summarizes tax credits taken by businesses related to DCEO programs using the most recent available information. This information is from the Comptroller's Tax Expenditure Report – Fiscal Year 2004. Data in the exhibit is reported for background purposes only. The exhibit does help to show the tax impact of the DCEO tax credits.

Reporting Tax Credits

DCEO and other agencies submit required information to the Office of the Illinois Comptroller, which prepares a comprehensive report of tax credits that are provided by various State agencies. That report is called the Tax Expenditure Report. A tax expenditure is defined as any exemption, exclusion, deduction, allowance, credit, preferential tax rate, abatement, or other device which reduces the amount of tax revenue that would otherwise accrue to the State. Because the actual amount of tax credits for businesses or individuals may not be taken until years after a zone was established or the incentive was provided, DCEO does not know the actual amount of the benefit provided to an individual business. Because of this delay and lack of information, it is difficult for DCEO to assess the effectiveness of the tax credit programs.

DCEO STAFFING

DCEO staffing overall has remained fairly constant over the years, but would have declined without the addition of the Bureau of Workforce Development in Fiscal Year 2004. Workforce Development was relocated from the Department of Employment Security by Executive Order 11-2003 for Fiscal Year 2004.

Exhibit 1-8 shows headcount by bureau for Fiscal Years 2002 to 2005. However, several of the large bureaus, including Community and Business Development have had decreases in staffing since 2002. Exhibit 1-9 graphically shows DCEO staffing. The exhibit shows that total staffing was declining until Workforce Development was added and then declined again when the two weatherization programs moved from Community Development.

Exhibit 1-8
HEADCOUNT BY BUREAU
Fiscal Years 2002 to 2005

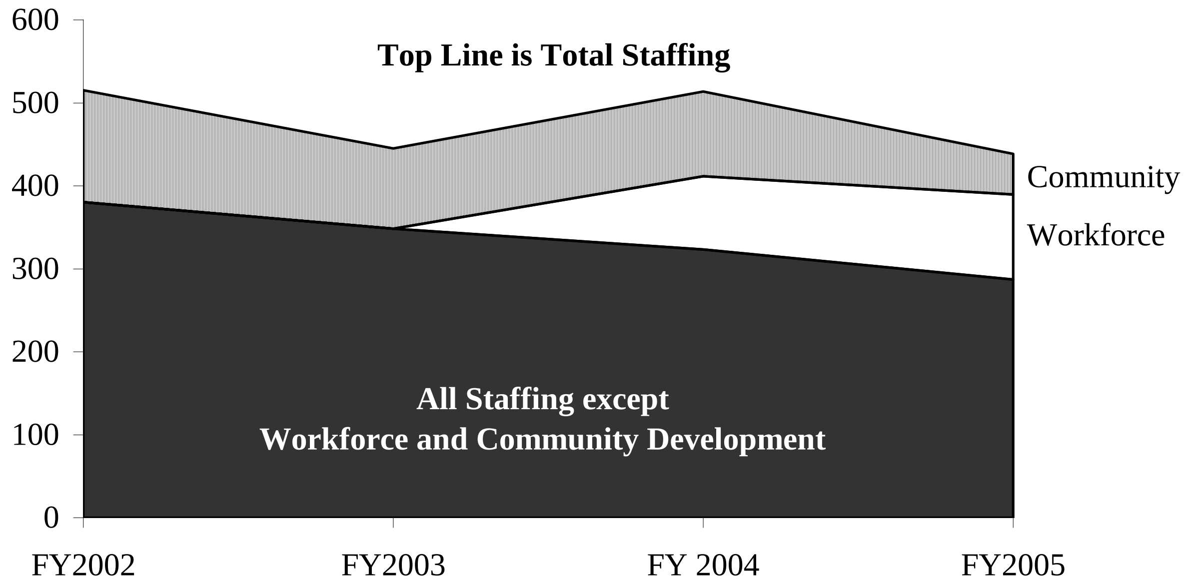
Bureau	2002	2003	2004	2005
Illinois FIRST	25.1	29.4	24.7	20.5
Community Development	134.9	96.6	102.1	48.9 [2]
Business Development	123.9	105.1	93.6	81.2
Technology & Industrial Competitiveness	56.0	49.4	51.0	42.6
Workforce Development [1]			88.2	102.5
Tourism	26.5	35.5	36.3	35.5
Office of Coal Development & Marketing	17.7	13.9	17.0	17.4
Office of Trade and Investment	32.4	36.3	26.3	25.2
Illinois Film Office	11.8	12.4	12.4	11.0
Energy Conservation	42.8	32.4	35.6	30.0
Recycling & Waste Management	41.3	34.0	26.3	23.7
Totals	512.4	445.0	513.5	438.5

[1] Moved to DCEO in FY2004.

[2] Two weatherization programs moved from DCEO in FY2005.

Source: DCEO data summarized by OAG.

Exhibit 1-9
DCEO STAFFING 2002 TO 2005



Source: DCEO data summarized by OAG.

DCEO'S CUSTOMER INFORMATION SYSTEM

DCEO has had difficulties in developing a computer system to support the needs of the Department. In Fiscal Year 2002, under a prior administration, the Department attempted to develop the Customer Information System (CIS) to integrate and upgrade various stand-alone systems that had been developed independently and were unable to automatically communicate. In the OAG Compliance Attestation Engagement for Fiscal Year 2004, our auditors found that DCEO's still relatively new Customer Information System had not met the Department's needs. In addition, the CIS had problems related to system documentation. In the prior audit (2002), the Department had not ensured compliance with the application system development standards and had not determined the total estimated cost of the completed CIS project. Through Fiscal Year 2004, the Department had invested approximately $4 million in CIS. In our Fiscal Year 2004 compliance examination of DCEO, OAG auditors recommended that the Department conduct an extensive study to determine the feasibility and effectiveness of CIS and whether the system will meet its long term needs.

Department officials accepted that recommendation and are in the process of replacing and phasing out CIS. We met with DCEO officials who told us about several projects they are pursuing. Officials noted that one component of their efforts, business process reengineering, is a direct response to the audit finding that the Customer Information System does not meet their current needs. Although DCEO officials were working on this improvement to their system, the project was not completed before the end of our audit fieldwork. Since there has been a finding related to this area for the last two OAG compliance engagements, our office will test the progress in this area in the next engagement for the two years ended June 30, 2006.

CUSTOMER INFORMATION SYSTEM	
RECOMMENDATION 1	***The Department of Commerce and Economic Opportunity should continue its efforts to develop a useable computerized system that will allow employees to enter information into and extract information from the system more easily. The Department should also assure that the project be developed in accordance with acceptable system development standards that include total cost projections and adequate documentation.***
DCEO RESPONSE	The Department is developing a useable and efficient system to replace the Customer Information System (CIS). A new information management portal using web-based technology is already in place, designed to improve agency-wide data entry and extraction. The new system plan incorporates accepted system development standards including cost projections and adequate documentation. The Department agrees to continue its new system development efforts consistent with staffing capacity and required formal external approvals.

EXAMPLES OF PROJECT TYPES

DCEO projects vary in size and type and can take a long time to produce intended results. To get an idea of how projects proceed, we identified large projects which were announced after the change in administration. During the period of January to June of 2003 there were eight announcements that DCEO would be providing assistance related to large economic development projects which were to create and/or retain jobs. We classified those eight projects into four different categories. The categories and the amount of incentives provided are shown in Exhibit 1-10.

Exhibit 1-10
CATEGORIES OF PROJECTS ANNOUNCED
January to June 2003

	Estimated Incentives
Build - Start a new business or new plant in Illinois (2 projects).	$1,851,274
Buy - Acquire an existing business in Illinois (1 project).	$ 217,000
Expand - Expand an existing facility in Illinois (4 projects).	$ 891,174 [1]
Infrastructure – Build public infrastructure to support an existing Illinois business (1 project).	$ 750,000

[1] One expansion project was cancelled. The announcement said $22 million in incentives were to be provided.

Source: OAG analysis of DCEO information.

Of the eight projects, one was cancelled before incentives were actually provided and three had made little progress in the two years since the projects were announced. Exhibit 1-11 on the next page shows the announced jobs to be created by each project and the job creation results for the projects after two years. The most striking result is in the Expand category where 506 jobs were projected to be created. A project projected to create 300 jobs had been cancelled and 50 other jobs had been created when we reviewed the documentation.

Exhibit 1-11 also has the data for projected and actual jobs retained. Since "Build" projects are building new facilities, there are no existing jobs to retain. The exhibit shows the announced jobs to be retained, the results for jobs retained, and the jobs lost for each project.

The summary of Expand projects shows an important element of these large economic development projects. In some instances it takes a good deal of time to get a project started, sometimes even years. This element is important to remember so the management controls such as appropriate rules, policies, and procedures are in place which allow for important projects to proceed even when there are changes within the management of the Department.

Exhibit 1-11
PROJECTS "ANNOUNCED" MARCH TO JUNE 2003
AND PROJECT "RESULTS" AS OF JUNE 2005

Build Projects — Start a new business or new plant in Illinois

Project	Assistance Type	Total Estimated Incentives	Announced: Jobs to Create	Announced: Jobs to Retain	Results at June 2005: Jobs Created	Results at June 2005: Jobs Retained	Net Job Change
#1	Business Planning Grant, CDAP Grant	$595,000	38	n/a	33	n/a	**+33** new jobs
#2	EDGE tax credit, Grant, Infrastructure, Training	$1,256,274	200	n/a	215	n/a	**+215** new jobs

Buy Projects — Acquire an existing business in Illinois

Project	Assistance Type	Total Estimated Incentives	Announced: Jobs to Create	Announced: Jobs to Retain	Results at June 2005: Jobs Created	Results at June 2005: Jobs Retained	Net Job Change
#3	Participation Loan	$217,000	20	28	0	12	**-16** jobs lost

Expand Projects — Expand an existing facility in Illinois

Project	Assistance Type	Total Estimated Incentives	Announced: Jobs to Create	Announced: Jobs to Retain	Results at June 2005: Jobs Created	Results at June 2005: Jobs Retained	Net Job Change
#4	EDGE tax credit Infrastructure, Training	$600,956	50	150	50	150	**+50** new jobs
#5	EDGE tax credit, Infrastructure, Grant	$21,800,000[1]	300	n/a	cancel		cancelled
#6	EDGE tax credit Training	$272,593	126	349	0	349	no activity
#7	EDGE tax credit	$17,625	30	n/a	0	n/a	no activity

[1] Project was cancelled and no assistance was provided

Infrastructure Project — Build public infrastructure to support an existing Illinois business

Project	Assistance Type	Total Estimated Incentives	Announced: Jobs to Create	Announced: Jobs to Retain	Results at June 2005: Jobs Created	Results at June 2005: Jobs Retained	Net Job Change
#8	Community Development Assistance	$750,000	15	235	10	191	**-34** net jobs lost

Summary ►	Announced: Create	Announced: Retain	Results at June 2005: Create	Results at June 2005: Retain
	779	762	308	702

Source: DCEO data pulled from case files and summarized by OAG.

AUDIT SCOPE AND METHODOLOGY

This audit was conducted in accordance with generally accepted government auditing standards and the audit standards promulgated by the Office of the Auditor General at 74 Ill. Adm. Code 420.310.

Fieldwork for this audit was conducted between May and August 2005. We interviewed representatives of the Illinois Department of Commerce and Economic Opportunity and the Illinois Comptroller's Office. We reviewed documents at DCEO including grant agreements, case files, audits of grantees, and policies and procedures of the various bureaus and programs. We tested samples and reviewed documents related to the audit's objectives and tested in each of the 11 DCEO bureaus which contain the various programs. A more complete description of our testing and analyses is in Appendix B of this report.

In conducting the audit, we reviewed applicable State and federal statutes and rules. We reviewed compliance with applicable laws as directed by the resolution. Any instances of non-compliance we identified are noted in this report.

We reviewed risk and internal controls at DCEO related to the audit's objectives. The audit objectives are contained in House Resolution 671 (see Appendix A). This audit identified some weaknesses in those controls, which are included as findings in this report.

We reviewed the previous financial audits and compliance attestation engagements released by the Office of the Auditor General for the Department of Commerce and Economic Opportunity and its predecessor agency, the Department of Commerce and Community Affairs. This included reviewing audit working papers for the most recent compliance attestation engagement for Fiscal Year 2004. We also reviewed sections of the Illinois Statewide Single Audit that related to federal programs that are located at DCEO.

To the extent necessary we reviewed the reliability of computer processed data used in our audit report. That included reviewing findings included in the compliance attestation engagement that were done by Auditor General's audit staff. Weaknesses related to computer data and computer systems are noted in this report.

REPORT ORGANIZATION

The remainder of this report is organized into the following chapters:

- Chapter Two - Jobs as a Performance Measure
- Chapter Three - Other Performance Measures
- Chapter Four - Monitoring and Reporting
- Chapter Five - Measuring Efficiency and Effectiveness
- Chapter Six - Conformity with Applicable Statutes

Chapter Two

JOBS AS A PERFORMANCE MEASURE

CHAPTER CONCLUSIONS

The Department of Commerce and Economic Opportunity (DCEO) reports projected jobs to be created or retained instead of the actual jobs created or retained. In addition, DCEO's computer systems for performance measures did not track projected jobs vs. actual jobs. This comparison would be valuable and could be used to compare the success of individual projects and the programs as a whole.

DCEO altered its performance measurement methodology to include employees that received training in its reported job creation and retention numbers. At the beginning of Fiscal Year 2005, DCEO made the decision to start counting employees that received training through the Employer Training Investment Program (ETIP) as jobs created or jobs retained. Including these employees greatly increased jobs numbers reported in the Public Accountability Report and in reports to the Governor's Office of Management and Budget (GOMB).

The number of jobs created and retained varied between the two main DCEO sources where it was tracked. When jobs numbers are not reported consistently, the accuracy of any jobs numbers reported becomes questionable. Our testing showed that neither system used by DCEO for tracking jobs created and retained captured all projects. In addition, one system included projects where it was questionable that the grant would have created or retained the number of jobs listed.

DCEO had difficulty providing support for the jobs created and retained that were reported in the Public Accountability Report and in quarterly management reports to GOMB. The documentation provided did not agree with the number of jobs reported in 8 of the 10 jobs performance measures in our sample. For two jobs measures in our sample, the documentation provided to support the reported jobs created/retained numbers conflicted with documentation provided to support another measure.

BACKGROUND

Jobs created and retained is one of the most important measures of performance for economic development agencies like DCEO. Although not all programs are driven by job creation, the creation of new jobs and the retention of existing jobs is an underlying goal of many of DCEO's economic development programs. The ability to accurately track the number of jobs created and retained is important in assessing

According to its Mission:

DCEO provides leadership in creating private sector jobs and expanding economic opportunities.

the success of a particular project or a program. DCEO tracks jobs created and retained in different ways resulting in different jobs numbers depending on the source used.

WINS System

The WINS system is one source used by DCEO to track jobs created and jobs retained. WINS is a component of DCEO's Customer Information System (CIS) which is a mainframe based and Local Area Network application. Development of the WINS system was initiated in July of 2003 by the new administration to be an agency-wide method of tracking jobs created and retained. Program staff within each bureau enter project data, including information on jobs created and retained, into the WINS system. The data that is entered is the projected number of jobs created and retained from the project application or grant agreement.

The WINS system does not maintain historical data on jobs created and retained and can be adjusted as circumstances change – for example, if the projected number of jobs is adjusted in the grant agreement. Historical data not maintained in the system included the jobs projected in the grant agreement and jobs for adjusted projects and actual jobs at a point in time. Since data is entered at the bureau level, numbers can also be adjusted to reflect actual jobs created and retained. However, the system does not allow for the comparison of projected jobs created to actual jobs created so a user would not know if the numbers in the system were projected numbers or had been adjusted for actual numbers. This is a fundamental weakness in the WINS system. Other problems the Department has experienced with its Customer Information System are discussed in Chapter One.

PB Views System

The other main source that DCEO utilizes to track jobs created and retained is through its PB Views system. This system is used by DCEO and other agencies to track performance measures. Jobs data is one of the performance measures that is tracked. Like the WINS system, data is entered into the PB Views system at the bureau level. Each bureau has a primary contact that is trained to enter information into the system. An official at DCEO reviews the performance measures for all of the bureaus and prepares reports for the Comptroller and for the Governor's Office of Management and Budget (GOMB). One measure that is reported for several different programs is jobs created and retained. As discussed in more detail in the next section, the jobs numbers in WINS and those reported using the PB Views system do not reconcile to each other.

Verifying Jobs Numbers

According to DCEO, the method for verifying jobs numbers differs depending on the program. Grantees report and attest to jobs created through required reports submitted to DCEO. For some programs, jobs created are further verified through on-site monitoring visits either by program staff or by staff in the Grants Monitoring Unit. DCEO also stated that for some programs actual jobs are documented by submission of an agreed upon procedures review by an independent CPA. Additionally, DCEO has a shared data agreement with the Illinois Department of Employment Security, which allows DCEO to use Department of Employment Security data to verify a company's performance in creating jobs.

CONFLICTING JOBS NUMBERS

Our audit testing at DCEO revealed differences in jobs numbers depending on the source for those numbers. When jobs numbers are not reported consistently, the accuracy of any jobs numbers reported becomes questionable. Testing also showed that neither system for tracking jobs created and retained captured all projects.

In our sample of case files, many projects contained projected jobs to be created or retained. These projected jobs came from either the grant application or from the grant agreement. We compared those projected numbers to any actual jobs numbers in the case file if the numbers were available. Actual numbers were usually obtained from monitoring reports submitted by the grantee. We then compared the projected or actual jobs numbers to both the WINS system and to the PB Views system.

Exhibit 2-1 lists examples of the conflicting jobs numbers. For example, for the Boeing Company grant, the application letter noted that the grant would create 75 jobs and retain 600 jobs. The case file did not contain any documentation of or information on actual jobs created and retained. The WINS system listed 0 jobs created and 2,100 retained while the supporting documentation for the PB Views system showed 0 jobs created and 1,291 retained.

Exhibit 2-1 also shows that neither the WINS system nor the PB Views system capture all projects with jobs created and retained. For example the jobs for the projects for Bethel New Life and White County Coal LLC were included in the WINS system but not in the PB Views system. Conversely, the jobs for the projects for General Mills and College of DuPage were included in the PB Views system but not in the WINS system. Because of the conflicting numbers and because both WINS and the PB Views system include different projects, the jobs numbers do not reconcile to each other.

One bureau at DCEO collects job information in its grant application but does not assess whether these projected jobs were actually created or retained. The Office of Coal Development gives grants for coal projects through its Coal Competitiveness Program. Job creation is one measure used in the project selection process. As shown for the example in Exhibit 2-1, the application form notes how many jobs are expected to be created or retained. These projected jobs are also included in the WINS system. However, jobs created and retained are not assessed at the end of the project and not reported in either the Public Accountability Report or to GOMB.

Exhibit 2-1
EXAMPLES OF CONFLICTING JOBS NUMBERS

Grantee	Program	From Application/ Grant Agreement: Projected Jobs Created	From Application/ Grant Agreement: Projected Jobs Retained	From File: Actual Jobs Created	From File: Actual Jobs Retained	WINS System: Jobs Created	WINS System: Jobs Retained	PB Views System Documentation [1]: Jobs Created	PB Views System Documentation [1]: Jobs Retained
Bethel New Life	Illinois FIRST	None noted		48	6	78	6	Not tracked	
The Boeing Company	ETIP	75	600	None in file		0	2,100	0	1,291
Meadowbrook Farms	ETIP	210	30	None in file		210	240	210	30
Sauk Valley Community College	ETIP	None noted		None in file		0	3,000	0	1,439
General Mills Operations, Inc.	Large Business Development Program	90	0	139	0	No entry		90	0
College of DuPage SBDC/ITC	Small Business Develop. Ctr/ Internat'l Trade	90	50	19	25	No entry		11	49
White County Coal LLC	Coal Infrastructure	8	206	None in file		8	206	Not tracked	

[1] PB Views tracks jobs in the aggregate but OAG review of documentation showed the number of jobs that were included for these projects.

Source: OAG analysis of DCEO project files and jobs documentation.

Questionable Jobs Numbers in WINS System

The WINS system included projects where it was questionable that the grant would have created or retained the number of jobs listed. The grants in question were Illinois FIRST grants. Exhibit 2-2 lists some examples where the jobs numbers were questionable. Although included in the WINS system, the jobs created and retained for the Illinois FIRST grants were not included in job totals that were reported in the Public Accountability Reports or in the quarterly reports to GOMB. Including these jobs created and retained in the WINS system raises issues about the reliability of the WINS system. DCEO officials noted that they hoped to be able to use WINS job data in generating future quarterly reports to GOMB. Past reports used data from the PB Views system.

Exhibit 2-2
EXAMPLES OF ILLINOIS FIRST GRANTS IN THE WINS SYSTEM WITH QUESTIONABLE JOBS NUMBERS

Grant No.	Grantee	Grant Description	Amount	Jobs Created	Jobs Retained
03-121716	Thornton Township High School District 205	Miscellaneous operational expenses for classroom studies.	$250,000	950	0
02-121004	Chinese American Service League, Inc.	Construction of a Community Service Center, costs to include but not limited to construction, renovations, land acquisition, and any other necessary costs.	$50,000	847	281
01-127129	City of Dixon	Lee County Industrial Park water improvement.	$50,000	528	0
01-121195	City of Red Bud	Industrial park street and infrastructure improvement.	$50,000	505	0
03-120049	Leadership Council of Southwestern Illinois	Activities associated with the retention of Scott Air Force Base.	$175,000	0	13,000

Source: OAG analysis of DCEO data.

PROBLEMS WITH REPORTED JOBS NUMBERS

DCEO reports projected jobs to be created or retained instead of the actual jobs created or retained. In addition, DCEO did not track projected jobs vs. actual jobs in the WINS system. This comparison would be valuable to compare the success of individual projects and the programs as a whole.

DCEO also counts employees that receive training through the Employer Training Investment Program (ETIP) as jobs created or retained. At the beginning of Fiscal Year 2005, DCEO decided to start counting employees trained through ETIP as jobs created or jobs retained, which greatly increased jobs numbers reported in the Public Accountability Report and to GOMB.

Projected Vs. Actual Jobs

DCEO reports projected jobs to be created or retained when the grant agreement or tax credit agreement is signed. There are two problems with this practice. First, if counted immediately, it is likely that jobs are counted in a period different than when the jobs will actually be created. Second, it is unlikely that projects will create the exact number of jobs projected. Some projects may create more jobs than are projected while other projects may be unsuccessful and create fewer jobs than projected. The following case examples illustrate this point.

Case Example One – Michaels Stores

Michaels Stores projected the creation of 200 jobs at a new distribution center in New Lenox. A grant agreement for the Large Business Development Program and a tax credit agreement for the EDGE tax credit program were signed in March 2003.

According to quarterly reports filed by the grantee, 0 jobs were created as of June 30, 2003. However, the 200 projected jobs were counted as jobs created in Fiscal Year 2003. These jobs were included as part of the total of 7,526 jobs reported as created by the Market Development Division in the 2003 Public Accountability Report.

As of June 30, 2004, the grantee reported 181 jobs created which increased to 215 jobs as of December 31, 2004. Since the projected jobs were counted in Fiscal Year 2003, these actual jobs created were not reported as jobs created by the Market Development Division in Fiscal Years 2004 and 2005.

Case Example Two – Mitsubishi

In March 2003, DCEO announced an incentive package for Mitsubishi Motors in Normal that included tax credits and savings through the EDGE tax credit program and the Enterprise Zone program. Mitsubishi projected the creation of 300 jobs.

In November 2003, prior to any agreements being put in place, a memo to the file noted that Mitsubishi was not proceeding with the expansion and that further processing of the applications was terminated.

Despite creating no jobs, the 300 projected jobs were counted as jobs created in Fiscal Year 2003. These jobs were included as part of the total of 7,526 jobs reported as created by the Market Development Division in the 2003 Public Accountability Report.

REPORTING ACTUAL JOBS CREATED	
RECOMMENDATION 2	***The Department of Commerce and Economic Opportunity should report actual jobs created, along with projected jobs to be created, in the Public Accountability Report and its reports to GOMB. DCEO should clearly identify whether reported figures are projected or actual jobs created or retained.***
DCEO RESPONSE	The Department currently reports projected jobs in its performance measures as a reflection of the state's anticipated return on investment. Actual jobs are tracked by program staff at the specific project level. The Department agrees that tracking actual jobs is critical to enforcing the accountabilities required in its grant agreements and by the Corporate Accountability for Tax Expenditures Act. The Department's Wins Tracking system has the ability to track actual jobs. The Department will work with the Governor's Office of Management and Budget and the Comptroller's Office to develop performance measures that report actual jobs created and retained. The Department agrees to identify whether reported figures are projected or actual.

Tracking Jobs

The WINS system, which was created to track jobs created and retained, did not track actual jobs created and retained vs. projected jobs created and retained. For the Michaels example discussed above, the WINS system lists 200 jobs projected as jobs created and does not include the actual jobs created. The Mitsubishi project is not included in the WINS system. A comparison of actual jobs created to the projected jobs created would provide a valuable management tool that could be used to compare the success of individual projects and the programs as a whole.

TRACKING JOBS CREATED AND RETAINED	
RECOMMENDATION 3	***The Department of Commerce and Economic Opportunity should develop a system to accurately measure and track jobs created and retained. This system should include the ability to compare projected jobs to actual jobs created.***
DCEO RESPONSE	The Department's Wins Tracking System (WTS) has the ability to accurately track jobs created and retained and differentiate between projected jobs and actual jobs. The Department agrees to begin coding all job creation and retention entries in the WTS as projected or actual. In addition, the Department agrees to develop queries with the ability to extract reports that differentiate between projected and actual jobs. The Department will continue working to improve the precision and timeliness of data entries in the WTS through monitoring and retraining. The WTS, developed in 2003, is a dynamic or "real time" system designed to track job creation and retention agency wide by project. Data entry is performed at the program level and can be updated at any time during the life of the project. The Department's PB Views system is a static or "snapshot" system used to track performance measure data by program, including jobs created and retained for some but not all programs. Data entry is performed once each quarter at the program level. The WTS and PB Views are designed for different purposes.
	AUDITOR COMMENT: During the time we did our audit work, the Wins Tracking System did not track projected jobs created and jobs retained along with actual jobs created and jobs retained.

ETIP Jobs

DCEO increased its reported jobs numbers by counting employees that received training as jobs created or retained. DCEO included employees that receive training through the

Employer Training Investment Program (ETIP) as jobs created or retained. ETIP provides grants that reimburse companies for up to 50 percent of the cost of training their employees. ETIP grants can be given to individual businesses or to intermediary organizations offering multi-company training.

Prior to 2004, employees trained through ETIP (which was formerly known as the Industrial Training Program) were reported in the Public Accountability Report as:

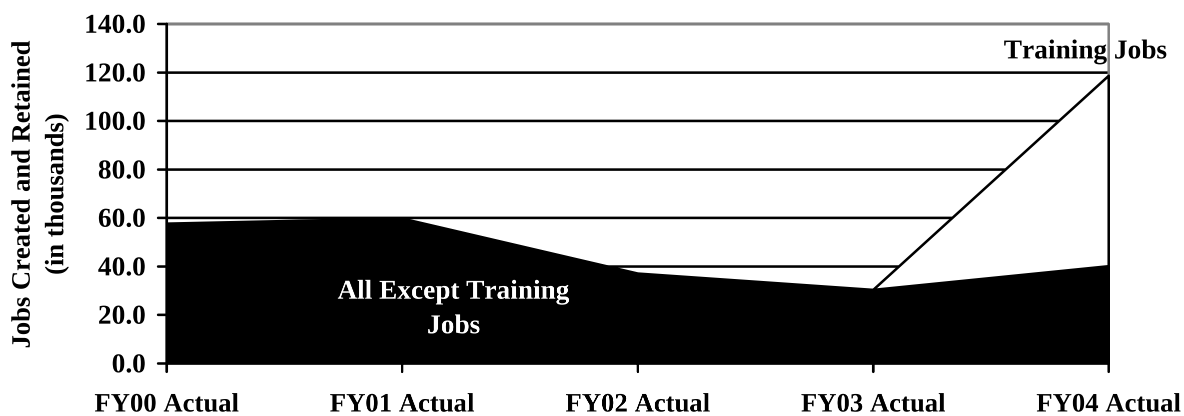
- Number of Industrial Training Program (ITP) trainees (new & upgraded).

At the beginning of Fiscal Year 2005, DCEO decided to start counting ETIP trainees as jobs created and retained. For the 2004 Public Accountability Report the name of the measure was changed to:

- Number of jobs created and retained through the Employer Training Investment Program (ETIP).

Exhibit 2-3 shows the combined jobs created and retained reported in the Public Accountability Reports for Fiscal Years 2000 to 2004. The decline in jobs in 2002 and 2003 was due to the decline in jobs created by the Market Development Division in the Bureau of Business Development and by the Film Office. In 2004, jobs jumped substantially with the inclusion of the ETIP trainees as jobs created and retained.

Exhibit 2-3
JOBS REPORTED IN PUBLIC ACCOUNTABILITY REPORTS



Note: Jobs reported in this exhibit are an aggregation of all jobs measures in the Public Accountability Report and therefore include double counting. Some large projects receive benefits from more than one program and jobs are then reported in more than one program in the Public Accountability Report data.

Source: Public Accountability Report data summarized by OAG.

This change in counting jobs created and retained also affected the quarterly reports that DCEO submits to GOMB. The jobs numbers for the 3rd and 4th quarters of Fiscal Year 2004 were restated to account for the change of counting ETIP trainees as jobs created and retained.

Jobs were originally reported as 6,455 in the 3rd quarter and 8,562 in the 4th quarter of Fiscal Year 2004. Those numbers were restated to 33,509 and 59,845 respectively.

DCEO stated that the total number of jobs for Fiscal Year 2004 was later adjusted from 105,859 to 92,957 after it was discovered that some double counting occurred. The double counting occurred in the ETIP grants which are often part of the incentive package for projects that receive other types of incentives. DCEO realized that these jobs were already included in the report to GOMB under those other programs. Amounts for other quarters were also routinely adjusted. For example, jobs created and retained in the 1st quarter of Fiscal Year 2004 were originally reported as 5,890. Later reports changed these reported jobs to 6,483, 6,839, and 6,776. Continuously adjusting jobs numbers calls into question the legitimacy of the numbers reported. As discussed later in this chapter, DCEO had difficulty documenting its numbers for jobs created and retained.

Conclusion

Typical DCEO economic development programs, where the number of jobs created and retained is used to measure performance, involve providing assistance for business development or expansion that will create jobs. For example, the Large Business Development Program provides grants or loans to businesses locating in Illinois or to existing companies for major job expansion or retention projects. The number of jobs created and retained is a good measure to judge the success of those projects. Conversely, an ETIP grant for training employees does not create jobs but instead provides funding to help train newly hired or existing employees. However, the number of employees trained is a legitimate measure on its own.

The assumption that all employees that received training under ETIP should be counted as jobs created or retained is questionable. This implies that but for the ETIP grant, these employees would not have been hired or that current employees would have lost their jobs. While training employees to upgrade their skills and help the company remain competitive is important, the raw numbers for employees trained should not be counted as jobs created and retained.

DISCONTINUE COUNTING ETIP TRAINEES AS JOBS CREATED AND RETAINED	
RECOMMENDATION 4	***The Department of Commerce and Economic Opportunity should discontinue the practice of reporting employees that receive training through the Employer Training Investment Program as jobs created and retained. This should be reported separately as the number of employees that received training through the Employer Training Investment Program.***
DCEO RESPONSE	Research from other states, academia, and industry best practices supports using job training as an indicator of jobs created and retained. However, this research indicates that a more advanced outcome measure would track job retention and creation 90 days following the conclusion of training and set a goal of 90% retention. The Department agrees to strengthen its measures by exceeding current accepted practices with new performance measures that track results at both a 90 day and 180 day interval and report those results as jobs created and retained. The Department also agrees to separately report the number of employees that receive training through the Employer Training Investment Program.
	AUDITOR COMMENT: We do not agree that the raw number of persons who received job training is an indicator of "jobs created and retained." We are encouraged that the Department is considering implementing some type of criteria to determine whether trainees retain employment following training. However, we would encourage the Department to consider other elements noted in research and best practices including: using the more rigorous 180 day standard, using wage records to verify employment, and reimbursing employers only for trainees that retain employment. Finally, Department officials should disclose any data limitations and take those limitations into account when reporting results of job training initiatives.

Other Problems With Reported Jobs

Our testing of performance measures revealed some other problems or issues with reported jobs numbers. Issues identified are discussed below.

Small Business Development Centers and Procurement Technical Assistance Centers

Small Business Development Centers (SBDCs) and Procurement Technical Assistance Centers (PTACs) do not track projected vs. actual jobs created and, in fact, change jobs numbers reported for prior periods. The local SBDCs and PTACs provide business counseling and management assistance to clients at various locations around the State. After clients receive assistance, they report job creation and retention information to the local SBDC or PTAC through an economic impact survey. The local SBDC or PTAC will then enter the information into a shared software system. DCEO uses this system to create economic impact data and job reports.

When we asked for support for reported jobs numbers, the documentation provided did not agree with the jobs reported. DCEO provided the following explanation:

> *"…Economic impact data is constantly changing in the Softshare system. Centers have the ability to add and delete job data at any given time even years later. The system is set up this way because a counselor may work with a client and they may not actually start a business or create a job 1 or 2 years after their counseling has been completed. Therefore these reports will not match…"*

The local SBDCs and PTACs should have the ability to track projected jobs vs. the actual jobs created. It is understandable and expected that anticipated jobs numbers can change and some projected jobs will not be created. However, if jobs are added and deleted even years later as DCEO responded, the reporting system is undermined and the reported jobs numbers become questionable.

Film Office

The Film Office reports local temporary jobs created without providing information on the duration of these jobs. Creating jobs is an important part of economic development programs and film jobs are valuable jobs. However, since these are temporary jobs, an additional measure could include information on the duration of these jobs. For example, there could be 500 extras that only work 3 days vs. 100 production crewmembers working 50 days. This measure makes the 500 extras look better even though the 100 production crewmembers create more working days.

Office of Trade and Investment

The jobs created and retained that the Trade Office reports are based on estimates submitted by client companies on an Economic Impact Survey form. The survey form asks:

> *"As a result of your exporting activities, have you hired additional employees/created new positions, or have you retained jobs anywhere in your company? Please estimate figures for both situations."*

It is unclear how these jobs are verified or if the jobs created and retained are correlated to assistance provided by the Trade Office. In addition, not all client companies submit surveys to the Trade Office so any figures reported are incomplete.

SUPPORTING DOCUMENTATION FOR REPORTED JOBS NUMBERS

DCEO had difficulty providing support for the jobs created and retained that were reported in the Public Accountability Report and in quarterly management reports to GOMB. During our testing of performance measures we requested supporting documentation for reported jobs numbers. The problems identified are discussed below.

Lack of Supporting Documentation

In our sample of 40 performance measures, 10 involved jobs created or retained. The documentation provided did not agree with the number of jobs reported in 8 of the 10 performance measures in our sample. In some cases the difference was negligible while in other cases the difference was more significant. The Film Office and the Trade Office both had difficulty providing supporting documentation for the amounts reported. The differences in the Procurement Technical Assistance Center's and the Small Business Development Center's numbers were attributed to a dynamic database that cannot capture point in time reports. Exhibit 2-4 shows the amounts reported and the amounts documented for the reported measures involving jobs created and retained for Fiscal Year 2004. There were nine jobs measures reported in the Public Accountability Report and one jobs measure reported to GOMB.

Conflicting Documentation

For two jobs measures in our sample, the documentation provided to support the reported numbers conflicted with documentation provided to support another measure. DCEO provided supporting documentation for the measures "Jobs Created through Market Development Division" and "Jobs Retained through Market Development Division." These measures were reported in the Public Accountability Report. The documentation provided supported the amount reported.

These jobs were also included in the total jobs created and retained that were reported to GOMB. However, for eight projects, the support for the Fiscal Year 2004 jobs reported to GOMB differed from the support provided for the same jobs reported in the Public Accountability Report. In some cases, there were projects included for one measure but excluded for the other measure while in other cases the amount of jobs created and retained for a specific project differed between the documentation provided. These differences resulted in 540 more jobs created and 236 less jobs retained reported in the GOMB report compared to the Public Accountability Report. DCEO said the difference was due to timing differences for when the numbers were reported. When supporting documentation conflicts with other supporting documentation for the same measure, the accuracy of the reported numbers becomes questionable.

Exhibit 2-4
AMOUNTS REPORTED AND AMOUNTS DOCUMENTED FOR JOBS PERFORMANCE MEASURES

Measures Reported in Public Accountability Reports:

	FY04 Amount Reported	FY04 Amount Documented	Difference
Full time Jobs created or retained: Jobs created through Market Development Division	6,231	6,231	0
Jobs retained through Market Development Division	12,257	12,257	0
Procurement Technical Assistance Centers Jobs created/retained	1,646	1,596	-50
Small Business Development Centers Jobs created/retained	6,255	6,294	+39
Jobs created - Community Services Block Grant	178	171	-7
Trade Office - Number of Jobs created/retained	217.0	254.5	+37.5
Jobs created - Illinois Technology Enterprise Centers	545.0	539.5	-5.5
Subtotal full time Jobs created or retained	27,329	27,343	+14
Temporary Jobs: Film Office local temporary Jobs created	12,757	12,742	-15
New and Existing Employees Trained: Through Employer Training Investment Program	78,466	65,592	-12,874
Total Full time, Temporary, and Trained Jobs	118,552	105,677	-12,875

Measures Reported to GOMB:

Jobs Created and Retained (reported as of 6-30-04)	27,072	N/A	N/A
Jobs Created and Retained (reported as of 9-30-04)	105,589 [1]	N/A	N/A
Jobs Created and Retained (reported as of 3-31-05)	92,957 [2]	80,191.5 [3]	-12,765.5

[1] This number was restated by DCEO to include ETIP program results.

[2] Restated by DCEO to eliminate double counting that had occurred when ETIP program results were added.

[3] Documentation was provided to the OAG to support reported jobs as adjusted.

Source: OAG analysis of performance measure documentation.

Chapter Three

OTHER PERFORMANCE MEASURES

CHAPTER CONCLUSIONS

Most of the Department of Commerce and Economic Opportunity's (DCEO) reported performance measures we reviewed did not agree with underlying documentation. Performance measures are indicators used to help assess how well programs have realized their objectives. In our testing of performance measures, 73 percent (57 of 78) of the figures we tested did not agree with underlying documentation. Reasons that reported amounts could not be supported included calculation errors, numbers changing in a database, and the inability to locate supporting documentation due to staffing changes.

In our sample of performance measures, we concluded that 45 percent (18 of 40) were good measures that could be used to help assess the effectiveness of the related programs while 20 percent (8 of 40) were poor measures that provided little insight into program effectiveness. The remaining 14 measures (35 percent) in our sample were potentially good measures but deficiencies identified with those measures limited their usefulness.

While performance measures were informally reviewed on a periodic basis, DCEO did not have a system in place that required periodic review. DCEO did not document reviews conducted when updating and changing performance measures.

Several performance measures were calculated incorrectly. In our sample, 13 of 40 (33%) performance measures examined contained some type of calculation error for the numbers reported. In some cases this was due to incorrect data being used or a mathematical error when calculating the measure. However, in one case, DCEO calculated the measure differently than the way it was defined.

BACKGROUND

The fourth audit determination asked us to determine whether DCEO's reported performance measures are periodically reviewed and adequately supported by underlying documentation. Performance measures are indicators used to help assess how well programs have realized their objectives. DCEO reports performance measures in two main ways: annually through the Comptroller's Public Accountability Report and quarterly to the Governor's Office of Management and Budget (GOMB).

Public Accountability Reports

The Illinois Office of the Comptroller annually publishes a Public Accountability Report that contains data from State agencies that summarize the accomplishments achieved by the programs they administer. This type of report is referred to as Service Efforts and Accomplishments (SEA). The information presented in the Public Accountability Report is compiled by State agencies and submitted to the Comptroller. The validity and reliability of the information is the responsibility of the individual State agencies.

In the FY04 Public Accountability Report, DCEO reported information for 11 program areas. Exhibit 3-1 shows an example from the Public Accountability Report for the Tourism program. For each program area, the report includes the mission statement, program goals and objectives, sources of funds, and the performance measures. The performance measures are classified into types:

- Input indicators,
- Output indicators,
- Outcome indicators,
- Efficiency/Cost Effectiveness indicators, and
- External benchmarks.

One goal of the Public Accountability Report is to ensure a long-term consistent trend in the data reported. However, if an agency wants to report a new measure it may do so. A Comptroller official noted that, ultimately, the Public Accountability Report is the agency's report and the Office of the Comptroller does not have the authority to demand certain measures from an agency.

Exhibit 3-1
TOURISM PROGRAM SECTION FROM PUBLIC ACCOUNTABILITY REPORT
Fiscal Year 2004 Report

Tourism

Mission Statement: To increase tourism visitation and expenditure to and within the State of Illinois.

Program Goals: Objectives:

1. Promote Illinois as a travel destination for domestic travelers.
   a. Maintain at 10% the percentage of visitors influenced by the advertising campaign to travel to and within the State of Illinois by 6/30/04.
   b. Maintain the total number of customer inquiries generated by the advertising campaign by 6/30/04.
2. Strengthen the Illinois Tourism industry through collaborative partnerships.
   a. Maintain at $21.4 million the amount of local/private sector funds generated for tourism projects by 6/30/04.
3. To maximize overseas awareness of Illinois as a travel destination.
   a. To maintain the number of foreign visitors to Illinois at 1.5 million by 6/30/04.

Source of Funds: General Revenue Fund, Tourism Attraction Development Matching Grant Fund, Grape and Wine Resource Fund, International Tourism Fund, Lewis and Clark Bicentennial Fund, Tourism Promotion Fund, Local Tourism Fund

Statutory Authority: 20 ILCS 665/1-20, 605/605-710

	Fiscal Year 2002 Actual	*Fiscal Year 2003 Actual*	*Fiscal Year 2004 Target/Projected*	*Fiscal Year 2004 Actual*	*Fiscal Year 2005 Target/Projected*
Input Indicators					
* Total expenditures - all sources (in thousands)	$43,325.1	$43,524.6	$47,962.9	$46,353.3	$46,654.8
* Total expenditures - state appropriated funds (in thousands)	$43,325.1	$43,524.6	$47,962.9	$46,353.3	$46,654.8
* Average monthly full-time equivalents	26.0	35.5	36.5	36.3	41.8
Output Indicators					
* Tourism grants awarded	189.0	189.0	150.0	166.0	135.0
* Reservations made at Tourism Information Centers (TICs)	13,721	11,843	11,000	9,292	11,000
* Tourist and traveler inquiries	1,237,504	1,461,028	1,402,000	2,007,095	1,470,000
* Visitors assisted at TICs	1,533,461	1,758,867	1,510,000	1,467,587	1,510,000
* Advertising expenditures (in millions)	$7.1	$7.5	$7.5	$8.3	$7.0
* International travelers visiting Illinois (in millions)	1.5	1.4	1.5	1.2	1.5
Outcome Indicators					
* Local funds leveraged by tourism grant-related projects (in millions)	$22.0	$31.4	$21.4	$35.7	$24.6
* Percent of those traveling to IL influenced by advertising (a,b)	10 %	12 %	10 %	N/A	10 %
Efficiency/Cost-Effectiveness Indicators					
* Gross advertising return on investment per dollar expended (b)	$807.00	$970.00	$807.00	N/A	$807.00

Footnotes

(a) Based on statistical research, this measure is calculated by taking the percent of visitors who traveled to Illinois who indicated they made the decision to travel after seeing the advertising.

(b) Data was not available from the US Travel Data Center at the time of the report.

Department of Commerce and Economic Opportunity

Source: 2004 Public Accountability Report.

GOMB Reports

DCEO also files quarterly management reports with the Governor's Office of Management and Budget (GOMB). The main part of the GOMB report is a section called Key Performance Measures. Unlike the Public Accountability Report that reports performance measures by bureau, the GOMB report classifies performance measures under strategic priorities such as Business Retention, Expansion and Creation. Compared to the Public Accountability Report, the GOMB report includes far fewer performance measures but reports the measures by region as well as statewide. In Fiscal Year 2004 the GOMB reports included eight performance measures, which expanded to eighteen performance measures in Fiscal Year 2005. The reports usually included the past two to four quarters of data as well as the total for the previous fiscal year and the current fiscal year to date. Exhibit 3-2 shows the section for statewide performance measures from the GOMB report for the period ending December 31, 2004.

PERIODIC REVIEW OF PERFORMANCE MEASURES

While performance measures were informally reviewed on a periodic basis, DCEO did not have a system in place that required periodic review. DCEO did not document reviews conducted when updating and changing performance measures.

According to DCEO, performance measures are reviewed constantly through interaction between the Department, the Comptroller's Office, and the Governor's Office of Management and Budget. DCEO uses a software program called PB Views to track performance measures. Each bureau at DCEO enters data for its performance measures and the bureaus are responsible for the accuracy of the data and maintaining documentation to support the data.

For the Public Accountability Report, DCEO is required to provide to the Comptroller by August 15th of each year a list of the performance measures that will be reported for that year. Prior to that date, an official at DCEO works with the bureaus to develop the measures to be reported. The data for the performance measures must be submitted to the Comptroller by October 15th.

Exhibit 3-2

QUARTERLY MANAGEMENT REPORT TO GOMB – KEY PERFORMANCE MEASURES SECTION

Report As of December 31, 2004

ILLINOIS DEPARTMENT OF COMMERCE AND ECONOMIC OPPORTUNITY
Key Performance Measures

Performance Metric	Actual							Target	Benchmark		Mgmt Control	Status
	Q2 FY 04	Q3 FY04	Q4 FY04	Q1 FY 05	Q2 FY05	FY 2004 Total	FY 2005 YTD		Value	Source		
DCEO Statewide												
Priority: Business Retention, Expansion and Creation												
Jobs Created and Retained	5,216	33,509	59,845	14,018	10,870	105,859	24,888	100,000	100,000	DCEO	High	Med
State of Illinois Employment Rate	93.70%	93.10%	94%	93.80%	94.30%	93.60%	94.10%	94.50%	94.50%	USDOL	Low	Med
Export Sales from Client Companies (in millions)	$15.00	$15.00	$15.50	$23.40	$2.20	$60.50	$25.60	$60.00	$60.00	DCEO	Low	Low
Win Rate	85%	75%	81.25%	97%	68%	77.90%	85%	70%	70%	DCEO	High	Med
Priority: Workforce Preparedness												
Adult Employment Retention Rate	86.60%	84.87%	81.02%	80.71%	83.04%	83.89%	81.60%	82%	82%	GPRA	High	Med
Dislocated Worker Employment Retention Rate	84.80%	93.40%	89.71%	90.14%	91.69%	91.46%	90.88%	86%	86%	GPRA	High	Med
Older Youth Employment Retention Rate	80.70%	85.71%	87.42%	78.14%	89.31%	82.90%	83.53%	78%	78%	GPRA	High	Med
Priority: Innovation and Entrepreneurship												
% New Business Starts	18%	11%	14%	32%	16%	19%	20%	20%	20%	DCEO	High	Med
% New Tech Companies Still in Bus 1, 2, 3 yrs	N/A	95.90%	87%	84.80%	80.40%	87%	80.40%	85%	85%	DCEO	Low	Med
New Businesses Started	137	118	109	98	74	459	172	500	500	DCEO	High	Med
Priority: Economic Opportunity												
Visitors Assisted at Tourism Information Centers	313,432	238,284	475,863	294,630	208,904	1,466,221	503,534	1,500,000	1,500,000	DCEO	Mod	Med
Tourism Expenditures (millions)	N/A	N/A	$21,594.76	N/A	N/A	$21,594.76	N/A	$22,500	$22,500	TIA	Mod	Med
Plant Output (in millions of gallons of fuel)	200	200	200	212	212	800	414	848	848	DCEO	High	Med
Low-to-Moderate Income Persons Served with Water/Sewer Infrastructure	3,269	436	68,947	6,033	1,292	102,573	7,325	100,000	100,000	DCEO	High	Med
Number of Families/Households Receiving Quality of Life Services	93,850	97,732	91,210	109,404	83,684	370,633	193,638	370,000	370,000	DCEO	High	Med
% Dollar Savings from Energy Programs	13.75%	13.25%	8.60%	N/A	N/A	48.35%	N/A	N/A	N/A	N/A	Mod	Med
Cost Per Ton of Recyclable Commodities Used	$541	$96	$130	$166	$771	$17	$217	$100	$100	DCEO	Low	Low
% USDOE Discretionary Funding Awarded to Illinois	4.08%	0%	0%	N/A	N/A	5.23%	N/A	N/A	N/A	N/A	Mod	Mod

Source: Quarterly Management Report to GOMB as of December 31, 2004.

An analysis of changes to the Public Accountability Reports shows that performance measures were both added and removed by DCEO. Exhibit 3-3 shows the changes in measures reported in the Public Accountability Reports. During Fiscal Year 2004, nine measures were removed while sixteen were added resulting in a net increase of seven measures. While measures were added and removed, a long-term consistent trend was still maintained. More details about the performance measures for each program area are included in a Supplemental Appendix.

Exhibit 3-3
CHANGES IN MEASURES REPORTED IN PUBLIC ACCOUNTABILITY REPORTS
Fiscal Years 2003 and 2004

Program Area	Total Measures FY03[1]	Measures Removed	Measures Added	Total Measures FY04[1]
Business Development	24	1	0	23
Coal Development	18	0	0	18
Community Development	26	0	0	26
Energy	11	0	0	11
Film	5	0	1	6
Illinois FIRST	8	0	0	8
Recycling and Waste Management	8	2	6	12
Technology and Industrial Competitiveness	9	4	4	9
Tourism	8	0	1	9
Trade and Investment	9	2	4	11
Workforce Development	16	0	0	16
Totals	**142**	**9**	**16**	**149**

[1] Excludes input measures (i.e. total expenditures, average monthly full time employees).

Source: OAG analysis of Public Accountability Reports.

While performance measures were informally reviewed on a periodic basis, there was not a system in place that required periodic review. A review system should allow each bureau to submit proposed changes to its performance measures through a formalized process and receive feedback on why those changes were or were not accepted.

During our review at DCEO, one individual was responsible for the reporting of performance measures and working with GOMB and the Comptroller's Office to decide what measures are reported. A DCEO official said that meetings were held with the bureaus and with GOMB regarding performance measures. However, documentation was not maintained regarding these discussions to change and update performance measures.

In addition, an official in one program area experienced difficulties in getting performance measures changed. An official from the Film Office said that he tried to change the measures that reported the number of productions filmed. The 2004 Public Accountability Report contained two measures concerning the number of productions filmed: Feature Film/TV projects filmed in Illinois and Commercial projects filmed in Illinois. The official from the Film Office stated that the number of productions filmed is not as valuable a measure as the number of production days. Reporting only the number of productions filmed would give equal credit to a project that filmed for one day with a project that filmed for nine months. However, reporting the number of production days would show the greater impact that the film projects have on the economy. The Film Office official said that he was unable to get the measure changed.

REVIEW OF PERFORMANCE MEASURES	
RECOMMENDATION 5	***The Department of Commerce and Economic Opportunity should ensure that a structured process is in place to review performance measures on a periodic basis. It should allow each program area the opportunity to submit proposed changes to reported performance measures through a formalized process.***
DCEO RESPONSE	The Department agrees to formalize its process for periodic review of performance measures with written procedures. The Department's performance measures are regularly reviewed by program managers and senior management and through interaction with the Governor's Office of Management & Budget and the Comptroller's Office. The Department's written procedures will require performance measure review at the program level and provide the opportunity to request changes to the measures.

SUPPORTING DOCUMENTATION FOR PERFORMANCE MEASURES

Most of the Department of Commerce and Economic Opportunity's (DCEO) reported performance measures we reviewed did not agree with underlying documentation. Performance measures are indicators used to help assess how well programs have realized their objectives. In our testing of performance measures, 73 percent (57 of 78) of the figures we tested did not agree with underlying documentation. Reasons that reported amounts could not be supported included calculation errors, numbers changing in a database, and the inability to locate supporting documentation due to staffing changes.

Testing Results

We tested 40 performance measures reported by DCEO. We submitted the list of selected performance measures and asked DCEO to provide support for the reported numbers. Each of the bureaus at DCEO is responsible for maintaining documentation to support performance measures reported for its programs.

The sample included measures reported in the Public Accountability Report and the GOMB quarterly management report. Some measures are reported in both. For measures reported in the Public Accountability Report, we tested amounts reported for Fiscal Year 2003 and Fiscal Year 2004. For measures reported in the quarterly GOMB report, we tested amounts reported for Fiscal Year 2004 (from the report for the quarter ending June 30, 2004) and for Fiscal Year 2005 year to date (from the report for the quarter ending December 31, 2004.) We tested 40 performance measures, some of which had data reported in two or three periods. As a result, a total of 78 reported figures for performance measures were tested to supporting documentation. Appendix D of the report lists all performance measures tested.

Exhibit 3-4
DID PERFORMANCE MEASURES AGREE WITH UNDERLYING DOCUMENTATION

	Agree with Documentation?		
	Yes	**No**	**Total**
FY03	9	21	30
FY04	9	29	38
FY05 year to date	3	7	10
Total	**21**	**57**	**78**

Source: OAG summary of testing results.

Exhibit 3-4 shows the results of our testing. In Fiscal Year 2003, results were reported for 30 of the performance measures in our sample. Of the performance measures reported, 9 (30%) were supported by underlying documentation and 21 (70%) did not agree with underlying documentation. Exhibit 3-4 shows a similar lack of support in Fiscal Year 2004 and Fiscal Year 2005 year to date. Overall, documentation supported 21 (27%) reported measures while 57 (73%) did not agree with underlying documentation.

Problems with Supporting Documentation

There were several problems with the documentation that was provided to support the reported performance measures. In many cases, DCEO responded that data for a measure was housed in a “dynamic” database making it impossible to recreate a point in time report. A hard copy print out supporting the reported numbers was not maintained. DCEO said that in the future a hard copy print out would be filed.

For other measures, supporting documentation could not be located. This was attributed to staffing changes as a result of the new administration. For some measures, according to DCEO, the person responsible for maintaining the data for the performance measures had left and, despite the Department’s efforts, the supporting documentation could not be located.

Several performance measures were calculated incorrectly. In our sample, 13 of 40 (33%) performance measures examined contained some type of calculation error for the numbers reported. In some cases this was due to incorrect data being used or a mathematical error when calculating the measure. In one case, DCEO calculated the measure differently than the way it was defined. This case example explains the problem.

Case Example One	
Performance Measure:	Produce a rate of return of at least 40% on the investment in energy efficiency for the Affordable Housing Program
Reported in:	Public Accountability Report
Issue:	This measure is supposed to compare the dollars invested in energy efficiency projects to energy dollars saved to calculate a rate of return on investment. It is calculated by dividing energy savings by total grant dollars. For example, if $500,000 was invested in energy projects that resulted in annual energy savings of $100,000, the rate of return would be 20 percent ($100,000 divided by $500,000). However, DCEO was calculating this measure incorrectly. DCEO was taking the energy savings ($44,317) and dividing it by the total energy costs prior to the project ($100,482) to come up with a percentage of energy saved. While this may be a worthwhile measure, it is not a rate of return and does not reflect what the title of the measure says is being measured. The rate of return is calculated by taking the energy savings ($44,317) and dividing it by the total grant dollars for the year ($280,808). In FY04, by DCEO's calculation, this measure was **44 percent** but when calculated correctly the measure was **16 percent**. The incorrect calculation made it look like the goal of 40 percent had been achieved when in fact the actual results were far short of the goal.
Source:	OAG analysis of DCEO's performance measures.

DCEO needs to develop a management control to ensure that performance measures are calculated correctly and are supported by underlying documentation. During the period tested, each bureau was responsible for maintaining supporting documentation for its measures.

DCEO said that internal audit staff had audited the programs and checked supporting documentation for performance measures. The most recent internal audit of performance measures was conducted in 2002. In 2003, Executive Order 10 consolidated the internal audit function under the jurisdiction of Central Management Services. Since DCEO's auditors were centralized, no internal audits of performance measures have been completed. Officials from the centralized office of internal audit told us, during the exit process, that a State-wide review of performance measures was in the final stages. The internal audit function is discussed in more detail in Chapter 6.

SUPPORT FOR PERFORMANCE MEASURES	
RECOMMENDATION 6	***The Department of Commerce and Economic Opportunity should ensure that performance measures are calculated correctly and adequately supported by underlying documentation.***
DCEO RESPONSE	Program managers are responsible for submitting performance data and maintaining documentation to support the data. The Department acknowledges some record keeping and calculation discrepancies in past reporting cycles. The Department agrees to assign personnel to comprehensively review and attest to the accuracy of supporting documentation and to establish written procedures to maintain the documentation.

EFFECTIVENESS OF PERFORMANCE MEASURES

In our sample of performance measures, we concluded that 45 percent (18 of 40) were good measures that could be used to help assess the effectiveness of the related programs while 20 percent (8 of 40) were poor measures that provided little insight into program effectiveness. The remaining 14 measures (35 percent) in our sample were potentially good measures but deficiencies identified with those measures limited their usefulness.

The fifth audit determination asked us to determine whether DCEO's performance measures indicate that its economic development programs are effective in accomplishing their stated purposes. Determining whether DCEO's economic development programs are effective is subjective. Using performance measures to help assess effectiveness can be a useful management tool. However, different people could look at a performance measure and develop different conclusions regarding effectiveness. Highlighting one performance measure can provide an illustration of this issue.

Job creation is an integral part of many of DCEO's economic development programs and the number of jobs created is used as a performance measure for several different programs. For the bureau of Business Development, the 2004 Public Accountability Report reported 6,231 jobs created through the Market Development Division. A user of the report could conclude that the creation of over 6,000 jobs indicates that the economic development programs were effective. Another user, however, could compare the 6,231 jobs created in 2004 to the 7,526 jobs created in 2003 or to the target of 8,000 jobs created and conclude that the economic development programs were not effective.

To address whether DCEO's performance measures indicated that its economic development programs were effective, we assessed whether the reported performance measures could be used as an indicator of effectiveness. In addition, the Supplemental Appendix contains, for each bureau, an analysis of performance measure targets and whether these targets were achieved.

Assessing Effectiveness

In our sample of 40 performance measures, 18 were good measures that could be used to help assess the effectiveness of DCEO's economic development programs while 8 were poor measures that provide little insight into program effectiveness. The remaining 14 measures in our sample were potentially good measures but deficiencies identified with those measures limited their usefulness.

Exhibit 3-5

EXAMPLES OF PERFORMANCE MEASURES CLASSIFIED AS: GOOD
FROM SAMPLE OF PERFORMANCE MEASURES

Title of Measure / *Description*	Why it is a good measure	DCEO Bureau
SBDC New Businesses Started — *Number of new business starts that received assistance from a SBDC.*	One of Business Development's primary purposes is to help new businesses. This measure provides a direct indicator of effectiveness by reporting the number of new businesses started as reported by the Small Business Development Centers.	**Business Development**
Infrastructure Private and Public Dollars Leveraged (in millions) — *Total dollars committed to coal projects by grantees.*	The purpose of the Illinois Coal Competitiveness Program is to facilitate investments in the state's infrastructure to achieve economic development within the Illinois coal industry. This indicator directly measures the amount of private investment leveraged on state-funded coal projects.	**Coal Development**
Percent of Other Non-State Public and Private Dollars Leveraged for Infrastructure Projects — *Total dollars committed to coal projects by grantees divided by the total cost of the projects.*	The purpose of the Illinois Coal Competitiveness Program is to facilitate investments in the state's infrastructure to achieve economic development within the Illinois coal industry. This indicator directly measures the ratio of private investment to the overall cost of the project.	**Coal Development**
Average Cost per House to Rehabilitate to Section 8 Standards — *Amount of CDAP housing dollars awarded divided by the number of proposed units rehabilitated.*	The purpose of the Community Development Assistance Program (CDAP) Housing Rehabilitation Program is to provide safe and sanitary living conditions for low to moderate income residents. This measure provides an assessment of the program's efficiency by measuring the average cost per home to rehabilitate.	**Community Development**
Actual Cash Expenditures by Productions (in millions) — *Actual cash expenditures spent by feature film and television production in Illinois.*	Part of the Film Office's mission is to promote Illinois as a center for film and television productions. This measure is a direct indicator of the amount of money spent in Illinois by the productions.	**Film**
Employer Training Investment Program (ETIP) Cost per Trainee (Expenditures/Trainee) — *Total cost of ETIP programs divided by the total number of trainees.*	The ETIP program provides grants to assist in upgrading the skills of a company's workforce through training programs. This measure provides the cost of providing that training per trainee.	**Technology & Industrial Competitiveness**
Percent of Those Traveling to Illinois Influenced by Advertising — *Percent of visitors who traveled to Illinois who indicated they made the decision to travel after seeing the advertising.*	The Bureau of Tourism's mission is to increase tourism visitation and expenditure to and within the State of Illinois. Based on statistical analysis, this measure provides information on the effectiveness of DCEO's ad campaign designed to increase tourism.	**Tourism**

Source: OAG analysis of DCEO's reported performance measures.

Good Measures

Several performance measures in our sample were good measures that could be used to help assess the effectiveness of the program being measured. In our sample of 40 performance measures, we classified 18 (45 percent) as good measures. Exhibit 3-5 lists some examples of the measures we classified as good measures. A complete listing of the measures we sampled is in Appendix D.

When making this assessment we considered the following factors:

- Whether the measure was appropriately titled so that the title reflects what was being measured;
- Whether the measure was defined properly;
- Whether the measure was calculated properly according to the definition;
- Whether this measure could be used to determine if DCEO's economic development programs were effective; and
- Whether there were other problems with the measure that brought into question the validity of the measure.

When classifying the measures as good measures, it is important to note that we did not consider whether the reported amounts agreed with underlying documentation in making the assessment. The examination of supporting documentation was a separate analysis and is discussed in an earlier section. Many of the measures we classified as good measures did not have support for the reported amount, which undermines the effective use of these measures. Though the measures are good measures, DCEO also needs to ensure that the reported amounts are accurate and supported by underlying documentation for the measures to be useful.

Exhibit 3-6

EXAMPLES OF PERFORMANCE MEASURES CLASSIFIED AS: POOR FROM SAMPLE OF PERFORMANCE MEASURES

Title of Measure / *Description*	Problem with Measure	DCEO Bureau
Win Rate — *Number of projects successfully completed divided by the number of projects worked.*	This measure is poorly titled and defined. The user of the report would not know what this was measuring. In addition, a reasonable person could assume a project was not successfully completed until the purpose of the project, such as an expansion of a facility, was achieved. However, DCEO defines a project as successful once the company accepts an incentive package from the State. Additionally, DCEO included projects as "Wins" even though the projects were later cancelled. There were also several projects worked by DCEO that were not counted as either wins or losses.	Business Development
Jobs Created and Retained Through ETIP — *Employees who receive training through the grant funds provided to their employers.*	This measure counts all employees that received training as a job created or a job retained. It is unlikely that this assumption is correct. Measuring the number of jobs created/retained is an important measure when determining the effectiveness of economic development programs. However, the name of this measure should be changed to Number of Employees that Received Training through Employer Training Investment Program (ETIP).	Technology & Industrial Competitiveness
Export Sales Reported by Client Companies (in millions) — *The estimated dollar amount of export sales that was generated by client companies.*	There are several problems with this measure. Export sales are calculated by summing the estimated export sales reported by companies responding to a DCEO survey. The results of this measure could fluctuate greatly depending on the number of surveys returned. In 2004 there were 734 new customers and 181 new clients but only 50 Economic Impact Surveys returned. Also, this number is based on estimated sales and is reported by checking a range of sales (for example: $1,000,001 to $2,000,000; $2,000,001 to $5,000,000; etc.). DCEO used the bottom range in its calculation. Clients could also check multiple ranges if sales occurred in different regions. Actual sales could vary widely from this method. Finally, it does not appear that this measure has a direct relationship to assistance provided by DCEO. A company with existing export sales could receive assistance on a trade mission and all of its export sales would be included in this measure.	Trade and Investment
Plant Output (in millions of gallons of fuel) — *Millions of gallons of renewable fuel (ethanol) produced in Illinois.*	There are several problems with this measure. First, from the title, the user of the report would be unaware that the measure was reporting only on the output of ethanol plants. Second, the numbers reported rely on estimates of plant capacity instead of actual output. DCEO stated that a combination of actual output and plant capacity was used but could not provide documentation to support any actual output. Finally, the documentation provided for plant capacity did not support DCEO's assertion for that amount. DCEO is reviewing possible changes to this measure.	Energy
Visitors Assisted at Tourism Information Centers — *Visitors assisted at Tourism Information Centers*	This measure provides little insight as to how effective the Tourism Information Centers actually were. For example: What does assistance include? What are the outcomes/results of this assistance? The number of Visitors Assisted at Tourism Information Centers is simply a count of how many visitors were assisted.	Tourism
Number of Grantees Monitored — *Grantees receiving on-site or desk monitoring.*	This measure is an output measure according to DCEO but it does not assess the effectiveness of DCEO's economic development programs. It merely counts the number of grantees that were monitored during a specified period. While monitoring grants is important, a better measure, for example, could include the percent of monitoring reviews that found and corrected deficiencies.	Illinois FIRST

Source: OAG analysis of DCEO's reported performance measures.

Poor Measures

We classified 8 of 40 (20 percent) performance measures in our sample as poor measures that provide little insight into program effectiveness. Exhibit 3-6 lists six of the eight measures and describes the problems with each of the measures. The remaining two measures are both measures that DCEO has since decided to no longer report.

The reasons we classified measures as poor were varied. For example, Export Sales Reported by Client Companies, which is reported by the Trade Office, does not have a direct relationship to the assistance provided. The sales reported are not necessarily generated due to assistance received. In addition, the measure is based on estimates and is summarized from surveys that are submitted by a small number of clients. Other measures were poorly titled, lacked clear definitions of what was being measured, or provided little insight to the effectiveness of the programs represented.

DCEO stated that it is no longer going to report two of the measures classified as poor measures. These two measures are:

- % USDOE Discretionary Funding Awarded to Illinois – This measure does not measure the effectiveness of DCEO's energy programs. It measures how much U.S. Department of Energy discretionary funding was awarded to Illinois. DCEO officials stated that they would no longer be capturing this measure.

- % New Business Starts – It is unclear by the definition what % New Business Starts is measuring and the title of the measure is also unclear. % New Business Starts is defined, according to DCEO, as the number of new business starts divided by the number of "pre-venture" clients with a minimum of five hours of SBDC counseling. Our testing revealed that these two numbers have no correlation to one another. The new business starts are not part of the denominator in the calculation. DCEO officials acknowledged that this measure does not present an accurate reflection and stated that they have requested that this measure be taken out of their list of performance measures.

Exhibit 3-7

EXAMPLES OF PERFORMANCE MEASURES CLASSIFIED AS:

COULD BE A GOOD MEASURE BUT...

FROM SAMPLE OF PERFORMANCE MEASURES

Title of Measure	**DCEO Bureau**
Description	Problem with Measure
Jobs Created Through Market Development Division	**Business Development**
Number of jobs created by businesses assisted.	This measures the number of jobs created by businesses assisted by the Market Development staff. However, the measure reports projected jobs instead of actual jobs created.
Average Cost per Person to Improve Water/Sewer Service - CDAP	**Community Development**
Amount awarded for grants divided by the number of persons served.	A problem with this measure is that it includes planning grants along with design and construction grants. The planning grants are typically around $25,000. So if these grants are given to larger communities (higher number of persons served) the average cost goes down. While planning studies may be part of the process, they do not improve the water/sewer service until actual construction improvements are made.
Cost per Job Created - CSBG	**Community Development**
Amount loaned divided by the number of jobs created.	This measure is calculated by dividing the amount loaned by the number of jobs created. However, the measure uses projected jobs instead of actual jobs created.
% Dollar Savings from Energy Programs	**Energy**
Sum of the savings achieved divided by the cost of these programs.	DCEO was unable to provide supporting documentation for this measure, which limited a full assessment of the measure.
Cost per Ton of Recyclable Commodities Used	**Recycling**
Amount awarded for grants divided by tons of material diverted.	The title of the measure is misleading. The measure includes data from projects that involve the increased use of recyclable commodities as feedstock but also includes data from projects that divert materials through source reduction and waste reduction. The title of this measure is similar to the title for another measure – Tons of Recyclable Commodities Used except that this measure includes cost. However, the measures are very different. The other measure includes only ongoing projects while this measure includes only completed projects. In addition, the other measure includes data only from projects that involve the increased use of recyclable commodities as feedstock unlike this measure. A third party user of the reports would be unaware that the measures were completely unrelated. The title of this measure should be changed to reflect what it is actually measuring – for example "Cost per Ton of Materials Diverted from Solid Waste Stream."
Gross Advertising Return on Investment (per dollar expended)	**Tourism**
Travel expenditures for those persons visiting Illinois who were aware of advertising divided by the cost of the media campaign.	This measure is calculated by taking the travel expenditures for those persons visiting Illinois who were aware of advertising divided by the cost of the media campaign. However, including dollars expended by those who were aware of the advertising campaign but were not influenced by the campaign inflates the Return on Investment, as these expenditures would have been incurred without any money being spent on an ad campaign. A better measure may be the Return on Investment for expenditures by travelers that were influenced by the advertising.

Source: OAG analysis of DCEO's reported performance measures.

Could Be a Good Measure But…

The remaining 14 measures (35 percent) in our sample were potentially good measures but deficiencies identified with those measures limited their usefulness. Deficiencies included:

- The use of projected numbers instead of actual results;
- Poorly defined measures that should be examined to improve the usefulness of the measure;
- Measures that were calculated differently from their definitions; and
- Measures with no supporting documentation, which limited a full assessment of the measures.

Some of the deficiencies with these measures were similar to deficiencies in the measures classified as poor measures. The difference between the two groups of measures is that these measures, if not for the deficiencies cited, had the potential to measure program effectiveness. Appendix D contains a full listing of measures we sampled.

Exhibit 3-7 lists some examples of these potentially good measures. For example, several measures in this category report jobs numbers, which is a critical part of many of DCEO's economic development programs. However, as discussed in greater detail in Chapter 2, many of the jobs reported are projected jobs and not actual jobs created.

Conclusion

Assessing the effectiveness of programs is important. One tool that can be used to assess effectiveness is reported performance measures. However, if performance measures reported are not valid measures they will not be a good tool to assess program effectiveness. Additionally, if measures are not appropriately titled or defined, or if they are not calculated correctly, users cannot effectively use those measures.

EFFECTIVENESS OF PERFORMANCE MEASURES	
RECOMMENDATION 7	***The Department of Commerce and Economic Opportunity should examine its reported performance measures to ensure that the measures are useful and could be used to assess the effectiveness of its economic development programs.***
DCEO RESPONSE	The Department agrees to incorporate this recommendation within its formal written procedures for the periodic review of its performance measures.

Chapter Four

MONITORING AND REPORTING

CHAPTER CONCLUSIONS

Some programs of the Department of Commerce and Economic Opportunity (DCEO) had good monitoring requirements, but some programs did not. We reviewed monitoring and reporting procedures DCEO uses to ensure that it receives timely and accurate information from grant recipients. Although DCEO had developed standardized grant agreements for programs, reporting requirements varied significantly among them. During testing, we found that 20 percent of projects (20 of 99) did not require any additional reports other than a single closeout report required after the end of a grant period. In addition, most grant agreements did not contain any monitoring requirements for site visits.

In our testing, we found that DCEO programs did not consistently receive monitoring reports or follow up on late or missing monitoring reports required of their grant recipients. Forty-one percent of projects we reviewed (34 of 83) did not receive required reports. In addition, DCEO programs did not receive required reports in a timely manner for 60 percent of projects (50 of 83). We found that over 70 percent of projects reviewed (34 of 47) containing untimely program reports did not receive any follow-up by DCEO.

In addition to monitoring performed by program staff, DCEO has three central units that perform monitoring. Grants may be monitored centrally through the Grant Monitoring Unit, External Audits, and the Closeout Unit. We found that these units generally did an effective job.

PROGRAM MONITORING

House Resolution 671 asked whether the Department of Commerce and Economic Opportunity has in place appropriate monitoring and reporting procedures to ensure that it receives timely and accurate information from its grant recipients. In this chapter, we report on the monitoring and reporting requirements at the program level as well the centralized monitoring and reporting requirements of DCEO.

Monitoring requirements varied for DCEO programs. Some programs had established good policies and procedures with monitoring requirements such as requiring regular reports and site visits. However, other programs had not established any policies and procedures including those needed to address monitoring requirements.

The Department has developed standardized agreements for grant recipients. Agreements specify applicable reporting requirements, auditing requirements, and guidelines for administering the grant. A similar format was utilized for agreements we reviewed, which included the following components:

- Budget,
- Special Grant Conditions,
- Scope of project,
- Program Terms and Conditions,
- General Provisions, and
- Required Certifications.

Although agreements specify applicable reporting requirements, these requirements vary significantly for different programs. In addition, although some programs had policies and procedures requiring site visits, most agreements did not. In order for DCEO to effectively monitor grant recipients, policies and procedures addressing monitoring and reporting requirements should be established for all programs and these requirements should be included in the agreements.

Exhibit 4-1 on the following page summarizes our testing conclusions related to DCEO monitoring and reporting procedures for grant recipients. Results are broken down by Bureau and include our testing results. Results include the percentage of projects tested where required reports were received and the percentage of projects tested where all required reports were submitted timely. There are projects where monitoring reports were not due at the time of our testing so the denominator for the percentage is smaller than total projects tested. As shown in the exhibit some bureaus had good results on receiving reports, like Illinois First, and some had poor results, like Energy Conservation. The exhibit helps to show the variation among the bureaus.

Film and Trade Offices

The Film and Trade Offices issued different types of grants so we examined them separately. The Office of Trade and Investment provided a total of ten grants in FY03 and FY04. These grants were administered to educational institutions or non-profit organizations to assist in the development or support of programs that advance the Office's mission. All ten grants were reviewed during testing. We found that although six grants contained contract provisions requiring the submission of monitoring reports, we could not find documentation supporting that grantees submitted the reports to DCEO.

We also reviewed all FY03 and FY04 grants for the Film Office. Thirty-nine grants were provided to non-profit film festivals and other events promoting the film industry, mostly through sponsorships or ads in event program books. We found that although three files (8%) contained documentation supporting whether services were performed, other files did not contain this documentation. In addition, we found that the files did not contain documentation supporting grants being monitored by DCEO.

Exhibit 4-1
SUMMARY OF MONITORING TESTING BY DCEO BUREAU

Bureau	Projects with All Required Reports Received	Projects with All Reports Received Timely
Illinois First (10 projects, 8 required programmatic reports [1])	100% (10/10)	30% (3/10)
Community Development (12 projects, 8 required programmatic reports [1])	100% (9/9)[2]	89% (8/9)[2]
Business Development (11 projects, 7 required programmatic reports [1])	0% (0/6)[2]	0% (0/6)[2]
Technology & Industrial Competitiveness (12 projects, 12 required programmatic reports [1])	58% (7/12)	33% (4/12)
Workforce Development (11 projects, 1 required programmatic reports [1])	100% (4/4)[2]	75% (3/4)[2]
Tourism (12 projects, 12 required programmatic reports [1])	25% (3/12)	17% (2/12)
Coal Development and Marketing (12 projects, 12 required programmatic reports [1])	67% (8/12)	58% (7/12)
Energy Conservation (11 projects, 11 required programmatic reports [1])	0% (0/10)[2]	0% (0/10)[2]
Recycling & Waste Management (8 projects, 8 required programmatic reports [1])	100% (8/8)	75% (6/8)
All Tested Cases (99 total projects)	59% (49/83)[2]	40% (33/83)[2]

[1] Programmatic Reports are monitoring reports in addition to basic required financial closeout reports.

[2] Denominators for percentages may be less than the number of total projects because some projects had no applicable required reports due at the time of our testing.

Source: Summary of OAG review and testing of DCEO monitoring.

PROGRAM MONITORING AND FOLLOW UP

In our testing we found that DCEO did not consistently receive monitoring reports or follow up on late or missing monitoring reports required of its grant recipients. DCEO did not receive required reports in 41 percent of projects (34 of 83) reviewed. In addition, the Department did not receive required reports in a timely manner for 60 percent of projects (50 of 83) tested. We found that over 70 percent of projects reviewed (34 of 47) containing untimely program reports did not receive any follow-up by DCEO.

We reviewed between 8 and 12 projects for each of the applicable bureaus or program areas, for a total of 99 cases reviewed. Projects were tested to determine if monitoring requirements existed in grant agreements, and if so, whether DCEO received timely and accurate information. Using reporting requirements listed in grant agreements, we compared reports required to the reports provided by grantees in the project files. These requirements included program reporting requirements as well as central Department reporting requirements. As seen in Exhibit 4-2, reporting requirements varied for different projects.

Exhibit 4-2
EXAMPLES OF REPORTING REQUIREMENTS VARIATION

Case Example #1 requirements	• Monthly Expenditure Reports • Quarterly Program Reports • Audit Report • Closeout Report
Case Example #2 requirements	• Quarterly Expense Reports • Closeout Report
Case Example #3 requirements	• Closeout Report

Source: OAG review of project files.

Although we tested 99 case files not all of the elements that we tested were applicable for all of the case files. As a result, the number used as the denominator to calculate percentages varies and is the total number of case files where the element tested was applicable.

Reports Not Received

DCEO did not receive required reports in 41 percent of the projects reviewed (34 of 83). As shown in Exhibit 4-2, some programs required a closeout report while other programs required a closeout report as well as additional program reports. Therefore, although a grantee may have provided all required reports for a project, only one closeout report may have been required. Closeout reports, which are required by DCEO's Closeout Unit and provided after the end of a grant period, include items such as final expenditure summaries and reconciliation statements.

Of the 99 projects reviewed, only one grant agreement did not require the completion and submission of a closeout report. However, 20 percent of projects we reviewed (20 of 99) did not require any additional program reports other than this closeout report. For example, instead of specifically requiring programmatic reports, some grant agreements contained a provision that programmatic reports would be submitted as required by the Department. However, in our testing, we saw few instances where these additional reports were requested. In order for DCEO to effectively monitor grant recipients, some type of programmatic progress report should be required at the program level. These reports might include elements like expenditure status, accomplishments during reporting period, or problems that influenced the projects' effectiveness. In addition to varying reporting requirements, we identified two requirements that were outdated:

- The Bureau of Energy had programs with grant agreements that contained both monthly and quarterly reporting requirements. During our review, we were unable to locate monthly reports in the files. DCEO officials told us that the monthly reporting requirement had been replaced with the quarterly reporting requirement, although both were still listed in the grant agreement.

- The Coal Infrastructure Program's grant agreements required the submittal of meeting minutes; however, no meeting minutes were located in the files. DCEO officials told us that most companies do not hold project meetings so grantees are asked to report issues in their monthly reports. However, this requirement still remains in the grant agreement.

Reports Not Timely

DCEO had not received required reports in a timely manner for 60 percent of projects (50 of 83) tested. There were some projects where we had to estimate timeliness because DCEO did not always date stamp reports when they were received. For those determined untimely, DCEO did not always follow up or attempt to obtain missing reports. Exhibit 4-3 gives an example of untimely reports. We also found that:

- Over 70 percent of projects (34 of 47) containing untimely program reports did not receive any follow-up by DCEO.

- When follow-up did occur for program reports, DCEO obtained some information for over 60 percent of the projects (8 of 13) tested. However, the 60 percent includes projects where follow-up was initiated for only some of the missing reports and includes projects where only some of requested missing reports were provided. For example, one project required the submission of quarterly expenditure reports, progress reports, and meeting reports. The Bureau of Tourism followed up on the missing expenditure and quarterly reports but not on

Exhibit 4-3
EXAMPLE OF TOURISM REPORTS NOT TIMELY
Case Example #4

Performance/Fiscal Reports: The grantee was required to submit quarterly performance and fiscal reports by the 15th of each quarter.

Due Date:	Date Received:
1/15/04	11/19/04
4/15/04	11/19/04
7/15/04	11/19/04
10/15/04 [1]	11/19/04
1/15/05 [1]	2/09/05
4/15/05	Not in file

[1] These two reports had follow-up requests.

Source: OAG review of project files.

missing meeting reports. In addition, although some expenditure and quarterly reports were received by the revised required due dates, others were not.

In our testing, we found that bureaus were not consistent in their practices of following up on delinquent program reports. Illinois FIRST had a good system in place to track program reports. This program used a computer system, which tracks reports required and received as well as other pertinent information for monitoring recipients. This DCEO program followed up on all projects reviewed that did not submit program reports by their required due dates. In order for DCEO to ensure it receives required reports from recipients and does so in a timely manner, a similar system should be established for all DCEO programs requiring routine follow-up on reports not submitted by their required due dates.

Site Visits

Although policies and procedures require site visits for some programs, most of the grant agreements we reviewed did not require site visits. Most agreements did not contain general or specific requirements regarding site visits. However, we found the Department did perform site visits for over half (55 of 99) of all grants tested in our sample. Some site visits were conducted by program staff while others were conducted by the Grant Monitoring Unit, which is discussed later in this chapter. All of the bureaus in our sample contained programs where site visits were conducted as well as programs where site visits were not conducted.

We followed up with the Bureau of Coal Development and Marketing where most programs did not have documentation indicating site visits were conducted. According to Department officials, site visits were conducted for most grants but they were not documented in the file. This bureau is currently discussing the development of a standardized site visit checklist to be included in the file.

During project testing, we also found that site visits varied from program to program. Illinois FIRST provided a standardized checklist requiring documents to be submitted to DCEO (i.e. bank account statements, official accounting records, invoices validating costs, cancelled checks, copies of program reports) and follow up when inaccuracies were found. A program within the Bureau of Technology and Industrial Competitiveness provided a summary of site visit results and management recommendations but required no documentation or follow-up.

In Chapter 6 of the report, we discuss the Corporate Accountability for Tax Expenditures Act (Act) which requires grantees to report and to comply with grant requirements. However the Act only applies to selected DCEO programs. The Act includes requirements to assure recipients of assistance comply with their agreements and, if they do not comply, assistance may be recaptured. The Act also requires recipient progress reports and reporting requirements for DCEO.

MONITORING FOLLOW UP	
RECOMMENDATION 8	***The Department of Commerce and Economic Opportunity should follow up when required monitoring reports from grant and loan recipients are not received at all, are not received timely, or if information received is not accurate.***
DCEO RESPONSE	The Department agrees to make all reasonable efforts to follow up on required monitoring reports that are either not received at all, not received in a timely manner, or that contain inaccurate information.

DCEO CENTRAL MONITORING

In addition to monitoring performed by program staff, DCEO has three units who perform monitoring. Those units generally did an effective job, but we did identify areas where improvement was needed. Grants may be monitored centrally through the Grant Monitoring Unit, External Audits, and the Closeout Unit.

Grant Monitoring Unit

The Grant Monitoring Unit, located in the Legal Office, monitors approximately 250 grants through on-site visits each year. A grant monitoring plan is developed for programs and focuses on State funded grants, but may also include federal grants. Selection of grants is based on guidance provided by program managers as well as applicable laws and other determinants.

Exhibit 4-4
EXAMPLES OF DOCUMENTATION REQUIREMENTS FOR GRANTEES
Grant Monitoring Unit

- Proof of receipt and deposit of funds
- Official accounting records
- Invoices and supporting documentation
- Proof of payment corresponding to invoices
- A detailed listing of employees

Source: OAG review of grant monitoring unit's review guidelines.

The unit consists of four monitors. Selected grants are assigned to monitors and reviewed by the end of the fiscal year. If a selected grantee receives additional funds through DCEO, the assigned monitor will perform on-site reviews of these grants as well. According to a Department official, one visit often leads to multiple reviews. This is because one grantee may receive assistance from more than one program. Therefore, the original plan which involved on-site reviews of approximately 250 grants, ultimately became around 500 grants reviewed. Exhibit 4-4 lists some documentation requirements for grantees during their on-site reviews.

Prior to each on-site review, an entrance conference and desk review are conducted to examine relevant workpapers. After the on-site review, an exit conference is held. If necessary, deficiency letters are sent to grantees giving them three weeks to respond. If DCEO does not receive a response, supplemental letters and recovery options are utilized. When a fiscal deficiency is noted, the grantee must refund the amount to DCEO. Once deficiencies are resolved, the unit sends a release letter to the grantee.

External Audits

All State grants over $300,000 are required to have an audit conducted. A grant may be exempt from this requirement if it is an Illinois FIRST or a federal grant. According to Department officials, audits are due within nine months after the end of the grant period or fiscal year. If the grantee does not send the audit within this period, a letter is sent 30 days after the due date notifying the grantee. A second late letter is mailed if an audit is not received in an additional 30 days.

External Audits is located in the Legal Office and consists of two employees. Reviews are completed on a first-in, first-out basis. One employee reviews the audit and completes a checklist. Upon completion, the other employee examines this information and reviews it a second time. A notification letter is sent to the grantee stating whether the audit has been accepted.

All of the audits we reviewed contained copies of the previously mentioned checklist (16 of 16). In addition, we found two employees did review each checklist as indicated by their initials. However, while reviewing the audits prepared for several grants with Southern Illinois University (Illinois Clean Coal Institute), we discovered one audit was conducted for Fiscal Year 2003 and one audit was conducted for Fiscal Year 2004. These audits covered numerous grants provided to Southern Illinois University (Illinois Clean Coal Institute) yet did not provide any individual information on them. For example, Department officials listed ten grants covered under the Fiscal Year 2004 audit but revenues, expenditures, and fund balances could not be tracked for any of them based on the audit. In order for DCEO to successfully utilize audits, more individual information on each grant (i.e. revenues, expenditures, and fund balances) needs to be provided.

Closeout Unit

Financial closeout reports are required through the Closeout Unit in DCEO's area called Financial Management. Grantees must mail reports directly to the Accounting Office within Financial Management after the expiration or termination of the grant agreement within the time limits established by DCEO. If expenditures are questioned, the Accounting Office manually reviews and makes changes as necessary.

The closeout report requires the evaluation of important documents such as final expenditure summaries and reconciliation statements. Of the 99 projects we reviewed during file testing, only one project had a grant agreement that did not contain a requirement for completing and submitting a closeout report. Therefore, DCEO has established a system to review expenditures before closing out grants for most projects. According to Department officials, if DCEO determines that any unused funds exist at this time, these funds must be returned to the Department within 45 days.

If a report is late, a letter is sent to notify the grantee. The grantee has a minimum number of days to respond to this letter or an additional letter is sent stating that internal procedures are being initiated. If DCEO does not receive a closeout report at this time, a final letter is sent requiring reports to be submitted in 14 days or the Legal Counsel is contacted with a recommendation to recover all funds disbursed under the grant.

Reports Not Timely

Of the projects we reviewed during file testing, grantees generally received a letter between seven to nine days after closeout reports were required if they had not been submitted at that time. However, after receiving these letters, five grantees did not submit reports by the revised required due dates. In addition, two grantees with reports submitted from two weeks to several months late had no indication of receiving any follow-up letters in their files.

Although not always timely, grantees did submit closeout reports when required to do so. Of the 99 projects reviewed, all grantees submitted closeout reports if required in the grant agreement. All except one grantee were required to submit a closeout report. Therefore, although the timeliness of closeout reports could be improved, DCEO is receiving these reports.

Assuring Accuracy

While completing project testing for various bureaus or programs, we found that it was difficult to determine whether grantees were submitting accurate information to DCEO. In some cases, reports correlated with information in other reports. In other cases, information in reports was verified during site visits. However, we identified examples where DCEO did not make use of submitted reports. For example, we found one Coal project where the status described in a monthly report conflicted with the scope of work in the grant agreement. When we questioned DCEO officials, they agreed and said the grant schedule should have been modified.

In order to ensure accurate information is submitted from grant and loan recipients, DCEO needs to strengthen its monitoring and reporting procedures. Although DCEO requires the submission of closeout reports for most grantees, these reports did not address desired or actual projected results.

MONITORING PROCEDURES

Although centralized monitoring fulfills some of DCEO's monitoring needs and program monitoring fulfills some needs, monitoring inconsistencies exist among the bureaus. As a result, some programs have minimal requirements and some have significant requirements. In addition, some programs did comprehensive site visits and regularly followed up on missing monitoring reports while some programs did not. The Department should review its monitoring and reporting procedures and make revisions to improve their effectiveness.

MONITORING PROCEDURES	
RECOMMENDATION 9	***The Department of Commerce and Economic Opportunity should review its monitoring and reporting procedures to assure that consistent information is required to fulfill both program and Departmental needs. Procedures should consider timeliness and accuracy of submitted information and consider requirements such as reports, site visits, and follow up for grant and loan recipients.***
DCEO RESPONSE	The Department administers a diverse universe of programs that do not always lend themselves to uniformity in monitoring procedures. The Department agrees to review its monitoring and reporting procedures, taking into account matters of timeliness, accuracy and a balanced level of reporting and site visits. The Department agrees to assure that consistent information is gathered to fulfill program and Department needs.

Chapter Five

MEASURING EFFICIENCY AND EFFECTIVENESS

CHAPTER CONCLUSIONS

While none of the Department of Commerce and Economic Opportunity's (DCEO) bureaus have established their own periodic efficiency or effectiveness review procedures, eight of eleven bureaus have completed some type of review of the efficiency or effectiveness of the agency's economic development programs. Some statutory or federal requirements do exist and some ad hoc reviews have been performed.

Seven of DCEO's bureaus have review requirements in Illinois statute or in federal rules or procedures. This includes the bureaus of Workforce Development, Community Development, and Technology and Industrial Competitiveness that operate federal programs as well as the Coal and Energy Bureaus which operate State programs. In addition, the Enterprise Zone Program within the Bureau of Business Development and the Film Office's tax credit program have had required program effectiveness reviews performed.

One additional bureau had taken steps to review programmatic efficiency or effectiveness without statutory or federal requirements. This was the Bureau of Tourism, which had done two reviews.

Three DCEO bureaus had no procedures for periodic review of efficiency and no reviews had been performed. The three are the Office of Trade and Investment, the Bureau of Recycling and Waste Management, and Illinois FIRST.

BACKGROUND

The establishment and implementation of procedures to periodically review both the efficiency and effectiveness of DCEO's programs is fundamental to the advancement of the State's economic development goals. The periodic review of both efficiency and effectiveness allows the State to evaluate whether its programs are achieving desired results with a minimum of expense and waste.

> ***Effectiveness*** **–** having an effect or producing a desired result.
>
> ***Efficiency*** **–** producing a desired effect with a minimum of effort, expense, or waste.

The second determination of House Resolution 671 required the OAG to determine whether DCEO has established and implemented procedures to periodically review both the efficiency and effectiveness of its economic development programs. *Effectiveness* is defined as having an effect or producing a desired result, such as an agency goal or objective. Additionally, *efficiency* is defined as producing a desired effect with a minimum of effort, expense, or waste.

Of DCEO's 11 bureaus, none had its own procedures in place to periodically review program efficiency and effectiveness. However, as summarized in Exhibit 5-1, seven bureaus have a requirement established in State statutes or federal rules or procedures. One additional bureau has done two ad hoc reviews on efficiency and effectiveness. That leaves three DCEO bureaus which had not had any review. Exhibit 5-1 below summarizes review requirements and reviews performed.

Exhibit 5-1
PERIODIC REVIEW REQUIREMENTS AND COMPLETED REVIEWS BY DCEO BUREAU

Bureau	FY04 Expenditures in Millions	Has the Bureau Developed Written Procedures?	Statutory or Federal Requirements Exist	Statutory or Federal Requirements Done	Have Other Reviews (non-required) Been Completed?
Illinois FIRST	$245.1	No	No	N/A	No
Community Development	$317.6	No	Yes	Yes	No
Business Development [1]	$32.8	No	Yes [1]	Yes [1]	No
Technology & Industrial Comp.	$44.8	No	Yes	Yes	No
Workforce Development	$199.6	No	Yes	Yes	No
Tourism	$46.4	No	No	N/A	Yes
Coal Development & Marketing	$20.0	No	Yes	Yes	No
Trade and Investment	$5.3	No	No	N/A	No
Film Office	$1.4	No	Yes	Part [2]	No
Energy Conservation	$22.5	No	Yes	Yes	No
Recycling & Waste Management	$9.5	No	No	N/A	No
Total [3]	$944.8				

[1] The Enterprise Zone Program has a requirement. It is 1 of 13 programs in the Bureau.

[2] The required evaluation was completed but did not address job creation, used mostly projected numbers for film revenue, and did not provide estimates of tax credits.

[3] Total does not add due to rounding.

Source: OAG summary of DCEO procedures and reviews.

AREAS WITH STATUTORY REQUIREMENTS

Seven of DCEO's bureaus have periodic efficiency or effectiveness review requirements in Illinois statute or in federal rules or procedures. This includes the bureaus of Workforce Development, Community Development, and Technology and Industrial Competitiveness that operate federal programs as well as the Coal and Energy Bureaus which operate State programs. In addition, the Enterprise Zone Program within the Bureau of Business Development and the Film Office's tax credit program have had required program effectiveness reviews performed. Exhibit 5-2 shows those bureaus.

Exhibit 5-2
DCEO BUREAUS WITH REGULATORY REVIEW REQUIREMENTS

Bureau	Source
1. Community Development	Federal rules require performance reports (24 CFR 91.520)
2. Business Development	The Illinois Enterprise Zone Act (20 ILCS 655/61(A)(1))
3. Technology and Industrial Competitiveness	Federal policies and procedures related to: (29 CFR 1908)
4. Workforce Development	The Illinois Workforce Investment Board Act (20 ILCS 3975/4.5(b))
5. Coal Development	The Energy Conservation and Coal Development Act (20 ILCS 1105/8 (b)(5))
6. Film Office	The Film Production Services Tax Credit Act (35 ILCS 15/45)
7. Energy Conservation	The Renewable Energy, Energy Efficiency, and Coal Resources Development Law of 1997 (20 ILCS 687/6-6(e))

Source: Data summarized by OAG.

Community Development

The Bureau of Community Development has a requirement for periodic review in the form of a required annual performance report on the federal Community Services Block Grant (CSBG) program. This is required by federal regulations at 24 CFR part 91 and is also noted as a requirement in the CSBG State Plan.

Federal regulations also require the federal Department of Housing and Urban Development (HUD) review DCEO's performance. HUD conducted a performance review of the Community Development Block Grant (CDBG) Program in June of 2003 and a monitoring review of the 2002 CDBG Program in March of 2004.

HUD's performance review focused on the CDBG Program's compliance with federal administrative requirements. The performance review examined audit systems, closeout procedures, financial management, fundability and method of distribution for DCEO's economic development, housing rehabilitation and public facilities program categories. As a result of the review, the federal HUD Office of Community Planning and Development reported no findings or concerns and determined that DCEO had the continuing capacity to implement the CDBG Program.

HUD's second review during March of 2004 also examined DCEO's 2002 CDBG Program. The monitoring review examined:

- The closeout procedures for CDBG grant funding,
- The timely distribution of funds,
- The 2002 Owner Occupied Housing Rehabilitation Program activities,
- The 2002 Mobility and Accessibility Rehabilitation Program activities, and
- The oversight and tracking of Revolving Loan Funds maintained by state recipients.

As a result of the review, HUD reported no findings of noncompliance, although several concerns were raised. The report made recommendations to address the concerns. The review concluded that DCEO had excellent administrative controls in place to ensure the effective management of grant activities from commitment through closeout.

Business Development

Within the Bureau of Business Development, the Enterprise Zone Program has a statutory requirement that DCEO submit reports evaluating the effectiveness of the program and any suggestions for legislation to the Governor and General Assembly by October 1 of every year preceding a regular session of the General Assembly. Although the required report was completed, it should be noted that the Enterprise Zone program is one of over a dozen programs located within this bureau.

Technology and Industrial Competitiveness

DCEO conducts annual performance reviews of the Illinois On-Site Safety and Health Consultation Program. The two reviews are known as the Illinois On-Site Consultation Annual Performance Review (CAPR) and the Region V Annual Consultation Evaluation Report (RACER). The CAPR summarizes the activities for the fiscal year and analyzes the project's progress in meeting programmatic goals. The 2004 report said that the majority of the goals established in the Annual Plan have been met. The report also assessed the impact of training classes and provided survey results regarding the success of the program. The RACER also assesses the Illinois Consultation Program and its progress toward achieving strategic plan goals and its performance related to mandated activities.

However, the Illinois On-Site Safety and Health Consultation Program is just one of eight programs under the Technology and Industrial Competitiveness Bureau. While the performance reviews for this single program examined effectiveness, efficiency was not a focus of the reviews.

Workforce Development

The Workforce Development bureau has a number of requirements for review of its efficiency and effectiveness. The Illinois Workforce Investment Board Act (20 ILCS 3975/4.5 (b)) requires the Workforce Investment Board to annually submit a report to the General Assembly on the progress of the State in achieving stated performance measures under the federal Workforce Investment Act of 1998, including information on the levels of performance achieved by the State with respect to the core indicators of performance and the customer satisfaction indicator under the Act. These reports have been completed and provide an evaluation of the major programs within Workforce Development.

Workforce Development's annual report for Fiscal Year 2003 reports on program performance and evaluates program performance measures. The report also includes federally required information on workforce investment activities and the cost effectiveness of these activities. Additionally, the report discusses other evaluations conducted of workforce investment activities.

Coal Development

The Energy Conservation and Coal Development Act (20 ILCS 1105/8 (b)(5)) requires the Illinois Coal Development Board to complete an annual report on the progress and accomplishments made during that year. DCEO has completed two reports to fulfill this requirement and they provide a fairly comprehensive evaluation of the programs within the Bureau. The first was a report on the Illinois Coal Industry issued in December 2004. This report was an overall look at the coal industry in Illinois but did not assess the effectiveness of the Office's programs. The second was the annual Illinois Clean Coal Institute (ICCI) Program Plan. The 2004 program plan included a discussion of the ICCI's efforts and accomplishments during the 2002-03 project year and suggested program areas for the 2004-05 project year. Most importantly, the plan emphasized the overall effectiveness of the program and how it could have been improved to better meet the coal industry's challenges.

Film Office

The Film Production Services Tax Credit Act (35 ILCS 15/45) requires the Film Office to evaluate the tax credit program. The evaluation must include an assessment of the effectiveness of the program in creating and retaining new jobs in Illinois and of the revenue impact of the program, and may include a review of the practices and experiences of other states or nations with similar programs. Upon completion of this evaluation, DCEO is required to determine the overall success of the program, and may make a recommendation to extend, modify, or not extend the program based on this evaluation.

DCEO provided the first evaluation for the first five months of the tax credit program in accordance with the Act. The Governor's Media Task Force concluded that the incentive was working and recommended the tax credit be a refundable incentive instead of a tax credit since many film companies are out-of-state companies who do not typically pay Illinois income tax. However, the evaluation did not meet all statutory requirements because it did not address job creation, used mostly projected numbers for film revenue, and did not even provide estimates of what tax credits might be.

Energy Conservation

The Bureau of Energy Conservation is the fifth bureau containing statutory periodic review requirements of programmatic efficiency and effectiveness. The Renewable Energy,

Energy Efficiency, and Coal Resources Development Law of 1997 imposed several of these requirements.

Two such requirements are in regards to the Energy Efficiency Program (20 ILCS 687/6.6(d-e)). The statute requires DCEO to conduct a study of other possible energy efficiency improvements and to evaluate methods for promoting energy efficiency and conservation. Also, the Department is required to submit an annual report to the General Assembly evaluating the effectiveness of the program and recommending further legislation that will encourage additional development and implementation of energy efficiency projects and programs in Illinois.

Additionally, the Renewable Energy Resources Program is required to establish eligibility criteria for grants, loans, and other incentives to promote investment in and the development and use of renewable energy resources. DCEO is required to annually review and adjust these criteria as considered necessary. Furthermore, DCEO must conduct an annual study on the use and availability of renewable energy resources in Illinois. Each year, the Department must submit a report on the study to the General Assembly, which includes suggestions for legislation encouraging the development and use of renewable energy resources.

DCEO provided two reports. The first was called the Energy Efficiency Trust Fund Program Report for the period January 2003 to December 2004. The report evaluated the success of several programs funded through the Energy Efficient Trust Fund. Results reported included the amount DCEO invested and the energy saved.

The second report was called the Renewable Energy Resources Program Report for the period December 1997 through December 2004. This report stated the total investment generated compared to the amount provided through the program. It also reported that the cost effectiveness of the program had more than doubled since restructuring the program for 2003 and 2004.

OTHER EFFICIENCY OR EFFECTIVENESS REVIEWS

One additional bureau had taken steps to evaluate programmatic efficiency or effectiveness without statutory or federal requirements. This was the Bureau of Tourism, which had done two reviews. Exhibit 5-3 shows the Tourism program reviews that were done.

Exhibit 5-3
OTHER REVIEWS OF EFFICIENCY OR EFFECTIVENESS

Bureau	**Reviews:**
Tourism	Review the efficiency and effectiveness of Convention and Visitor Bureaus (2001)
	Review of the effectiveness of the Tourism Bureau's Advertising Campaign (2004).

Source: OAG analysis of DCEO data.

Tourism

The Tourism Bureau conducted a study in 2001 that evaluated program effectiveness and efficiency and also performed an annual analysis of the effectiveness of the Bureau's ad campaign.

The Bureau of Tourism contracted with a firm in 2001 to review the efficiency and effectiveness of the convention and visitor bureaus throughout Illinois. The study used an overnight lodging visitor survey to evaluate the return on investment of the program and to generate specific information to the convention and visitor bureaus in regards to how they were reaching and motivating their lodging segments and managing visitor flows in their destination. It also focused on developing a tracking system, which would be used to apply convention and visitor bureaus' performance data with conversion and expenditure data. Ultimately, this would provide benchmarks for convention and visitor bureaus on their effectiveness with grant dollars.

DCEO also provided a study conducted in November 2004 by an outside firm on the effectiveness of the Tourism Bureau's advertising campaign. The primary goal of the study was to examine the effectiveness of the promotional effort of the Spring-Summer 2004 tourism campaign. The study also examined efficiency by looking at the return on investment of the advertising campaign.

AREAS WITHOUT REVIEWS

Three DCEO Bureaus had no procedures for periodic review of efficiency and have had no reviews performed. The three are Illinois FIRST, the Office of Trade and Investment, and the Bureau of Recycling and Waste Management.

Not only did no statutory requirements exist for their programs in terms of periodically reviewing programmatic efficiency and effectiveness, but no procedures or processes had ever been put into effect. Additionally, testing suggests that no reviews have ever been conducted for the three bureaus prior to the OAG audit.

Exhibit 5-4
BUREAUS WITH NO REVIEWS

1. Illinois FIRST
2. Office of Trade and Investment
3. Recycling and Waste Management

Source: OAG analysis of DCEO programs and bureaus.

ESTABLISH PERIODIC REVIEW PROCEDURES	
RECOMMENDATION 10	***The Department of Commerce and Economic Opportunity should establish and implement procedures to periodically review both the efficiency and effectiveness of its economic development programs.***
DCEO RESPONSE	The Department assesses program efficiency and effectiveness in conformity with and as required by applicable statutes and rules. The Department agrees to expand these reviews to other programs within staffing and budget constraints.

Chapter Six

CONFORMITY WITH APPLICABLE STATUTES

CHAPTER CONCLUSIONS

The Department of Commerce and Economic Opportunity (DCEO) did not have a system to track statutory mandates to ensure that mandates are fulfilled and obsolete mandates can be addressed. DCEO officials were aware of this problem and noted that they were developing a corrective action plan. Unfulfilled mandates that we identified were:

- DCEO did not fulfill all of its statutory reporting requirements. In our testing of reports that were required by statute to be completed, 40 percent (6 of 15) were not completed prior to our request.

- The Illinois Coal Development Board, chaired by the Director of DCEO, was not seated by the DCEO Director and had not met to provide advice on expenditures related to coal development functions that exceeded $40 million in Fiscal Years 2003 and 2004.

The Corporate Accountability for Tax Expenditures Act (Act) includes requirements to assure that recipients of economic development assistance comply with their agreements and, if they do not comply, assistance may be recaptured. However, the Act does not affect a large number of DCEO program groups or a large proportion of DCEO grant expenditures. Of the Department's eleven bureaus, the Act's definition of developmental assistance to businesses affects only two bureaus.

DCEO published progress reports from companies receiving assistance as required by the Corporate Accountability for Tax Expenditures Act but the published information does not allow readers to determine whether the recipient was in compliance with the development assistance agreement. In addition, 26 percent of reports included discrepancies in the data that were reported.

BACKGROUND

We checked compliance with applicable laws and regulations related to DCEO's economic development programs. We did testing on a sample basis in each of the bureaus and in addition we did testing related to specific elements of the audit resolution. We also reviewed and relied upon the work of other Office of the Auditor General (OAG) auditors who had done testing at DCEO in relation to the Compliance Examination including information systems testing and in relation to the Statewide Single Audit and federal programs at DCEO. The following sections describe issues that we identified.

TRACKING COMPLIANCE WITH APPLICABLE STATUTES

DCEO did not have a system to track mandates to ensure that mandates are fulfilled and obsolete mandates can be brought to the attention of the legislature for possible removal. DCEO officials were aware of this problem and noted that they were not aware of some of the reporting requirements that we tested until we brought them to their attention. They noted that they are developing a corrective action plan.

DCEO plans to reactivate a comprehensive agency-wide mandates database which had historically been maintained by the internal audit unit prior to its consolidation to the Department of Central Management Services (CMS). The database will eventually be integrated into a new management information system that the Department is developing. This system will help DCEO monitor and address obsolete reporting mandates via potential clean-up legislation.

Because DCEO is a large agency with many programs and statutory requirements, it is particularly important that it has a system to track mandates. The Office of the Auditor General tracks mandates for agencies to assist with our work of doing our compliance audit work. Even though our system is not necessarily comprehensive, it shows over 600 agency specific mandates and an additional 70 plus Acts that apply to most agencies.

Department officials reported that the new system they will develop should be able to provide automated notifications and monitor timely and accurate compliance with the Department's reporting mandates.

TRACKING STATUTORY MANDATES	
RECOMMENDATION 11	***The Department of Commerce and Economic Opportunity should continue its efforts to develop a system to track compliance with statutes and address statutes that are obsolete.***
DCEO RESPONSE	The Department agrees to develop a new replacement database system to formally track compliance with statutory mandates. The Department will address obsolete statutes once the compliance tracking system is in place.

DCEO's Internal Audits

DCEO's internal audit function was moved to the Department of Central Management Services. Executive Order 10, signed in March 2003, centralized internal audit and certain other functions into CMS. This change has had two issues for DCEO. First, one of the activities that had been conducted by internal auditors at DCEO was that they had maintained a mandates database that allowed the agency to track compliance with its statutory mandates. Since internal audit was moved to CMS, DCEO officials noted that this move meant that they had to reactivate a comprehensive agency-wide mandates database.

A second issue affected by the internal audit's move to CMS related to performance measures. When internal auditors were onsite at DCEO they had audited the programs and checked documentation for performance measures. As reported earlier in this report, our review of performance measure documentation found significant problems.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/100 *et seq.*) requires that State agencies establish a full-time program of internal auditing. The Act provides that the Governor shall designate which State agencies need such an internal auditing program. Until the internal auditing was moved to CMS, DCEO and its predecessor agency the Department of Commerce and Community Affairs had an internal audit function since the Act became effective January 1, 1990.

When agencies or functions are reorganized with executive orders, the Executive Reorganization Implementation Act (15 ILCS 15/1 *et seq.*) requires that agencies that are assigned new functions do a report for the General Assembly within six months after the effective date of the reorganization. After that, another report is required annually for three years. The OAG audit of Central Management Services for Fiscal Year 2004 reported that the initial report on Executive Order 10 was not done as of the date of the audit but was completed by May 2005. The report fulfilled the statutory requirement and dealt with cost savings through consolidation and reorganization at CMS as required by the statute. However, the report did not deal with potential impacts at DCEO and other agencies that lost their internal audit functions.

OFFICE OF INTERNAL AUDIT RESPONSE	The Office of Internal Audit had two clarifying comments regarding the internal audit related issues. Its full response is included in Appendix F of this report.

STATUTORY REPORTING REQUIREMENTS

The Department of Commerce and Economic Opportunity did not fulfill all of its statutory reporting requirements. The statutes for many of DCEO's economic development programs require that reports be prepared and submitted to the Governor and General Assembly. In our testing of reports that were required by statute to be completed, 40 percent (6 of 15) were not completed prior to our request. Additionally, of the nine reports completed, two were not completed by the required dates and two did not meet all statutory requirements.

We tested 15 reports related to DCEO's economic development programs that were required by statute to be completed. The 15 reports are shown in Exhibit 6-1. The exhibit shows whether each report was completed, completed timely, and whether it fulfilled statutory requirements.

Reports Not Completed

Six of the reports we requested had not been completed. DCEO stated that the failure to complete the reports had been a prolonged multi-administration oversight. For two of the reports, DCEO could not find documentation to verify that the reports had ever been completed and, for a third report, documentation showed that it had not been completed since 1996.

After our request brought the reports to the Department's attention, three reports were prepared and submitted in fulfillment of statutory requirement. The remaining three reports that were not completed are discussed below.

Executive Reorganization Implementation Act

DCEO did not complete reports that were required as a result of reorganizations implemented by Executive Order 11 (2003). The Executive Reorganization Implementation Act requires DCEO to report to the General Assembly not later than six months after the reorganization takes effect and annually thereafter for three years. The report is required to include data on the economies affected by the reorganization and an analysis of the effect of the reorganization on State government. Additionally, the report is also to include the Department's recommendations for further legislation relating to reorganization.

DCEO stated that the failure to complete the reports was a Departmental oversight and was not realized until brought to its attention by OAG audit testing. However, in lieu of the reports, the Department submitted two items that the Department believed fulfilled the initial reporting requirements. One was a written outline of testimony given in front of the House of Representatives Labor Committee in November 2003 where DCEO officials reported on the transfer of job training programs to DCEO. Additionally, DCEO submitted a Fiscal Year 2003 report on Workforce Development dated September 2004 that was submitted to address federal compliance requirements. Neither effort satisfied statutory requirements of the Executive Reorganization Implementation Act.

Exhibit 6-1
DCEO STATUTORY REPORTING REQUIREMENTS

Report	Was Report Completed?	Was Report Timely?	Meet Statutory Requirements?
Operation of the Large Business Attraction Fund (30 ILCS 750/10-9)	Yes	Yes	Yes
Enterprise Zone Act (20 ILCS 655/6 (A)(1))	Yes	Yes	Yes
EDGE Tax Credit Act – Evaluation of Tax Credit Program (35 ILCS 10/5-75)	Yes	Yes	Yes
Coal Development Board Annual Report (20 ILCS 1105/8 (b)(5))	Yes	Yes	Yes
Coal 3-year and 10-year Goals and Objectives (30 ILCS 730/4 (b))	Yes	Yes	Yes
Corporate Accountability for Tax Expenditures Act (20 ILCS 715/25 (c))	Yes	Yes	Yes
Evaluation of Film Tax Credit Program (35 ILCS 15/45)	Yes	Yes	**NO**
Grape and Wine Resources Council Report (235 ILCS 5/12-4)	Yes	**NO**	Yes
EDGE Tax Credit Act – Annual Report (35 ILCS 10/5-70)	Yes	**NO**	**NO**
Quarterly Statement on Promotion Activities (20 ILCS 665/10)	**NO** [1]	**NO**	**NO**
Energy Conservation Act Report (20 ILCS 1115/5)	**NO** [1]	**NO**	**NO**
Renewable Energy Report (20 ILCS 687/6-6(e))	**NO** [1]	**NO**	**NO**
Executive Reorganization Act (15 ILCS 15/11)	**NO**	**NO**	**NO**
Prairie State 2000 Authority (20 ILCS 4020/12(i))	**NO**	**NO**	**NO**
Operations of Small Business Incubators (30 ILCS 750/11-15)	**NO**	**NO**	**NO**

[1] Report prepared following our request.

Source: OAG summary of reporting requirements testing.

Prairie State 2000 Authority

The Prairie State 2000 Authority Act requires the Board of Directors to annually review the Prairie State 2000 Authority Program and the provisions of the Act and to make recommendations to the Governor and the General Assembly regarding changes to the Act or some other Act to make improvements in the Program. We requested the most recent report. In lieu of the required report, DCEO submitted a copy of the 2003 Financial Audit and Compliance Audit of the Prairie State 2000 Authority conducted by the OAG.

DCEO stated that Executive Order 11 (2003) transferred the functions of the Authority to DCEO. As such, the Authority was not appropriated any new money to award in Fiscal Year 2003. During that time it only administered carry-over/transition obligations and the Board of Directors only met once. As a result of the transfer, no recommendations were made as described in the Act and the requirement was not fulfilled.

Operations of Small Business Incubators

The Build Illinois Act requires DCEO to report on the operations of small business incubators, including information relating to the number of applicants accepted into small business incubators, the number of small businesses in operation at the time of the report, and the structure and operation characteristics of each incubator. DCEO responded that it has not had an active incubator program for many years. In a DCEO list of business development programs, incubators are listed under inactive/unfunded programs. Consequently, a report has not been completed since the early 1990s. However, the statute remains in effect.

Reports Not Timely

Two of the nine reports that were completed were not completed by the statutorily required dates. The Liquor Control Act of 1934 requires DCEO, by January 1, 2004 and January 1, 2006, to review the activities of the Grape and Wine Resources Council and report to the General Assembly and the Governor its recommendation of whether or not the funding under the Act should be continued. We requested the most recent January 2004 report and found it was more than 14 months late. The report was dated March 9, 2005. The Fiscal Year 2004 OAG Compliance Engagement reported that this report had not been completed. Since the OAG audit report was released, DCEO had completed the required report.

The Economic Development for a Growing Economy (EDGE) Tax Credit Act requires the Illinois Business Investment Committee to submit an annual report on or before July 1 each year to DCEO on the tax credit program under the Act to the Governor and the General Assembly. We requested the most recent July 2004 report. This report, which was dated September 2004, was two months late. Because the Committee was abolished, DCEO program staff prepared this report.

Reports Not Meeting Statutory Requirements

Two of the nine reports that were completed did not meet all statutory requirements. The EDGE Tax Credit Act specifies several items that must be included in the annual report, including an update on the status of projects under agreements entered into before the preceding calendar year. While the report met most statutory requirements, it did not include an update on the status of prior projects.

The Film tax credit program evaluation is required by statute to include an assessment of the effectiveness of the program in creating and retaining new jobs in Illinois and an assessment of the revenue impact of the program. However, the evaluation did not meet the statutory requirements because it did not address job creation and used mostly projected numbers for revenue.

STATUTORY REPORTING	
RECOMMENDATION 12	***The Department of Commerce and Economic Opportunity should assure that all required statutory reports are completed as required and fulfill statutory requirements. If statutory requirements are obsolete, the Department should work to eliminate those requirements.***
DCEO RESPONSE	The Department agrees to develop a new replacement database system to formally track compliance with statutory mandates, including the ability to complete statutory reports in a complete and timely manner.

COAL DEVELOPMENT BOARD

The Illinois Coal Development Board (Board) has not been seated by DCEO. In its response to our request for the report required of the Coal Development Board noted in the previous section, DCEO noted that the Board responsibility for the reporting requirement is now performed by program staff. The Board had been responsible for a more direct control over coal development including approval of expenditures. Although the statute was amended to reduce the Board's authority, it is still intended to provide advice and make recommendations to the Department on a variety of issues including:

- To develop an annual agenda;
- To support and coordinate Illinois coal research;
- To approve projects consistent with the annual agenda and budget for coal research;
- To advise the existing research institutions within the State on areas where research may be necessary;
- To submit an annual report; and
- To authorize the expenditure of monies from the Coal Technology Development Assistance Fund.

The Board is to be composed of the following voting members: the Director of DCEO, who shall be Chairman; the Deputy Director of the Bureau of Business Development within DCEO; the Director of Natural Resources or that Director's designee; the Director of the Office of Mines and Minerals within the Department of Natural Resources; four members of the General Assembly; and eight persons appointed by the Governor, with the advice and consent of the Senate, including representatives of Illinois industries that are involved in the extraction, utilization or transportation of Illinois coal, persons representing financial or banking interests in the State, and persons experienced in international business and economic development.

In Fiscal Years 2003 and 2004 DCEO’s Office of Coal Development spent over $40 million dollars on grants and other coal development activities. Most of that spending was from the Coal Technology Development Assistance Fund that the Board is specifically directed to provide advice and make recommendations on authorization of expenditures. Because the Board has not met and some of the members have not been appointed, the Board has not been able to fulfill its advisory role to DCEO. The requirements for the Coal Development Board are included in the Energy Conservation and Coal Development Act. It provides that the Board shall meet at least annually or at the call of the Chairman (20 ILCS 1105/8).

COAL DEVELOPMENT BOARD	
RECOMMENDATION 13	***The Department of Commerce and Economic Opportunity should work to assure that members of the Coal Development Board are appointed and should assure that the Board meets as required to fulfill its advisory functions.***
DCEO RESPONSE	The Department will seek to have existing vacancies filled. Once the vacancies are filled, the Department agrees to convene the Board in accordance with the statute.

CORPORATE ACCOUNTABILITY FOR TAX EXPENDITURES ACT

The Corporate Accountability for Tax Expenditures Act (Act), effective August 20, 2003, defines State development assistance to businesses and outlines relevant requirements. These include requirements to assure recipients of assistance comply with their agreements and if they do not comply, assistance may be recaptured. Recipient progress reports are required as well as reporting requirements for DCEO.

However, the Act does not affect a large number of DCEO program groups or a large proportion of DCEO grant expenditures (see Exhibit 6-2). Of the Department's eleven program groups, the Act's definition of developmental assistance to businesses affects two program groups. These program groups include the Bureau of Business Development and the Bureau of Technology and Industrial Competitiveness. The Act does not cover all programs falling under these groups.

Applicable Programs Within Groups

Exhibit 6-2 summarizes the Department's bureaus, expenditures for Fiscal Year 2004, and whether programs within the bureaus are covered under the Corporate Accountability for Tax Expenditures Act.

Of the 11 Business Development programs identified (excluding the Small Business Office programs, which the Act does not cover), the Act affects five of these programs. One additional program, the Corporate Headquarters Relocation Program is not mentioned in the Corporate Accountability for Tax Expenditures Act, but is included in DCEO reports required under the Act.

Exhibit 6-2
APPLICABILITY OF THE CORPORATE ACCOUNTABILITY FOR TAX EXPENDITURES ACT TO DCEO PROGRAMS
(FY04 dollars in millions)

Bureau	FY04 Spending	Covered by Act?
Illinois FIRST	$245.1	
Community Development	$317.6	
Business Development	$32.8 [1]	U
Technology & Industrial Competitiveness	$44.8 [2]	U
Workforce Development	$199.6	
Tourism	$46.4	
Coal Development & Marketing	$20.0	
Trade and Investment	$5.3	
Film	$1.4	
Energy Conservation	$22.5	
Recycling & Waste Management	$9.5	
Total	$944.8	

[1] 33% of grants are covered under the Act.
[2] 59% of grants are covered under the Act.

Source: DCEO and Comptroller data summarized by OAG.

Of the eight Technology and Industrial Competitiveness programs identified, the Act affects one of these programs.

Grants

The Bureau of Business Development and the Bureau of Technology and Industrial Competitiveness provided a list of grants for Fiscal Years 2003 and 2004. The Act took effect upon becoming law on August 20, 2003. The following information is outlined for grants provided in FY04.

- The Bureau of Business Development provided grants in the amount of $29,015,212 in 2004. Of these grants, $9,540,000 (33%) are affected by the Act.

- The Bureau of Technology and Industrial Competitiveness provided grants in the amount of $33,219,841 in 2004. Of these grants, $19,480,108 (59%) are affected by the Act.

Development Assistance Defined

The Corporate Accountability for Tax Expenditures Act defines development assistance to businesses as follows:

- Department tax credits and exemptions given to a recipient business organization under the Economic Development for a Growing Economy Tax Credit Act and the Illinois Enterprise Zone Act including the High Impact Business Program.

- Grants or loans to a recipient business organization pursuant to the Large Business Development Program, the Business Development Public Infrastructure Program, or the Industrial Training Program (now called the Employer Training Investment Program).

- The State Treasurer's Economic Program Loans.

- The Illinois Department of Transportation's Economic Development Program.

- All successor or subsequent programs and tax credits designed to promote large business relocations and expansions.

Developmental assistance to businesses does not include tax increment financing, participation loans, certain financial transactions in support of small business loans and investments, or assistance given in connection with the development of affordable housing.

Department Requirements

In order to implement the Corporate Accountability for Tax Expenditures Act, effective August 20, 2003, the Department needs to ensure the following requirements are met:

- All final applications include the standardized application requirements each time an applicant applies for developmental assistance covered under the Act.

- Every State granting body (which includes DCEO, any State department or agency providing development assistance, or successor agency to any of the preceding) submits copies to the Department of all development assistance agreements approved in the prior calendar year beginning February 1, 2005 and each year thereafter.

- Each recipient submits a progress report to the Department with the required information such as total number of jobs created and retained for each development assistance agreement in the prior calendar year. The State granting body has the full authority to verify information in the progress reports including inspecting the project site and records.

- All data in progress reports is compiled and published in both written and electronic form by, June 1, 2005 and each year thereafter.

- All development assistance agreements contain the required recapture provisions. If a recipient does not meet the agreement's requirements, developmental assistance must be recaptured.

- A report on the outcomes and effectiveness of recapture provisions is compiled on each program with the required information beginning on June 1, 2004 and each year thereafter.

Completed Reports

DCEO has completed the first set of reports that were required by the Corporate Accountability for Tax Expenditures Act. The two primary reporting requirements are for recapture provisions and the progress reports which are submitted by firms receiving assistance. Information included in progress reports by firms receiving assistance is then to be published by DCEO in both written and electronic forms. The first required reports were prepared and available by, June 1, 2005. We reviewed the reports and had the following conclusions.

Progress Reports by Firms

DCEO published progress reports from companies receiving assistance as required by the Act but the published information did not allow readers to determine whether the recipient was in compliance with the development assistance agreement. In addition, 26 percent of reports included discrepancies in the data that were reported.

Although published reports include data from agencies other than DCEO, we reviewed reports for DCEO projects which involved 97 different grant agreements. Of the 97 agreements, 42 had met the projected job creation and/or retention numbers. This included several agreements that involved only retaining jobs.

Of the 97 agreements, 55 had not met the projected jobs numbers. However, we could not conclude if these companies were in violation with the terms of their agreements because the published reports did not include information on the date that the jobs were required to be created. The date that the job requirements must be met was usually specified in the grant agreement but this information was not provided in the progress reports. The Act requires that a declaration of whether the recipient is in compliance with the development assistance agreement be included as part of the progress report. It also requires that DCEO publish all data in all of the progress reports.

Twenty-six percent of progress reports that we reviewed (25 of 97) contained discrepancies related to jobs reported. The progress reports included a section on job creation and retention which included:

1. The number of employees at the time of application by job classification and broken out by full-time, part-time, and temporary.
2. The number of employees as of 12-31-04 broken out by full-time, part-time, and temporary, but also including a +/- column that shows jobs created or lost since the time of application.
3. The number of jobs to be created per the grant agreement.
4. The number of jobs to be retained per the grant agreement.
5. The number of full-time employees still to be hired.

Still to be hired calculation:
Jobs to be created per agreement **Less:** Jobs actually created **Equals:** Still to be hired

Generally, the number of jobs still to be hired should equal the difference between the number of jobs to be created and the number of jobs actually created. However, we found instances where this was not the case. Of the 97 agreements examined, 25 contained a discrepancy. For example, one company was to create 50 jobs. As of the time of the report, it had created 2 jobs which leaves 48 jobs still to be created. However, the progress report showed only 9 jobs to be created under the section number of full-time employees still to be hired. Another company was to create 85 jobs. As of the time of the report, it had not created any jobs. However, the progress report showed 0 full-time employees still to be hired instead of 85.

DCEO noted during the exit process that companies have to report accurately, regardless of previous promises made. As such, they will oftentimes report data that is not comparable to original promises or announcements because of the internal activities specific to their own business or the ebbs and flows of the business cycle have impacted them in unexpected ways. As a result, DCEO noted that the formula could not work because it does not consider this. The Department may wish to add explanatory notes to Corporate Accountability for Tax Expenditures Act reports to allow readers to understand these issues.

CORPORATE ACCOUNTABILITY FOR TAX EXPENDITURES ACT	
RECOMMENDATION 14	***The Department of Commerce and Economic Opportunity should assure that all reports required under the Corporate Accountability for Tax Expenditures Act include all required information and that data reported is complete and meaningful.***
DCEO RESPONSE	The Department agrees to continue diligent efforts to assure that all reports required under the Corporate Accountability Act include required, complete and meaningful data.

Recapture Reports

The first reporting on recapture of funds reported that 3 out of 94 companies receiving services in calendar year 2004 had been found in violation of development agreements so that recapture efforts had been initiated. Exhibit 6-3 summarizes the data that DCEO published and reported on the web page as required by the Corporate Accountability for Tax Expenditures Act (20 ILCS 715). The exhibit includes the six programs covered by the Act and shows for calendar year 2004 the number of companies receiving benefits, the number in violation of their agreements, the number of recapture efforts initiated and completed, and the numbers of waivers granted. Waivers can be granted if necessary to avert an imminent and demonstrable hardship to the recipient that may result in such recipient's insolvency or discharge of workers.

Exhibit 6-3
SUMMARY REPORT OF RECAPTURE PROVISIONS
For Calendar Year 2004 -- Reported by DCEO June 1, 2005

	Companies Receiving Benefits	Recipients in Violation of Agreements	Recapture Efforts Initiated	Completed Recapture Efforts	Waivers Granted
Business Development Public Infrastructure Program	2	0	0	0	0
Corporate Headquarters Relocation Program [1]	1	0	0	0	0
EDGE Tax Credit	40	0	0	0	0
Employer Training Investment Program	30	3	3	0	0
Enterprise Zone					
Machinery & Equipment Sales Tax Exemption	4	0	0	0	0
State Utility Tax Exemption	4	0	0	0	0
High Impact Business Designation	3	0	0	0	0
Large Business Development Assistance Program	10	0	0	0	0
Totals	94	3	3	0	0

[1] The Corporate Headquarters Relocation Program is included in DCEO reports but is not mentioned in the Corporate Accountability for Tax Expenditures Act. Effective July 1, 2004 application for benefits under the program is no longer available.

Source: DCEO data summarized by OAG.