



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF REVENUE

**Compliance Examination
 For the Two Years Ended June 30, 2020**

Release Date: June 30, 2021

FINDINGS THIS AUDIT: 10	AGING SCHEDULE OF REPEATED FINDINGS			
	Repeated Since	Category 1	Category 2	Category 3
Category 1:	2018	3	1, 6, 9	
Category 2:	2007		8	
Category 3:				
TOTAL				

	<u>New</u>	<u>Repeat</u>	<u>Total</u>
Category 1:	0	1	1
Category 2:	5	4	9
Category 3:	0	0	0
TOTAL	5	5	10

FINDINGS LAST AUDIT: 11

INTRODUCTION

This digest covers our Compliance Examination of the Department of Revenue (Department) for the two years ended June 30, 2020. A separate Financial Audit as of and for the year ended June 30, 2020 was previously released on June 9, 2021. In total, this report contains 10 findings, 2 of which were also reported in the Financial Audit.

SYNOPSIS

- **(20-03)** The Department was unable to provide adequate records substantiating the completeness of populations for one or more laws, regulations, or other requirements selected for testing. Therefore, we concluded the Department’s population records were not sufficiently precise and detailed under the Attestation Standards promulgated by the American Institute of Certified Public Accountants (AT-C § 205.35).
- **(20-04)** The Department did not maintain adequate controls over income tax abatements resulting from tax credits issued under the Economic Development for a Growing Economy (EDGE) program administered by the Department of Commerce and Economic Opportunity (DCEO).

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

**DEPARTMENT OF REVENUE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2020**

EXPENDITURE STATISTICS	2020	2019	2018
Total Expenditures.....	\$ 12,292,959,261	\$ 12,227,130,755	\$ 11,716,588,824
OPERATIONS TOTAL.....	\$ 207,975,022	\$ 225,940,193	\$ 200,217,593
% of Total Expenditures.....	1.7%	1.8%	1.7%
Personal Services.....	99,058,875	115,407,814	105,999,378
Other Payroll Costs (FICA, Retirement).....	54,223,435	53,999,514	56,528,625
All Other Operating Expenditures.....	54,692,712	56,532,865	37,689,590
AWARDS AND GRANTS.....	\$ 9,652,450,557	\$ 9,515,608,910	\$ 8,970,373,347
% of Total Expenditures.....	78.5%	77.9%	76.6%
PERMANENT IMPROVEMENTS.....	\$ 52,031	\$ 67,793	\$ -
% of Total Expenditures.....	0.0%	0.0%	0.0%
REFUNDS.....	\$ 2,432,481,651	\$ 2,485,513,859	\$ 2,545,997,884
% of Total Expenditures.....	19.8%	20.3%	21.7%
Total Receipts.....	\$ 47,347,221,790	\$ 48,039,283,183	\$ 44,972,346,355
Average Number of Employees (Unaudited)...	1,379	1,521	1,349

AGENCY DIRECTOR

During Examination Period: Constance Beard (through 12/31/18); Edward Buckles, Acting (1/1/19-1/21/19);
David Harris (Effective 1/22/19)
Currently: David Harris

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

COMPLETE POPULATIONS NOT PROVIDED

**Auditors unable to make conclusions
for populations provided**

The Department of Revenue (Department) was unable to provide adequate records substantiating the completeness of populations for one or more laws, regulations, or other requirements. Due to these conditions, we concluded the Department's population records were not sufficiently precise and detailed under the Attestation Standards promulgated by the American Institute of Certified Public Accountants (AT-C § 205.35) to test the Department's compliance for certain testing areas.

Specifically, some of the more important issues we noted were:

**Population for access to control
areas could not be provided**

- While testing compliance with access to controlled areas, we requested and the Department provided a listing of individuals that had access to secure areas for Fiscal Years 2019 and 2020. However, we could not reconcile this listing to the listing of individuals that entered the secure areas. As a result, we are unable to determine if the individuals that entered the secure area had proper access rights.

**Personnel population could not be
provided**

- While testing compliance with personal services, we requested the Department's employee populations for employees who were hired, employees who had separated employment from the Department, and active employees as of the last payroll period for Fiscal Years 2019 and 2020. We noted several exceptions between the listings provided.

**Property population could not be
provided**

- While testing compliance with state property and equipment, we requested the Department provide a population of state property and equipment for Fiscal Years 2019 and 2020 in order to determine if additions, deletions, and transfers were proper. We were unable to reconcile the population provided by the Department to the Agency Report of State Property (C15). As a result, we are unable to determine if there were additions, deletions, or transfers of which we were unaware.

Even given the population limitations which hindered our ability to conclude whether the selected sample was representative of the population as a whole, we obtained the population provided by the Department for each of the areas the Department could not substantiate, selected a sample, and tested for compliance. Noncompliance for those samples selected are reported in Findings 2020-008 and 2020-009. (Finding 3, pages 17-19)

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

Department accepted the recommendation

The Department accepted the recommendation and stated it will implement controls over the compilation and subsequent review of testing populations to ensure their accuracy. In addition, we will explore options for systemic processes to replace any manual processes.

INADEQUATE CONTROLS OVER TAX CREDIT PROGRAMS

Inadequate controls over tax abatements

The Department did not maintain adequate controls over income tax abatements resulting from tax credits issued under the Economic Development for a Growing Economy (EDGE) program administered by the Department of Commerce and Economic Opportunity (DCEO).

Unable to provide verification certificate for 11 of 54 (20%) EDGE Credits claims

During our testing of EDGE tax credits claimed by taxpayers, we noted the Department was not able to provide a copy of the DCEO EDGE Tax Credit Certificate of Verification for 11 out of 54 (20%) taxpayers sampled. The EDGE Credit amounts ranged from \$21,246 to \$3,099,447. As a result of the Department not requiring the taxpayer to provide a copy of the certification at the time of filing their returns, the Department abated taxes without determining the related credits were valid and proper. Upon request, we were able to obtain a copy of the certificates from DCEO. (Finding 4, page 20)

We recommended the Department establish a formal process to correspond with taxpayer's who claim a credit but do not file a copy of their Certificate of Verification with their tax return.

Department accepted the recommendation

The Department accepted the recommendation and stated it has worked with DCEO to establish a shared location where the certificates can be compiled. Further, the Department stated it will continue to communicate with DCEO the importance of using the shared location to ensure compliance.

OTHER FINDINGS

The remaining findings pertain to weaknesses in cybersecurity programs and practices, a lack of agreement to ensure compliance with IT security requirements, inadequate execution of interagency agreements, exceptions in testing personnel, inadequate controls over processing and recording of State property and equipment, and inadequate accounting of postage balances. We will review the Department's progress towards the implementation of our recommendations in our next compliance examination.

AUDITOR'S OPINION

The financial audit report was previously released. The auditors stated the financial statements of the Department as of and for the year ended June 30, 2020, are fairly stated in all material respects.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the Department for the two years ended June 30, 2020, as required by the Illinois State Auditing Act. The accountants qualified their report on State Compliance for Finding 2020-003. Except for the noncompliance described in that finding, the accountants state the Department complied, in all material respects, with the requirements described in the report.

The financial audit and this compliance examination was performed by RSM US LLP.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

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

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:jv