LEGISLATIVE AUDIT COMMISSION

Review of
Department of Revenue
Two Years Ended June 30, 2016

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REVIEW: 4472
ILLINOIS DEPARTMENT OF REVENUE
TWO YEARS ENDED JUNE 30, 2016

FINDINGS/RECOMMENDATIONS - 10

IMPLEMENTED - 7
ACCEPTED AND PARTIALLY IMPLEMENTED - 3

REPEATED RECOMMENDATIONS - 5

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 14

This review summarizes the auditors' reports on the Illinois Department of Revenue, filed with the Legislative Audit Commission April 20, 2017. The auditors conducted a compliance examination for the two years ended June 30, 2016 and a financial audit for the year ended June 30, 2016 in accordance with *Government Auditing Standards* and State law. Auditors stated the financial statements were fairly presented.

The Department of Revenue is empowered to administer, collect, enforce, and determine the distribution of the taxes imposed by the State's major tax acts. The Department also administers and oversees the operations of the Liquor Control Commission. Effective July 1, 2009, the Department of Revenue transferred all functions of the Gaming Board and the Racing Board to their respective agencies. As of July 1, 2011, Lottery operations transitioned to a private manager and on October 15, 2011 all remaining Lottery functions were transferred from the Department of Revenue to the Department of the Lottery.

The Department collected approximately 81% of the receipts deposited into the General Revenue Fund for FY16 and 77% for FY15. A significant portion of the Department's total effort relates to the collection of the Retailers' Occupation Tax (ROT) and related taxes, income taxes, and personal property replacement taxes. The revenue collected from these sources approximated 88% of taxes collected by the Department for FY16 and FY15. The remaining 12% of the Department's revenue was derived from the collection of dozens of other taxes and fees. In addition to collecting State taxes, the Department collects some taxes on behalf of local governments, and administers the Senior Citizens' and Disabled Persons' Property Tax Relief Act and the Additional Tax Relief Act.

The Director of the Department from February 2003 to January 2015 was Mr. Brian Hamer. Ms. Constance Beard began serving as Director in January 2015 and currently serves in that position. For the previous 17 years, Ms. Beard, a licensed attorney, was the founding Executive Director of the Illinois Chamber's Tax Institute.

The average number of employees at June 30 was:

	FY16	FY15	FY14
Tax Administration	1,457	1,573	1,628
Shared Services	30	32	27
Liquor Control Commission	32	36	43
TOTAL	**1,519**	**1,641**	**1,698**

Service Efforts and Accomplishments

Appendix A contains service efforts and accomplishments of the Department of Revenue as well as the Liquor Control Commission. Activities in collections and related areas decreased between FY15 and FY16.

Expenditures From Appropriations

The General Assembly appropriated $830,799,872 to the Department in FY16 from 21 funds. The Department had expenditures of $638,547,402 in FY16 compared to $690,516,079 in FY15, a decrease of almost $52 million, or 7.5%. Some of the significant changes in fund expenditures were as follows:

- $36.1 million decrease in the RTA Occupation & Use Tax Replacement Fund due to no expenditures in FY16;
- $25.3 million increase in the Local Government Distributive Fund from additional 1.25% use tax;
- $21.9 million decrease in the Federal HOME Investment Trust Fund due to the Illinois Housing Development Authority (IHDA) being designated as a participating jurisdiction, which allows federal HOME funds to flow directly to IHDA;
- $19.7 million decrease in the General Revenue Fund due to a decrease in operational expenses;
- $19.6 million decrease in the Illinois Affordable Housing Trust Fund due to fewer grants being issued in FY16 due to not having budget authority until the end of FY16;
- $15.8 million decrease in the Build Illinois Bond Fund due to no remaining available funds; and
- $11.6 million increase in the Video Gaming Distribution Fund due to the expansion of video gaming in FY16, as more licenses were awarded which increased the number of gaming terminals.

Appendix B summarizes the appropriations and expenditures by object for the period under review. Lapse period expenditures in FY16 were almost $145.9 million, or 2.6% of total appropriated expenditures.

Cash Receipts

Appendix C summarizes cash receipts of the Department for the two years under review. Cash receipts were $38.3 billion in FY16 compared to $41 billion in FY15, a decrease of $2.7 billion, or 6.6%. Most of the decrease in FY16 was due to a $3 billion decrease in income tax collections due to a decrease in tax rates. Other changes included:

- Sales tax receipts increased $476 million;
- Taxes collected on public utilities decreased $113.7 million;
- Motor Fuel taxes increased $55.3 million; and
- Taxes collected on the sale of cigarettes decreased $46.2 million.

Taxes Receivable Balances

Appendix D is a summary of taxes receivable balances. Net taxes receivable decreased from $1,694,278,000 at June 30, 2015 to $1,599,515,000 at June 30, 2016. These taxes are due from individuals, corporations, and businesses. In FY16, approximately $968.6 million of $2.5 billion in total taxes receivable was considered uncollectible.

Property Report

Appendix E is a summary of changes in State property for FY16 and FY15. Total property increased from $11,891,011 at July 1, 2014 to $12,027,609 at June 30, 2016. Equipment comprised $11.88 million of total property in FY16.

Accountants' Findings and Recommendations

Condensed below are the 10 findings and recommendations presented in the reports. There were five repeated recommendations. Responses to the recommendations are classified based on updated information provided by Barb Ringler, Chief Internal Auditor, via electronic mail on August 2, 2017.

Accepted or Implemented

1. **Establish and maintain adequate controls over the security, availability, integrity, and confidentiality of GenTax data. Specifically:**
    - **Ensure the change management process is effectively controlled and documented, and ensure all changes adhere to the Department's change control standards;**
    - **Restrict programmer access to all production programs and data. If programmer access is necessary, establish and enforce compensating controls to ensure appropriate management oversight and approval of changes;**

Accepted or Implemented – continued

- **Develop a disaster recovery plan to ensure the recoverability of GenTax and all ancillary applications and data. In addition, the recovery plan should be tested on an annual basis and continually updated to reflect environmental changes and improvements identified from tests; and**
- **Establish a documented process over the administration of GenTax user access rights.**

Finding: The Department failed to implement adequate change management, disaster recovery, and security controls over the enterprise wide tax system (GenTax). During FY16, GenTax processed over 13.3 million tax returns and $38.7 billion in payments from taxpayers. During detailed testing, the auditors noted:

The Department did not have a formal change management standard in place until April 2016 to control the change process over GenTax. During detailed testing auditors found:

- Testing documentation was not maintained;
- Approvals to move the changes to the production environment were not always maintained; and
- Duties were not properly segregated as developers conducted testing, approved changes to be moved to the production environment, and had access to the production environment.

The Department had not developed a disaster recovery plan and had not conducted testing to ensure GenTax or the ancillary applications and data could be timely restored.

The Department had not developed access control policy rights to GenTax during the audit period.

Department management stated that there was a very basic GenTax change control process in place; however, it did not formally address the issues outlined above. The Department had requested a disaster recovery test from the Illinois Department of Central Management Services, but it was not feasible given the budgetary constraints. Although the policy was not thoroughly documented, the Department's Security team was following rigorous access security protocols.

Updated Response: Implemented. The Department has closely followed the change management process that was implemented in April 2016. Users who make changes are not allowed to migrate those changes to production. Additionally, test documentation and user approval must be documented prior to any change being migrated to production. The Security team is adhering to the Access Control Procedures that were established. The Department also conducted a successful Disaster Recovery test in the month of June with the assistance of the Department of Innovation & Technology. Applications and data were brought back from the Alternative Data Center and the environment was established on virtual servers in the data center. Nearly 4,000 test cases were conducted and only 21 did not pass. These situations were analyzed and corrective action taken. The Department is pursuing a cloud backup solution for possible implementation in the summer of 2018.

2. Ensure the development process is adequately controlled and documented. Specifically, ensure:
- **Vendor deliverables are reviewed and timely approved; and**
- **All system testing is properly documented, reviewed and approved.**

Finding: The Department had weaknesses with the controls over the project management of the enterprise wide tax system (GenTax).

Since the initial implementation in December 2007, the Department has expended over $70.5 million in contracted vendor assistance for GenTax development and expansions. During the examination period, the Department continued its expansion with the implementation of the legacy systems: Motor Fuel tax, Bingo tax, Charitable Games tax, and Pull Tab tax (Rollout 5). In addition, the Department replaced its legacy Consolidated Accounting System with the GenTax General Ledger.

The auditors noted the following during testing:
- The vendor's contract deliverables were not always approved by the Department or were approved after Rollout 5 or the General Ledger went into production.
- Testing scripts did not always provide detail as to the actual testing performed and the testing scripts with identified problems did not contain documentation associated with the corrective action.

Department management stated this was due to oversight. Additionally, emphasis was not placed on the documentation aspect, but rather on the actual testing itself.

Updated Response: Implemented. The Department has developed a change management process that requires 1) vendor deliverables to be reviewed and timely approved, and 2) all system testing to be properly documented, reviewed, and approved.

The Department has just finished two projects that had deliverables. The deliverables received were approved through discussions in meetings and documented through written minutes. System testing scenarios have an expected result and are passed or failed in the system and tracked with history. Change logs are kept when updates are made.

3. Ensure taxpayer information is adequately protected during both business and non-business hours from potential unauthorized access as mandated by State statute and IRS Publication 1075. (Repeated-2010)

Finding: The Department has not completely implemented controls and safeguards over processing taxpayer information. During FY16 and FY15, the Department processed 12,014,495 and 13,360,094 tax returns, totaling $40,299,337,174 and $38,700,154,393, respectively.

During testing auditors noted instances in which the Department's internal controls to protect taxpayer information contained weaknesses in certain physical safeguards to control access to areas within the Department as well as the storage of taxpayer information. Department

Accepted or Implemented – continued

staff confirmed to the auditors they were not aware of any specific instances of loss of confidential information due to the identified weaknesses in physical safeguards.

Department management stated the combination of past building deficiencies, the loss of fiscal year funding, coupled with the scope of what needs to be secured, has prevented the Department from performing the necessary measures to secure the storage of all federal tax information.

Updated Response: Partially implemented. Funding has been appropriated for the physical improvements to the building required by IRS Publication 1075. The Department has reconvened with the architects and contractors, and are on target for a completion date of June 30, 2018.

4. Develop the reporting necessary to complete the true-up process for the receipt allocation errors noted in FY16 and identify and prevent errors which could occur in the future. Complete the appropriate adjustments to State funds where needed to correct the allocation errors identified in FY16. In addition, test and perfect the functionality of the GenTax General Ledger system to ensure the subsequent true-up process performs in accordance with statutory requirements.

Finding: The Department implemented the General Ledger portion of GenTax as part of its multi-year, multi-system conversion project in March 2016 to replace the Consolidated Accounting System. Auditors tested the General Ledger system and noted weaknesses concerning the allocation of income and sales (ROT) tax receipts.

- Business Income Tax receipt allocations to the Fund for Advancement of Education and the Commitment to Human Services Fund were unable to be determined in April, May and June of 2016 resulting in an estimated $2,759,290 of misallocations between these funds and the General Revenue Fund. Further, the amount of misallocation had to be estimated by the Department due to the inability to determine if Form 1041 – U.S. Income Tax Return for Estates and Trusts receipts were remitted for Trusts or Estates.
- ROT receipts totaling $3,812 were misallocated in FY16 between the General Revenue Fund, Common School Fund, and the Build Illinois Fund at year-end due to inaccuracies in how the system allocates money to State funds.
- Individual Income Tax receipts totaling $3,811 were misallocated between the Education Assistance Fund and the Income Tax Refund Fund. The misallocation was due to the reversal of the allocation percentages used in the allocation tables during the implementation of the GenTax General Ledger system.
- Individual, Corporate, and Replacement Tax receipts totaling $15,839 were misallocated between the General Revenue Fund, Education Assistance Fund, Income Tax Refund Fund, and the Personal Property Tax Replacement Fund. This misallocation was due to a true-up process that takes place within the new GenTax General Ledger system, which was not completely trued-up as of June 30, 2016.

Department management stated the Department administers a majority of the State's tax acts. Most of these acts are structured on a pay-as-you-go basis requiring taxpayers to remit payments throughout the year with the filing of the returns occurring less frequently. Return information is needed to precisely allocate the taxpayer payments to State funds in accordance with statutory requirements. Statewide cash flow considerations necessitate the Department to allocate money to the applicable funds timely before return information is available. Consequently, the initial fund allocations are made using estimates based upon historical information. The Department implemented a new receipts processing system in March 2016 that provides enhanced functionality to allow for subsequent true-ups of initial allocation using return information. During the engagement period, the development of reporting needed for certain true-up processes had not been completed.

Updated Response: Implemented. The recommended programming changes were completed and appropriate adjustments to State funds were performed in the first quarter of fiscal year 2017.

5. Develop the reporting necessary to reconcile the less major tax types to actual return data and perform the true-ups as necessary. In addition, test and perfect the functionality of the GenTax General Ledger system to ensure the subsequent true-up process performs in accordance with statutory requirements.

Finding: The Department implemented the General Ledger portion of GenTax as part of its multi-year, multi-system conversion project in March 2016 to replace the Consolidated Accounting System. Auditors tested the General Ledger system and noted the Department did not perform reconciliations of the allocations for Liquor Tax, Energy Assistance fees, and Electricity Excise Tax deposits.

During testing, auditors noted the Department uses historical percentages to allocate various tax collection deposits to the appropriate funds in accordance with the statute. The Department does not perform a reconciliation of deposit allocations to actual return information for Liquor Tax, Energy Assistance fee, and Electricity Excise Tax deposits to determine that the allocation of the deposits are in accordance with the statutes. Specifically:

- The Department allocates Liquor Tax between the General Revenue Fund and the Capital Projects Fund based upon weighted average percentages determined after a statutory amendment. In order to determine if the allocation percentages are in accordance with the statute, the Department must obtain detailed information. However, the Department is unable to obtain such information, and therefore, the Department does not perform a true-up of the allocations used to the actual information throughout the fiscal year.
- The Energy Assistance Act requires the Department to allocate 100% of the fee to the Supplemental Low-Energy Resource Trust Fund. However, the return used for the fee also includes renewable energy resources and coal technology development assistance fees, so the Department developed a composite average to be utilized in the allocation split. The Department does not perform a true-up of the allocation of the fees to the actual return information throughout the fiscal year.

Accepted or Implemented – continued

- The Electricity Excise Tax requires the Department to allocate funds between the General Revenue Fund and the Public Utility Fund, with an additional $416,667 being deposited monthly into the General Revenue Fund. The renewable energy resources, coal technology development, and energy assistance charges are all reported on the same tax return (RPU-6) and the Department requires return information in order to determine the actual allocation to the funds. The Department does not perform a true-up of the allocation of the tax to the actual return information throughout the fiscal year.

Department management stated these tax acts are structured on a pay-as-you-go basis requiring taxpayers to remit payments throughout the year with the filing of the related returns occurring less frequently. Return information is needed to precisely allocate the taxpayer payments to State funds in accordance with statutory requirements. Statewide cash flow considerations necessitate the Department to allocate money to funds timely before return information is available. Consequently, the initial fund allocations are made using estimates based upon historical information. The Department implemented a new receipts processing system in March 2016 that provides enhanced functionality to allow for subsequent true-ups of initial allocations using return information. During the engagement period, this functionality was implemented for multiple major tax types.

Updated Response: Implemented. The recommended functionality has been implemented into the GenTax General Ledger for the remaining taxes administered by IDOR.

6. Ensure the necessary corrections are made to GenTax to properly allocate the telecommunication taxes collected to the appropriate State funds.

Finding: The Department did not properly allocate the Telecommunications Excise Tax and the Simplified Telecommunications Tax as required by law.

Auditors noted, during testing of five telecommunication tax returns (RT-2s), one was misallocated by GenTax, resulting in an overpayment to local municipalities and an underpayment to State funds. The amount of the total allocation error is unknown to the auditors, but the maximum error would be $23,079.

Department management stated the GenTax System utilized by the Department to allocate telecommunication taxes collected was not programmed to properly allocate amounts reported in error on Line 8b of the RT-2. Issues with the change management process of the GenTax System have been reported by the auditors in Finding 2016-001, Lack of Controls over GenTax.

Updated Response: Implemented. The Department has taken action to correct the issue. A programming change to our tax system was completed in March of 2017. This was a very isolated situation that resulted in an immaterial adjustment of $10,622.80 out of annual telecommunications collections of approximately $700 million. The Department processed corrected allocation records in March, 2017.

7. Ensure employee performance evaluations are performed in a timely manner in accordance with the Illinois Administrative Code and the Department's Policy Handbook. In addition, review timekeeping reports in a timely manner. If a 30 day time period after month end is not conducive to the Department's environment, establish a policy enumerating when, following month end, the Department will review the CTAS reports. Also, interject automation into the review process and decrease reliance on manual processes. (Repeated-2007)

Finding: The Department did not ensure all required processes were followed in the administration of its personnel and timekeeping functions. During testing, auditors noted:

- The Department did not perform employee evaluations as required. Auditors tested the evaluations for 40 employees during the engagement period. For these employees, 75 total evaluations should have been performed during the engagement period, which includes applicable annual evaluations and probationary evaluations. Of the 75 evaluations tested, the auditors noted:
  - 20 evaluations (27%) were not completed within 30 days of evaluation period end. The delinquencies ranged from 36 to 577 days late.
  - Three evaluations were not on file and available for review.
  - One evaluation for FY15 was completed 82 days before the evaluation period ended on June 30, 2015.
  - One evaluation for FY16 was completed 34 days before the evaluation period ended on August 31, 2015.

  Department personnel stated circumstances, including retirements, new managers hired, workload and evaluations not tied to an increase in salary, have caused/allowed for evaluations to not be administered timely.

- Auditors noted exceptions in testing the Department's timekeeping records. Exceptions were noted with 21 of 40 (53%) employees tested, with multiple exceptions noted regarding some employees:
  - Auditors noted 20 of 40 employees had Central Time and Attendance System (CTAS) reports signed between three and 306 days late.
  - Auditors also noted one of 40 CTAS reports lacked a signature and date of the division manager.

  Department personnel stated, since there is not a Department policy that requires a specific timeframe for the CTAS quarterly reports to be signed, emphasis was not placed on timeliness of the quarterly reports being signed by the employee and the manager. In addition, due to employee work locations, it makes it even more difficult to meet the 30 day timeframe the auditors have cited. Finally, due to the extensive manual nature of the process, it takes a minimum of 10 to 20 days before the employee receives the report.

Updated Response: Partially implemented. The Department has revised its procedures and put a reminder system in place to notify employees when evaluations are due. We've also initiated discussions with DoIT to seek an automated solution for the quarterly report

Accepted or Implemented – continued

review process. A reminder email to timekeepers has been sent regarding timely issuance and review of quarterly reports.

8. Submit a corrected "Agency Workforce Report" for FY15 and FY14 to the Governor and the Office of the Secretary of State. Also, submit a corrected "Agency Workforce Report" for FY12 and FY13, with percentages, to the Governor and Office of the Secretary of State, in order to ensure compliance with the Illinois State Auditing Act from the previous engagement. Finally, ensure documentation of submission to the appropriate parties is maintained in compliance with the State Records Act. (Repeated-2014)

Finding: The Department included inaccurate information in its "Agency Workforce Report" filed for FY14 and FY15 during the engagement period. In addition, the corrected reports filed for FY12 and FY13 were incomplete and the Department was unable to provide evidence it resubmitted those to the required parties.

In response to this finding from the previous engagement, Department management stated the Department would correct the aforementioned "Agency Workforce Reports" and ensure that those responsible for preparing the Reports understand the definitions of each workforce category. Related to the exceptions noted during the current engagement, Department management stated the "Agency Workforce Report" was created via a manual process, mistakes were made, and deadlines were missed.

Updated Response: Implemented. All reports were completed and submitted to the Governor and Office of the Secretary of State on March 10, 2017. Documentation of submissions will be maintained in compliance with the State Records Act.

9. Annually send a formal notice to those employees whose jobs involve travel to remind them of the requirement and importance of filing internally and externally required accident reports in a timely manner. In addition, enforce vehicle maintenance schedules and the submission of Annual License and Insurance Certificates. Finally, review those personally assigned vehicles to ensure they are utilizing them in accordance with the IDOR Vehicle Policy Manual. If the vehicle does not need to be personally assigned, release it to the Department's fleet. (Repeated-2012)

Finding: The Department did not have proper controls over reporting of accidents, maintenance of its motor pool vehicles, and personally assigned vehicles.

During the engagement period, Department employees were involved in 24 motor vehicle accidents while driving on State business. Auditors noted exceptions concerning two of the 24 accidents, as follows:

- Two of 24 were not reported to the Department's Administrative Services Division of Operational Special Services (OSS) in accordance with the Department's policy within 48 hours of the accidents, not including weekends and holidays.
- Two of 24 accidents were not communicated to the Department of Central Management Services (DCMS) within the seven-day requirement. These reports were two to three days late.

During testing of maintenance records for 25 vehicles in operation at the Department during the engagement period, auditors noted the following exceptions:

- Tire rotations did not occur for seven of 25 vehicles as required.
- Oil changes did not occur as required for seven of 25 vehicles.
- One vehicle did not have an annual inspection during calendar year 2015.

Department management stated the old electronic Automated Cost Reporting System lagged a month behind as mileage and/or dates of vehicle maintenance requirements had to be manually updated. This resulted in human error and delays in reminders and reporting.

During testing of the Department's personally assigned vehicles, the following exceptions were noted:

- Five of 12 personally assigned vehicles were not driven a minimum of 1,500 miles per month as required according to IDOR's Vehicle Policy Manual.
- One of 12 employees provided the Annual License and Insurance Certificates after the deadline, and two of 12 did not provide the Annual License and Insurance Certificate.

Department management stated the old electronic Automated Cost Reporting System lagged a month behind as mileage and/or dates of vehicle maintenance requirements had to be manually updated. This resulted in human error and delays in reminders and reporting.

Updated Response: Implemented. Fleet Management has worked with DoIT to develop a new Fleet Management System (FMS) which provides automatic reminders for: 1) maintenance (oil changes and tire rotations); 2) annual inspections; and 3) annual License and Insurance Certifications. In certain instances, the Department has eliminated the assignment of State vehicles to individuals.

10. Comply with various statutory requirements or seek a legislative remedy as appropriate. (Repeated-2014)

Finding: The Department did not comply with various statutory mandates.

During testing, auditors noted the following:

- Two of 14 International Fuel Tax Agreement (IFTA) payments tested were not certified to the Comptroller by the 15th day of the month. These late payments ranged from two and eight days after the 15th of the month.

  Department management stated the processing of these invoices was delayed as a result of human error.

Accepted or Implemented – concluded

- The Department's Unified Economic Development Budget (UEDB) submission to the General Assembly and the Department of Commerce and Economic Opportunity (DCEO) was not completed properly. The Department reported the aggregate amount of uncollected or diverted State tax revenues filed during a fiscal year; however, the Department was required to report detailed information for the preceding fiscal year. The Department completed the submission of the report on October 6, 2015, using data for returns filed during FY13. The report due on October 6, 2015, should have used data for returns filed during FY15.

  The Department stated the operational capabilities of the Department, i.e. filing dates, are limited by the timing of when taxpayers file tax returns, and the fiscal year data needed to comply with the statute is not yet available by the due date of the report.

- During testing of the Illinois Department of Revenue Sunshine Act, the Department filed the FY14 cumulative index and FY15 cumulative index in Volume 40, Issue 36 on September 2, 2016. The 2014 cumulative index should have been filed on January 15, 2015, which was 596 days late. The 2015 cumulative index should have been filed on January 15, 2016, which was 231 days late.

  The Department management stated, due to significant turnover of support staff in the Legal Division, the 2014 and 2015 cumulative indexes were not filed by January 15 of the year in which they were due. Department management stated the cumulative indexes have since been filed, although they were filed late.

- The Department failed to comply with the statutory requirements set forth in the Illinois Independent Tax Tribunal Act. The Act states the Department shall file an answer in the Tax Tribunal no later than 30 days after its receipt of the Tax Tribunal's notification that the taxpayer has filed a petition in the proper form or within such additional time as the Tax Tribunal may specify. Answers for three of 38 active cases were filed eight to 25 days late during FY15 and one of 17 cases were filed 28 days late during FY16.

  Department management stated the cause for the late filing of Tax Tribunal answers was insufficient staffing levels in the Department's litigation unit. The creation of the Tax Tribunal created additional front loaded work for the litigation staff at a time when the unit had not adequately replaced several retirees. Efforts were underway to hire additional litigation staff, but a combination of budget, labor, and Rutan hiring procedures slowed the process.

In response to this finding from the previous engagement, the Department stated it would strive to comply more fully with the statutory requirements for the Tennessee Valley Authority, IFTA, and Illinois Housing Development Authority (IHDA). The Department also stated it would again seek a legislative remedy for UEDB. Through June 30, 2016, the Department had a Memorandum of Understanding (MOU) with the IHDA which set forth the requirements for the distribution of funds from the Federal HOME Investment Trust Fund.

<u>Updated Response:</u> Implemented. Procedures have been changed to ensure timely payment of the International Fuel Tax Agreement payments.

Not Implemented. The Department agrees that we are not in compliance with the statute on submitting the Unified Economic Development Budget (UEDB). The Department has repeatedly attempted to change the reporting date through the legislative process. In the future the Department will report the data available, in accordance with the statute, at the time the statute requires.

Implemented. The cumulative indexes required under the Illinois Department of Revenue Sunshine Act that were due during the audit period have now been published. Staff members will be reminded of the statutory requirement regarding the timely filing of said indexes. These steps have been implemented and Sunshine letter publications are now current.

Partially Implemented. The Department hired four additional staff on August 1, 2017, which will help ensure the filing requirements under the Illinois Independent Tax Tribunal Act of 2012 are met timely. In addition a Mission Excellence Project was commenced in June 2017 designed to reduce the number of cases being protested to the Independent Tax Tribunal. Implementation is in process but not complete.

Emergency Purchases

The Illinois Procurement Code (30 ILCS 500/) states, “It is declared to be the policy of the State that the principles of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts....” The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption when there exists a threat to public health or public safety, or when immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage to State Property, to prevent or minimize serious disruption in critical State services that affect health, safety, or collection of substantial State revenues, or to ensure the integrity of State records; provided, however that the term of the emergency purchase shall not exceed 90 days. A contract may be extended beyond 90 days if the chief procurement officer determines additional time is necessary and that the contract scope and duration are limited to the emergency. Prior to the execution of the extension, the chief procurement officer must hold a public hearing and provide written justification for all emergency contracts. Members of the public may present testimony.

Notice of all emergency procurement shall be provided to the Procurement Policy Board and published in the online electronic Bulletin no later than 3 business days after the contract is awarded. Notice of intent to extend an emergency contract shall be provided to the Procurement Policy Board and published in the online electronic Bulletin at least 14 days before the public hearing.

A chief procurement officer making such emergency purchases is required to file an affidavit with the Procurement Policy Board and the Auditor General. The affidavit is to set forth the circumstance requiring the emergency purchase. The Legislative Audit Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

The Department filed no affidavits for emergency purchases in FY15 or FY16.

Headquarters Designations

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all its officers and employees for whom official headquarters have been designated at any location other than that at which official duties require them to spend the largest part of their working time.

In July of 2016, the Department indicated that 368 employees spent at least 50% of their time working at locations other than their official headquarters.

APPENDIX A

SERVICE EFFORTS AND ACCOMPLISHMENTS

	FY16	FY15
Administer State and Local Tax Laws		
Number of State and local taxes administered	76	74
State and local tax and fee collections	$ 38,251,000,000	$ 41,194,000,000
Number of individual income tax returns processed	6,143,475	6,185,708
Number of individual income tax refunds issued	3,135,800	3,317,503
Delinquent tax debt cases closed	661,210	625,640
Delinquent tax debt collections	$ 624,950,000	$ 633,136,000
Number of phone calls answered on toll-free assistance lines	950,371	1,035,384
Number of individual income tax returns filed electronically	5,180,333	4,990,745
Percent of individual income tax returns filed electronically	82.3%	80.7%
Total tax and fee collections received via electronic fund transfers	$ 33,941,800,000	$ 34,816,000,000
Liquor Control Commission		
Inspections	16,035	17,245
Licenses Issued	37,618	36,600
Liquor inspections compliance rate	73.2%	72.4%
Tobacco retailers compliance rate on State Annual Survey	84.1%	82.9%

APPENDIX B

Summary of Appropriations and Expenditures

	FY16	FY15	FY14
APPROPRIATIONS	**$ 830,799,872**	**$ 831,251,820**	**$ 855,312,167**
Expenditures by Fund			
General Revenue Fund	$ 76,053,530	$ 95,749,039	$ 109,354,284
Motor Fuel Tax Fund	75,062,191	65,132,138	59,497,707
Underground Storage Tank Fund	1,891,630	1,789,712	1,758,396
Illinois Gaming Law Enforcement Fund	957,403	1,281,006	1,645,834
Home Rule Municipal ROT Fund	-	78,128	605,593
Federal Trust Fund	33,544	141,722	145,565
Rental Housing Support Program Fund	8,971,927	447,374	18,863,017
State and Local Sales Tax Reform Fund	81,529,581	74,026,090	65,149,816
RTA Occupation & Use Tax Replacement Fund	-	36,116,273	31,536,416
County Option Motor Fuel Tax Fund	-	-	647,152
Debt Collection Fund	-	-	15,210
Illinois Affordable Housing Trust Fund	26,619,276	46,212,220	53,500,172
Federal HOME Investment Trust Fund	-	21,894,824	17,130,313
Tax Compliance & Administration Fund	16,031,510	16,376,017	9,633,307
Predatory Lending Database Program Fund	-	118,211	845,000
Local Government Distributive Fund	236,866,491	211,591,037	180,727,470
Personal Property Tax Replacement Fund	53,415,506	53,442,210	52,040,701
Dram Shop Fund	6,965,044	6,392,632	7,970,455
Video Gaming Distribution Fund	49,577,230	37,977,479	21,316,783
Foreclosure Prevention Program Fund	102,511	936,809	3,432,581
Sr. Citizen Real Estate Deferred Tax Fund	4,389,206	4,908,579	5,571,278
Abandoned Residential Property Relief Fund	80,822	91,559	7,372,294
Build Illinois Bond Fund	-	15,813,020	55,519,847
TOTAL	**$ 638,547,402**	**$ 690,516,079**	**$ 704,279,191**
Expenditures by Major Object			
Personal services	$ 37,789,517	$ 38,490,496	$ 36,057,008
Retirement, State	17,265,046	16,324,421	14,559,927
Social security	2,733,789	2,782,989	2,605,316
Group Insurance	10,665,198	9,693,708	9,353,658
Contractual services	4,056,159	3,150,611	3,138,199
Travel	1,539,508	1,340,595	1,459,711
Commodities	69,392	42,598	66,619
Printing	93,137	191,993	141,710
Equipment	2,933	2,446	-
EDP	15,387,596	14,807,651	13,948,744
Telecommunications	1,568,414	1,491,952	1,492,231
Operate auto equipment	100,743	88,725	106,106
Shared Services	3,030,373	3,148,840	2,656,849
Video Gaming Act	49,577,230	37,977,479	21,316,783
Operations	997,901	93,637,038	106,434,454
Administration of programs	6,353,404	6,527,598	53,011,206
Miscellaneous programs	345,336	22,289,417	460,365
Lump sum operations	74,233,272	-	-
Awards & Grants	378,420,471	410,051,014	409,674,637
Refunds	29,928,777	23,001,535	22,224,390
Senior Citizen Deferred Tax Revolving Fund	4,389,206	4,908,579	5,571,278
Governor's Discretionary appropriation	-	566,394	-
Total Expenditures	**$ 638,547,402**	**$ 690,516,079**	**$ 704,279,191**

APPENDIX C

Summary of Cash Receipts

	FY16	FY15	FY14
Receipts			
Income Tax and fee collections	$ 19,253,705,124	$ 22,398,692,196	$ 23,473,570,973
Sales:			
State, municipal, county, county water commission, RTA, MED, retailers' & service occupation use	14,407,351,988	13,931,378,225	13,402,872,832
Public utilities:			
Message, gas revenue, electric	1,536,464,050	1,650,174,990	1,642,262,559
Motor fuel	1,277,867,113	1,222,550,354	1,225,728,873
Other:			
Underground storage tanks	76,501,910	71,108,510	70,810,482
Cigarette & cigarette use	825,051,811	871,229,131	878,774,759
Racing privilege	5,977,825	5,699,683	6,529,997
Hotel operator & occupation	394,446,060	374,030,260	343,097,412
Liquor	287,818,143	283,135,249	279,764,944
Vehicle Use	55,429,659	36,383,448	33,875,940
Real estate transfer	93,482,494	83,235,828	76,307,001
Bingo	1,748,641	1,773,254	1,878,804
Coin operated amusement device	1,133,254	1,308,764	1,162,755
Automobile renting tax	80,643,378	78,909,768	75,920,784
Charitable games	440,014	360,559	389,014
Pull tabs & jar games	3,342,904	3,457,667	4,159,931
Solid Waste	-	-	16,124
Liquor Control Commission	15,640,795	15,238,322	15,311,162
Senior citizens real estate tax deferral	7,603,147	6,139,224	5,991,861
Live adult entertainment	536,004	497,603	405,997
Miscellaneous collections	1,703,432	5,000,038	1,220,095
Total Cash Receipts	**$ 38,326,887,746**	**$ 41,040,303,073**	**$ 41,540,052,299**

APPENDIX D

Summary of Taxes Receivable Balances

	At June 30 FY16	At June 30 FY15
Taxes receivable		
Income	$ 1,160,302,000	$ 1,178,859,000
Sales	1,028,199,000	1,051,071,000
Motor Fuel	133,527,000	147,024,000
Public utility	19,152,000	24,846,000
Other	226,971,000	213,662,000
Total taxes receivable	2,568,151,000	2,615,462,000
Less allowance for uncollectible taxes	(968,636,000)	(921,184,000)
Taxes receivable, net	**$ 1,599,515,000**	**$ 1,694,278,000**

REVIEW: 4472
DEPARTMENT OF REVENUE
TWO YEARS ENDED JUNE 30, 2016

APPENDIX E

Changes in State Property

	FY16	FY15
Beginning Balance	**$ 11,072,742**	**$ 11,891,011**
Total Additions	953,514	85,614
Total Deductions	(254,413)	(641,509)
Net Transfers	255,766	(262,374)
Ending Balance	**$ 12,027,609**	**$ 11,072,742**