



STATE OF ILLINOIS
OFFICE OF THE
AUDITOR GENERAL

Frank J. Mautino, Auditor General

REPORT DIGEST

**PERFORMANCE
AUDIT**

**Release Date:
June 2020**

**Audit performed in
accordance with
House Resolution
Number 381**

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EXECUTIVE SUMMARY

**Economic Development for a Growing Economy
(EDGE) Tax Credit Program**

On June 1, 2019, the Illinois House of Representatives adopted Resolution Number 381, which directed the Office of the Auditor General to conduct a performance audit of the Department of Commerce and Economic Opportunity's (DCEO) Economic Development for a Growing Economy (EDGE) tax credit program (see Appendix A). The audit found:

- DCEO did not maintain documentation to adequately and accurately administer the EDGE tax credit program. Auditors tested EDGE program applications approved by DCEO in 2018 and found incomplete files and missing documentation required by the EDGE Tax Credit Act (35 ILCS 10/5) (Act), Administrative Code (14 Ill. Adm. Code 527), and the EDGE tax credit program application. All 39 of the EDGE program application files tested were missing required documentation.
- DCEO did not adequately monitor the EDGE program. When requested by auditors, DCEO could not produce two necessary pieces of basic information related to the EDGE program: (1) the number of active agreements in 2017; and (2) the number of tax credits issued in 2018 (the tax credits issued in 2018 are primarily for meeting the necessary requirements in 2017).
- In addition to determining that there was not a consistent source of EDGE programmatic information at DCEO, auditors also determined that the information reported in the 2018 Annual Report was incomplete and inaccurate. The report contained information that could not be verified by any data source provided to auditors by DCEO.
- While DCEO was meeting many of the basic requirements of the EDGE Tax Credit Act, it was not in compliance with several applicable sections of the Act due to a lack of internal controls. Additionally, DCEO did not have any policy or procedure manuals to help employees administer the EDGE program. Noncompliance with the Act included missing information required by the Act, a lack of required staffing, and the use of a Business Investment Committee not consisting of the statutorily required members.
- A biennial report assessing the effectiveness of the program has been required since 1999. DCEO produced its first biennial report on October 31, 2019.
- The Act includes requirements and practices no longer used by DCEO. This includes changes related to how the tax credit amount is determined and the inclusion of copies of agreements in the EDGE Annual Report. In addition, the Act did not include specific information necessary to adequately administer the EDGE program including specific guidance on what evidence is necessary to determine proof of incentives available from other states and guidance related to residency requirements.

AUDIT SUMMARY AND RESULTS

Auditors determined that DCEO did not maintain documentation to adequately and accurately administer the EDGE tax credit program. Auditors tested EDGE program applications approved by DCEO in 2018 and found incomplete files and missing documentation required by the EDGE Tax Credit Act (35 ILCS 10/5) (Act), Administrative Code (14 Ill. Adm. Code 527), and the EDGE tax credit program application. Additionally, DCEO did not adequately monitor the EDGE tax credit program. While DCEO was meeting many of the basic requirements of the Act, it was not in compliance with several applicable sections of the Act due to a lack of internal controls. According to DCEO, it did not have any policy or procedure manuals to help employees administer the EDGE program.

On June 1, 2019, the Illinois House of Representatives adopted Resolution Number 381, which directed the Office of the Auditor General to conduct a performance audit of the Economic Development for a Growing Economy tax credit program. The Resolution contained several determinations. Our assessment of these determinations is shown in Digest Exhibit 1. (pages 2-4)

Digest Exhibit 1 ASSESSMENT OF AUDIT DETERMINATIONS	
Determination from Audit Resolution	Auditor Assessment
<i>Whether the Department is administering the EDGE program in accordance with applicable laws, rules, policies, and procedures.</i>	<ul style="list-style-type: none"> • While DCEO was meeting many of the basic requirements of the EDGE Tax Credit Act, it was not in compliance with several applicable sections of the Act due to a lack of internal controls. (page 32)
<i>Whether the Department is adequately monitoring EDGE recipients.</i>	<ul style="list-style-type: none"> • Auditors concluded information was not maintained by DCEO for use in the day-to-day operations and monitoring of the EDGE tax credit program. (page 19)
<i>Whether the Department has implemented the changes required under Public Act 100- 511.</i>	<ul style="list-style-type: none"> • DCEO updated its EDGE tax credit agreements timely after the effective date of Public Act 100-511 on September 18, 2017. (page 37)
<i>Whether the Department is regularly assessing the effectiveness of the EDGE program.</i>	<ul style="list-style-type: none"> • DCEO was not in compliance with State law and did not report on the effectiveness of the program for approximately 20 years as required. (page 33)
<i>Whether the EDGE tax incentives in Illinois are similar to programs in surrounding states.</i>	<ul style="list-style-type: none"> • Auditors determined that all of the surrounding states had a business incentive program similar to Illinois' EDGE program. (page 16)
<i>An analysis of the amount of tax credits approved and the number of jobs created or retained.</i>	<ul style="list-style-type: none"> • Due to conflicting EDGE programmatic information from multiple sources provided by DCEO, auditors were unable to conduct an analysis of the amount of tax credits approved, the number of jobs created or retained, and the total amount of capital investment. (page 29)
Source: OAG assessment of the audit determinations contained in House Resolution Number 381.	

Background

DCEO did not maintain documentation to adequately and accurately administer the EDGE tax credit program.

According to the Illinois Department of Commerce and Economic Opportunity (DCEO), the Department provides economic opportunities for businesses, entrepreneurs, and residents to improve the quality of life for Illinoisans. According to DCEO, the Economic Development for a Growing Economy (EDGE) tax credit program provides for annual tax credits to businesses to help with **job creation and capital investment to improve the standard of living for all Illinois residents**. The EDGE tax credit program is a business development investment tool used by Illinois to encourage new business development and business expansion in Illinois rather than choosing another state or country. According to DCEO’s most recent Annual Report (2018), almost \$1.5 billion in tax credits have been issued since the program began in December 1999. (page 6)

Issues with the EDGE Tax Credit Act

The EDGE Tax Credit Act (35 ILCS 10/5) includes requirements and practices no longer used by DCEO.

The EDGE Tax Credit Act (35 ILCS 10/5) (Act) includes requirements and practices no longer used by DCEO. This includes changes related to how the tax credit amount is determined and the inclusion of copies of agreements in the EDGE Annual Report. Additionally, the Act does not include specific information necessary to adequately administer the program. This includes specific guidance on what evidence is necessary to determine proof of incentives available from other states and guidance related to residency requirements. (pages 13-14)

Similar Programs in Other States

Auditors determined that all of the surrounding states had a business incentive program similar to Illinois’ EDGE program. House Resolution Number 381 asked the Auditor General to determine whether the EDGE tax incentives in Illinois are similar to programs in surrounding states. The surrounding states and programs identified consisted of the following:

- Indiana -Economic Development for a Growing Economy Tax Credit (EDGE);
 - Iowa -High Quality Jobs Program;
 - Kentucky -Kentucky Business Investment Program;
 - Missouri -Missouri Works Program; and
 - Wisconsin -Wisconsin Business Development Tax Credit Program.
- (pages 16-17)

Incomplete EDGE Program Documentation

DCEO did not maintain documentation to adequately and accurately administer the EDGE tax credit program. Auditors tested EDGE program applications approved by DCEO in 2018 and found incomplete files and missing

documentation required by the EDGE Tax Credit Act (35 ILCS 10/5), Administrative Code (14 Ill. Adm. Code 527), and the EDGE tax credit program application. All 39 of the EDGE program application files tested were missing required documentation including two program application files that were not provided by DCEO.

DCEO did not provide an application for 7 of the 39 projects (17.9%) approved in 2018. For the remaining 32 projects approved in 2018, auditors found required information to be missing. Without the required documentation, it is unclear how DCEO was able to make the appropriate eligibility decisions for the EDGE program.

Auditors found that in 4 of the 32 files tested (12.5%), the allowable tax credit percentage stated in the EDGE tax credit agreement was different than what was stated in the project application. While the application stated that the business was in an underserved area, the agreement indicated that it was not. Auditors did not find any documentation that supported this change. (pages 19-24)

EDGE Monitoring Documentation

DCEO could not provide auditors with: (1) the number of active agreements in 2017; and (2) the number of tax credits issued in 2018 (the tax credits issued in 2018 are primarily for meeting the necessary requirements in 2017).

DCEO did not adequately monitor the EDGE program. When requested by auditors, DCEO could not produce two necessary pieces of basic information related to the EDGE program. DCEO could not provide auditors with: (1) the number of active agreements in 2017; and (2) the number of tax credits issued in 2018 (the tax credits issued in 2018 are primarily for meeting the necessary requirements in 2017). A DCEO official told auditors it would require comparing the customer relationship management system with the hard copy files and with the electronic documents. The official noted this would likely take **four weeks** to complete. Therefore, auditors concluded this information was not maintained by DCEO for use in the day-to-day operations and monitoring of the EDGE tax credit program.

DCEO did not assign unique tracking numbers to each applicant. As a result, it was extremely labor intensive to match businesses between the various sources and lists of information. This was most difficult when one business had multiple projects. Therefore, we recommend that DCEO create a unique project numbering system and maintain complete and accurate programmatic documentation necessary to report on effectiveness such as jobs created or retained and the revenue impact of the program.

In addition to determining that there was not a consistent source of EDGE programmatic information at DCEO, auditors also determined that the information reported in the 2018 Annual Report was incomplete and inaccurate.

In addition to determining that there was not a consistent source of EDGE programmatic information at DCEO, auditors also determined that the information reported in the 2018 Annual Report was incomplete and inaccurate. A list of 248 tax credits awarded in 2018 was provided by DCEO; however, it did not agree with information contained in the 2018 Annual Report. The list also did not agree with a separate dataset provided from the customer relationship management system. Thus, the report contained information that could not be verified by any data source provided to auditors by DCEO.

DCEO provided businesses with a required monitoring spreadsheet to use annually to verify employment of new and retained employees that included

incorrect policy criteria and an incorrect formula. DCEO relied on the attestation from the business for the accuracy of the information submitted and **did not require proof of employment, wages, or Illinois withholding amounts.**

DCEO did not maintain all documentation required for projects awarded a tax credit. Auditors requested and DCEO was not able to provide all documentation required for monitoring the capital improvement costs and independent attestation agreements, known as “Agreed Upon Procedures” (AUP). Based on a review of the AUP’s for a sample of 50 tax credits issued in 2018, auditors found that AUP’s were missing from 6 of the 50 files tested (12%). An additional 1 of the 50 tested (2%) did not support that the required capital improvement investment was met. According to the DCEO EDGE agreement, capital improvement requirements must be met before receiving the first tax credit. In total, 7 of the 50 files tested (14%) did not support that the capital improvement costs were met. (pages 24-30)

Compliance with Laws, Rules, Policies, and Procedures

While DCEO was meeting many of the basic requirements of the EDGE Tax Credit Act, it was not in compliance with several applicable sections of the Act due to a lack of internal controls. Additionally, DCEO did not have any policy or procedure manuals to help employees administer the EDGE program. Noncompliance by DCEO was identified in several areas, which are listed below.

- **Missing application documentation** -every application file tested by auditors (39 of 39) was missing an application or was missing some required documentation.
- **Evaluating the tax credit program** -DCEO was not in compliance with State law and did not report on the effectiveness of the program for approximately 20 years as required. According to DCEO, it produced its **first** biennial report on October 31, 2019. The biennial report has been required since 1999 and is required to assess the effectiveness of the program in creating new jobs in Illinois and the revenue impact of the program.
- **Insufficient personnel** -the former Program Manager suggested that 2-3 full time staff in addition to the Program Manager position are needed to properly administer the program. The manager noted that EDGE is a huge program, and to be timely, more staff are needed.
- **Use of the Business Investment Committee** -the Committee is not made up of the statutorily required members; it is solely comprised of DCEO officials and employees. According to DCEO, there is a committee, but it has not included the members required by the Act.
- **Missing verification of prospects from other states** -the Committee is required to determine that, if not for the credit, the project would not occur in Illinois. During our review of application files, DCEO did not have verification of prospects from 37 of the 39 (95%) agreements approved during 2018.

While DCEO was meeting many of the basic requirements of the EDGE Tax Credit Act, it was not in compliance with several applicable sections of the Act due to a lack of internal controls. Additionally, DCEO did not have any policy or procedure manuals to help employees administer the EDGE program.

- **Inaccurate Annual Report** -several numbers reported in the 2018 EDGE Annual Report were not supported by DCEO.

DCEO's tax credit program did not meet time requirements identified in the EDGE agreements.

DCEO's tax credit program did not meet time requirements identified in the EDGE agreements. Our review found that businesses did not issue the required proof of compliance within the required timeframes in 33 of the 50 tax credits sampled (66%). The average number of days to submit the proof was 82 days. Our review also found that DCEO did not issue the tax credit to the businesses within the required 60 days in 20 of the 50 of the tax credits sampled (40%). The average number of days it took DCEO to issue the tax credit was 97 days. (pages 31-37)

AUDIT RECOMMENDATIONS

The audit report contains six recommendations directed to the Department of Commerce and Economic Opportunity. The Department agreed with the recommendations. The complete response from the Department is included in this report as Appendix C.

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

SIGNED ORIGINAL ON FILE

Joe Butcher
Division Director

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

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

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