

State of Illinois
Department of Employment Security

Compliance Examination
For the Two Years Ended June 30, 2009
Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

**State of Illinois
Department of Employment Security**

**Compliance Examination
For the Two Years Ended June 30, 2009**

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**State of Illinois
Department of Employment Security**

**Compliance Examination
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**State of Illinois
Department of Employment Security**

**Agency Officials
June 30, 2009**

Director

Previous to August 25, 2008
August 25, 2008 to present

Mr. James P. Sledge
Ms. Maureen T. O'Donnell

Deputy Director, Administration

Previous to August 26, 2008
September 22, 2008 to present

Ms. Elizabeth Nicholson
Ms. Theresa Larkin

Deputy Director, Operations

Previous to September 3, 2009
November 1, 2009 to present

Ms. LaToya Price-Childs
Mr. Andrew Fox

Deputy Director, Infrastructure and Communications

January 20, 2009 to present

Mr. Antonio Daniels

Chief Financial Officer

Mr. Jon Gingrich

Chief Information Services Officer

Mr. Thomas Revane

General Counsel

Mr. Joseph P. Mueller

Manager, Revenue Division

Ms. Lois Cuevas

Manager, Workforce Development

Ms. Virginia Long

Manager, Accounting Services Division

Mr. L. Briant Coombs

Manager, Economic Information & Analysis Division

Acting, previous to June 1, 2008
June 1, 2008 to present

Mr. Mitch Daniels
Dr. Evelina Tainer Loescher

Manager, General Services Division

Mr. John Rogers

Manager, Human Resources Division

Mr. Ken Santiago

Manager, Unemployment Insurance Division

Ms. Carolyn Vanek

Manager, Employment Services Division

Previous to July 23, 2009
Employment Services, Education & Events
July 23, 2009 to present
Employer and Community Outreach
July 23, 2009 to present

Mr. Bennett Krause

Ms. Kisha Hart

Mr. Bennett Krause

Manager, Strategic Planning

Previous to August 6, 2008
August 6, 2008 to July 22, 2009

Ms. Georgina Heard-LaBonne
Ms. Kisha Hart

Equal Opportunity Officer

Mr. Carlos Charneco

The Department's Administrative offices are located at:

33 South State Street
Chicago, IL 60603-2802

850 East Madison Street
Springfield, IL 62702-5603



Illinois Department of Employment Security

Pat Quinn
Governor

Maureen T. O'Donnell
Director

January 12, 2010

E. C. Ortiz & Co., LLP
333 S Des Plaines St, Suite 2-N
Chicago, Illinois 60661

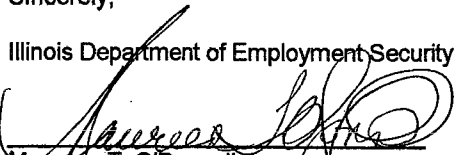
Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Illinois Department of Employment Security (Department). We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Department's compliance with the following assertions during the two-year period ended June 30, 2009. Based on this evaluation, we assert that during the two-year period ended June 30, 2009, the Department has materially complied with the assertions below, except as disclosed to the auditors during the engagement.

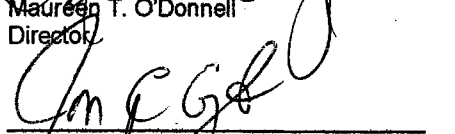
- A. The Department has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Department has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Department has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Department are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Department on behalf of the State or held in trust by the Department have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Sincerely,

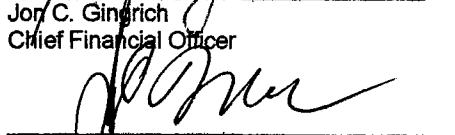
Illinois Department of Employment Security



 Maureen T. O'Donnell
 Director



 Jon C. Gingrich
 Chief Financial Officer



 Joseph P. Mueller
 Legal Counsel

**State of Illinois
Department of Employment Security**

COMPLIANCE REPORT

SUMMARY

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

ACCOUNTANTS' REPORTS

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

<u>Number of</u>	Current Compliance Report	Prior Compliance Report
Findings	7	3
Repeated findings	2	2
Prior recommendations implemented or not repeated	1	5

Details of findings are presented in the separately tabbed report section of this report.

SCHEDULE OF FINDINGS

FINDINGS (*GOVERNMENT AUDITING STANDARDS*)

Item No.	Page	Description	Finding Type
09-1	13	Inaccurate Balance of Cash and Cash Equivalents and Benefit Payments Payable	Material Weakness
09-2	14	Inadequate Controls Over Computer Security	Significant Deficiency
09-3	16	Untimely Preparation and Review of Monthly Reconciliation Reports	Significant Deficiency

FINDINGS (STATE COMPLIANCE)

Item No.	Page	Description	Finding Type
09-4	19	Interagency Agreements Not Executed in a Timely Manner	Noncompliance
09-5	20	Unsupported Claims on Dependent Children	Noncompliance

**State of Illinois
Department of Employment Security**

SCHEDULE OF FINDINGS, Continued

FINDINGS (STATE COMPLIANCE)

Item No.	Page	Description	Finding Type
09-6	21	Untimely Issuance of Eligibility Determination	Noncompliance
09-7	22	Performance Evaluation Not Completed Timely	Noncompliance

In addition, the following findings which are reported as current findings relating to *Government Auditing Standards* also meet the reporting requirements for State Compliance.

Item No.	Page	Description	Finding Type
09-1	13	Inaccurate Balance of Cash and Cash Equivalents and Benefit Payments Payable	Material Noncompliance
09-2	14	Inadequate Controls Over Computer Security	Noncompliance
09-3	16	Untimely Preparation and Review of Monthly Reconciliation Reports	Noncompliance

PRIOR FINDINGS NOT REPEATED

Item No.	Page	Description
A	23	Inaccurate Balance of Allowance for Uncollectible Accounts
B	23	Employee Failed to Properly Record Time and Performed Services for Another Agency

**State of Illinois
Department of Employment Security**

EXIT CONFERENCE

The findings and recommendations appearing in the report were discussed with Department personnel at an exit conference on January 6, 2010. Attending were:

Illinois Department of Employment Security

Chicago Office

Maureen O'Donnell, Director
Theresa Larkin, Administration Deputy Director
Antonio Daniels, Infrastructure and Communications Deputy Director
Andy Fox, Operations Deputy Director
Jon Gingrich, Chief Financial Officer
Briant Coombs, Accounting Services Division Manager
Barry Isaacson, IS Administrative Services Subdivision Manager
Letitia Dominici, Senior Policy Advisor
Carlos Charneco, Equal Opportunity Officer
Kathy Harlan, Audit Liaison

Springfield Office

Joseph Mueller, General Counsel
Carolyn Vanek, Unemployment Insurance Division Manager
Jim Preckwinkle, Legislative Liaison

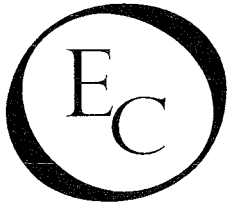
E. C. Ortiz & Co., LLP

Edilberto Ortiz, Partner
Jennifer Santos, Partner
Annabelle Abueg, IS Audit Manager
Epifanio Sadural, Manager

Office of the Auditor General

Thomas Kizziah, Audit Manager
Kathleen A. Devitt, IS Audit Manager

The responses to the recommendations were provided by Kathy Harlan in a letter dated January 12, 2010.



**INDEPENDENT ACCOUNTANTS' REPORT ON STATE COMPLIANCE,
ON INTERNAL CONTROL OVER COMPLIANCE, AND ON
SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES**

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois, Department of Employment Security's (Department) compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the two years ended June 30, 2009. The management of the Department is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Department's compliance based on our examination.

- A. The Department has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Department has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Department has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Department are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Department on behalf of the State or held in trust by the Department have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Department's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Department's compliance with specified requirements.

In our opinion, the Department complied, in all material respects, with the requirements listed in the first paragraph of this report during the two years ended June 30, 2009. However, the results of our procedures disclosed instances of noncompliance, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as findings 09-1 to 09-7.

Internal Control

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the Department's internal control over compliance with the requirements listed in the first paragraph of this report as a basis for designing our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A *deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance as described in the accompanying schedule of findings as finding 09-1 to be a material weakness.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in findings 09-2 and 09-3 in the accompanying schedule of findings, to be significant deficiencies.

Additionally, the results of our procedures disclosed other matters involving internal control over compliance, which are required to be reported in accordance with criteria established by the Audit Guide issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as findings 09-4 to 09-7.

As required by the Audit Guide, immaterial findings excluded from this report have been reported in a separate letter to your office.

The Department's responses to the findings identified in our examination are described in the accompanying schedule of findings. We did not examine the Department's responses and, accordingly, we express no opinion on them.

Supplementary Information for State Compliance Purposes

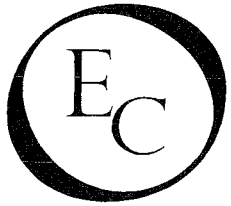
Our examination was conducted for the purpose of forming an opinion on compliance with the requirements listed in the first paragraph of this report. The accompanying supplementary information as listed in the table of contents as Supplementary Information for State Compliance Purposes is presented for purposes of additional analysis. We have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the 2008 and 2009 Supplementary Information for State Compliance Purposes, except for Annual Cost Statistics and Service Efforts and Accomplishments on which we did not perform any procedures. However, we do not express an opinion on the supplementary information.

We have not applied procedures to the 2007 Supplementary Information for State Compliance Purposes, and accordingly, we do not express an opinion thereon.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, Department management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

E. C. Ortiz & Co., LLP

Chicago, Illinois
January 12, 2010



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the Title III Social Security and Employment Services Fund, Unemployment Compensation Special Administration Fund, and Special Programs Fund (Nonshared Governmental Funds) of the State of Illinois, Department of Employment Security (Department), as of and for the year ended June 30, 2009, and have issued our report thereon dated January 12, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting of the Nonshared Governmental Funds as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting of the Nonshared Governmental Funds that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in finding 09-3 in the accompanying schedule of findings that we consider to be a significant deficiency in internal control over financial reporting. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's Nonshared Governmental Funds financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

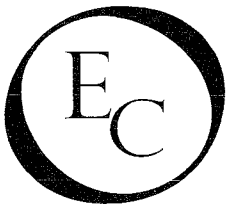
We are currently conducting a State compliance examination of the Department as required by the Illinois State Auditing act. The results of that examination will be reported to management under separate cover.

The Department's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Department's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, Department management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

E. C. Ortiz & Co., LLP

Chicago, Illinois
January 12, 2010



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements the Unemployment Compensation Trust Fund (Nonshared Proprietary Fund) of the State of Illinois, Department of Employment Security (Department), as of and for the year ended June 30, 2009, and have issued our report thereon dated January 12, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting of the Unemployment Compensation Trust Fund as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of finding, we identified certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in finding 09-1 in the accompanying schedule of findings to be a material weakness.

A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in findings 09-1 to 09-3 in the accompanying schedule of findings to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's Unemployment Compensation Trust Fund financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We are currently conducting a State compliance examination of the Department as required by the Illinois State Auditing act. The results of that examination will be reported to management under separate cover.

The Department's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Department's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, Department management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

E. C. Ortiz & Co., LLP

Chicago, Illinois
January 12, 2010

**State of Illinois
Department of Employment Security**

Compliance Report

**Current Findings – *Government Auditing Standards*
For the Two Years Ended June 30, 2009**

09-1 Inaccurate Balance of Cash and Cash Equivalents and Benefit Payments Payable

The Department understated its cash and cash equivalents by \$43 million. The related benefit payments payable was also understated by the same amount.

During our audit, we noted that as of June 30, 2009, the Department recorded a transfer of funds amounting to \$43 million against cash and cash equivalents for benefit payments when the actual transfer was not made until July 1, 2009. This resulted to a corresponding understatement in the Department's benefit payments payable by the same amount. The financial statements and disclosures have been corrected for these adjustments.

Generally accepted accounting principles (GAAP) require that the transfer out of funds be recorded in the period the transaction is initiated. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls.

Department officials stated that the transfer was recorded on June 30, 2009 as it was the intention that the funds be transferred on that day. The Department accommodated the bank's request that the transfer be deferred until the following day.

Incorrect recording of transfers could result in a material misstatement to the financial statements. (Finding Code No. 09-1)

Recommendation

We recommend the Department evaluate its process and improve its controls over recording transactions in the correct fiscal year.

Department Response

We accept the recommendation. A new aspect of end-of-quarter processing, due to FDIC changes was not properly communicated throughout IDES Accounting Services. This change has now been fully incorporated and communicated within IDES Accounting Services.

**State of Illinois
Department of Employment Security**

Compliance Report

**Current Findings – Government Auditing Standards
For the Two Years Ended June 30, 2009**

09-2 Inadequate Controls Over Computer Security

The Department did not properly restrict the use of the Super ID access to its information systems.

The Information Services Bureau (ISB) was responsible for the development and maintenance of the Department's information systems and preserving the integrity and security of information warehoused within those systems. The Department processed approximately \$1.6 billion in employer unemployment tax revenue contributions and \$5 billion of unemployment payments in fiscal year 2009.

Managers of application development had access to the production environment. This access was granted through the use of Super IDs, which allowed full access to all production software and data tables in the production environment. The Department had issued five Super IDs. Four Super IDs were assigned to the Application Manager who supports Human Resources, Finance and the Revenue systems. One Super ID was assigned to the Applications Manger who supports the Benefits system. The managers allowed their staff to utilize these accounts by sharing the password.

During the audit period we found that ISB programmers shared and used Super IDs on a non-emergency basis in the production environment to resolve transactional or application-related problems. In a review of a system-generated log, we found that between December 29, 2008 and April 5, 2009, the Super ID was used 268 times. As a compensating control, the Support Services Division Manager compared the system log to an independent log which documented the use and approval for each instance of access to the production environment. We tested the independent log and found that they were properly completed for all 268 uses of the Super ID noted in the system log during that period.

According to the Department, staffing resources are often not available to follow the normal process for fixing errors, particularly errors occurring when converting benefit transactions from the Benefit Information System to the Benefit Charging System. The use of the Super ID is the expeditious method for ensuring that benefit transactions are processed correctly in BIS. Correcting such errors is critical as benefit charges are a key component of employer tax rate calculations.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal controls and administrative controls. In addition, generally accepted information technology guidance endorses the development of adequate change control procedures to ensure proper segregation of duties. These procedures include restricting programmers from making a change and moving it into the production to ensure all changes have been independently authorized and moved to production.

The frequent use of the Super IDs increased the risk of unauthorized access to systems and data which could jeopardize the integrity of the Department's resources. Programming staff should generally be limited to accessing only the information specifically required to complete their assigned system development projects. Furthermore, Department policy stated that the use of the Super ID should be limited to the resolution of production problems when the Production Control Unit staff is either not scheduled or unavailable. (Finding Code No. 09-2, 08-2)

Recommendation

We recommend the Department allocate the resources necessary to correct day-to-day transactional and applications related information systems problems without compromising the security of those systems by over utilizing Super ID access rights. Further, we recommend that the use of the Super ID be restricted to emergency uses as required by Department policy.

Department Response

We accept the recommendation. The Department will examine the resource implications of implementing the recommendation. Given the record volume of unemployment claimants in the current environment, the Department may occasionally need to use extraordinary measures in order to ensure timely service to claimants. In these cases, the Department will continue to leverage the compensating controls which are in place and currently provide detailed system access logs.

**State of Illinois
Department of Employment Security**

Compliance Report

**Current Findings – *Government Auditing Standards*
For the Two Years Ended June 30, 2009**

09-3 **Untimely Preparation and Review of Monthly Reconciliation Reports**

The Department did not timely prepare and review the monthly reconciliation reports. In addition, reconciling items were not adequately supported and adjusted in the books timely.

During our test of controls, we noted the following monthly reconciliation reports were not prepared timely:

Title III Social Security and Employment Services Fund

- Two (2) Appropriation (SB01) Reports were late ranging from 9 to 24 days late;
- Three (3) Revenue Status (SB04) Reports were late ranging from 2 to 10 days late; and
- Four (4) Cash (SB05) Reports were late ranging from 2 to 22 days late.

Unemployment Compensation Special Administrative Fund

- Two (2) SB01 Reports were late ranging from 4 to 15 days late; and
- Four (4) SB05 Reports were late ranging from 2 to 22 days late.

Special Program Fund

- Five (5) bank reconciliations for Alternative Trade Adjustment Assistance (ATAA) Fund were late ranging from 5 to 62 days late;
- Six (6) bank reconciliations for Trade Readjustment Assistance (TRA) Fund were late ranging from 2 to 64 days late; and
- Five (5) bank reconciliations for Disaster Unemployment Assistance (DUA) Fund were late ranging from 5 to 62 days late.

Unemployment Compensation Trust Fund

- Three (3) bank reconciliations were late ranging from 9 to 19 days.
- Six (6) bank reconciliations were not dated by the preparer.

Also, we noted the following reconciliation reports were not reviewed timely:

Title III Social Security and Employment Services Fund

- Two (2) SB04 Reports were late ranging from 1 to 2 days late; and
- Two (2) SB05 Reports were late ranging from 1 to 2 days late.

Unemployment Compensation Special Administrative Fund

- Two (2) SB05 Reports were late ranging from 1 to 2 days late.

Special Program Fund

- Two (2) bank reconciliations were late ranging from 4 to 34 days for ATAA;
- Two (2) bank reconciliations were late ranging from 4 to 34 days for TRA; and
- Two (2) bank reconciliations were late ranging from 4 to 34 days for DUA.

Unemployment Compensation Trust Fund

- One (1) bank reconciliation was late by 17 days.
- Four (4) bank reconciliations were not dated by the reviewer.

Further, we noted the following in the reconciliation for the Unemployment Compensation Trust Fund:

- Twelve (12) instances where the reconciliation had unadjusted recurring items.
- Twelve (12) instances where the reconciliation was not adequately supported.
- Four (4) instances where the reconciliation was approved with unaccounted differences.

The Department subsequently revised the monthly bank reconciliation for Unemployment Compensation Trust Fund to account, correct and adjust the reconciling items from December 2008 to May 2009.

Sound internal controls require bank reconciliations to be performed promptly. Reconciling items should be investigated and adjustments made to the general ledger on a timely basis.

Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls.

Department practice measures timeliness of preparation and review of monthly reconciliation for Title III Social Security and Employment Services Fund and Unemployment Compensation Special Administrative Fund to be two months after month-end and two months after quarter-end, respectively.

Good business practice measures timeliness of preparation and review of monthly reconciliation for Special Program Fund and Unemployment Compensation Trust Fund to be two months after month-end and three months after month-end, respectively.

Department officials stated that Administrative Funds (052, 055 and 1136) were not always prepared timely due to a staff shortage that existed throughout FY09. The longest delays occurred during GAAP preparation when priority was given to completing the reconciliations for the current fiscal year.

A daily reconciliation is performed of the Trust Fund (1138) bank account information using information from the Benefit Information System, Federal Reserve Bank (FRB) detail transactions and bank statements. The information from the systems was downloaded into the Paradox database program, balances were reviewed for accuracy and exceptions were returned to FRB or the bank responsible for the reconciling items. In addition, as a back-up method, a spreadsheet was created pulling the data from various sources to show the complete month's reconciliation of the ETA 8401 to the bank accounts, previously created in the Paradox program. The daily reconciliations of the bank statements were performed timely and the spreadsheet review of the ETA 8401 to the bank accounts were completed timely; however the back-up reconciliations took longer to finalize. The unadjusted recurring items were the cumulative cleared check discrepancy amounts that were under or over the \$25 FRB threshold. These amounts are carried forward each month until an adjustment is made to the Ledger that will clear the reconciling item.

Failure to prepare and review bank reconciliations timely increases the risk that cash may be misappropriated or financial reports may be misstated and the Department would not detect the loss or errors on a timely basis. (Finding Code 09-3)

Recommendation

We recommend the Department prepare and review the monthly reconciliation reports on a timely basis. This should include the date that the reconciliation reports are prepared and reviewed.

Department Response

We accept the recommendation. As noted above, daily reconciliations were performed timely as were portions of the monthly reconciliations. Improvements to the timeliness of the back-up monthly reconciliations are anticipated as we continue to address the staffing issues that were the primary cause of the delays.

**State of Illinois
Department of Employment Security**

Compliance Report

**Current Findings – State Compliance
For the Two Years Ended June 30, 2009**

09-4 Interagency Agreements Not Executed in a Timely Manner

The Department did not execute its interagency agreements with other State agencies in a timely manner.

During our detailed review of 15 interagency agreements, we noted that 13 of the interagency agreements (87%) had contract terms prior to the completion of an executed agreement. The agreements were signed between 12 and 196 days late.

Good business practices require that a properly signed two party agreement be executed prior to commencement of services for both contracts and interagency agreements.

Department officials stated that the Intergovernmental Agreements for Utilization of Lease Space (IGAs) are based upon local Cost Allocation Plans that are developed each year as a requirement under the Workforce Investment Act (WIA). WIA requires that Memorandum of Understanding (MOUs) be drawn up among partner agencies operating under that law. These MOUs include, among other items, a Cost Allocation Plan that specifies what costs will be borne by each partner in the operations of physical facilities, including costs for space at the Department's offices that serve as physical centers for the WIA program. These MOU Cost Allocation Plans form the basis for the rental amounts drawn up in the IGAs.

Thus, the IGA must be consistent with the Cost Allocation Plans compiled for WIA MOUs. However, since the MOU approval process is subject to the approval of local Workforce Investment Boards created under the WIA, the Department has no control as to when the local MOU and their Cost Allocation Plans are computed. The Department's region manager must know the MOU and Cost Allocation Plans are fully in place before committing to the term of the IGA. Thus, the MOU process causes delay in signing the IGAs.

Failure to execute contracts or interagency agreements in a timely manner could compromise the Department's oversight and public accountability. Significant work could be performed and costs incurred before the public is made aware of the specifics of the contract and may also expose the State to potential liability. (Finding Code No. 09-4, 07-2, 05-8)

Recommendation

We recommend the Department improve its process for timely executing interagency agreements.

Department Response

We accept the recommendation. The Department will work toward improving the process for timely execution of interagency agreements. Discussions with the Department of Commerce and Economic Opportunity (DCEO) on the schedule for next year's agreements are already underway.

**State of Illinois
Department of Employment Security**

Compliance Report

**Current Findings – State Compliance
For the Two Years Ended June 30, 2009**

09-5 Unsupported Claims on Dependent Children

The Department did not obtain required information from claimants regarding dependent children.

During our local office visits, we noted that the Unemployment Insurance Application (page 2) did not provide space for information on the claimant's dependent children's name and birth dates.

Department Rules Subpart B: Applying for Unemployment Insurance Benefits, Section 2720.100, Filing a Claim, Item b (4) requires the claimant to provide the name and birth dates of each dependent child when filing a claim in person and claiming dependent child to the local office.

Department officials stated the claimant certifies that the information provided in the application, including dependents information, is true and correct. In the same statement, the claimant acknowledges that there are penalties involved for making false statements to obtain benefits.

Claimants receive additional allowance for dependent. Failure to obtain the required information resulted in noncompliance with Department Rules. (Finding Code No. 09-5)

Recommendation

We recommend the Department revise the Unemployment Insurance Application (page 2) to provide space for information on the claimant's dependent children's name and birth dates.

Department Response

We accept the recommendation. The Department agrees that it does not obtain the name and date of birth of each of a claimant's dependent children and will resolve the inconsistency between its current process and Department rules in that regard. The current process is designed to limit the payment of the dependent child allowance to claimants who qualify for the allowance. In determining eligibility for any benefits under the Act, the system largely relies on information provided by the claimant, subject to criminal and civil sanctions for falsifying information. The benefit application asks whether the claimant has a child either under the age of 18 or who was unable to work in the last 90 days due to illness or disability, along with other questions relevant to whether the claimant qualifies for the allowance. Before receiving benefits for any period, the claimant must certify as to whether there have been any changes with regard to his or her dependents during that period. If the claimant who previously appeared to qualify for the dependent child allowance - on the basis of the application or a prior certification - indicates there have been any such changes, the Department will interview the claimant to determine whether he or she still qualifies for the allowance.

**State of Illinois
Department of Employment Security**

Compliance Report

**Current Findings – State Compliance
For the Two Years Ended June 30, 2009**

09-6 Untimely Issuance of Eligibility Determination

The Department did not issue eligibility determinations within the prescribed timeframe.

During our testing, we noted the Department untimely issued eligibility determinations for 15 of 60 cases (25%). The eligibility determinations were issued 1 to 38 days after the end of the 21-day prescribed timeframe. However, none of these cases resulted in an overpayment of unemployment insurance.

20 Code of Federal Regulation Part 640.3 requires that a State law include provisions for such methods of administration as will reasonably insure the full payment of unemployment benefits for eligible claimants with the greatest promptness that is administratively feasible.

Unemployment Insurance Program Letter No. 14-05 issued by the Employment and Training Administration (ETA) Advisory System of the U. S. Department of Labor states that non-monetary determinations made within 21 days of issue-detection date are considered timely, and ETA considers a state's performance to be acceptable if 80 percent of all non-monetary determinations are completed within 21 days.

Department officials stated that untimely eligibility determinations were caused by a combination of increased workload and additional time provided to the claimant to respond to their inquiries and follow-up.

Failure to issue eligibility determinations within prescribed timeframes could result in improper payment or withholding of unemployment compensation. (Finding Code No. 09-6)

Recommendation

We recommend the Department implement procedures to ensure all eligibility determinations are made within the prescribed timeframes.

Department Response

We accept the recommendation. Although we have implemented several corrective action plans, the Department has been unable to meet the Acceptable Level of Performance required for timely adjudication cases, which is 80 percent of the determinations issued within 21 days of the issue detection date. An overwhelming increase in workload is largely responsible for the backlog, which in turn creates late determinations. The Department continues to monitor the backlog on a weekly basis. In addition, we have used a statewide task force to address the backlog; we have hired over 200 new staff since October 2008; and we are process mapping the adjudication workflow to determine a more efficient process. We are piloting a process to cluster adjudication into Hubs for each region. Currently, staff complete interviews in the new benefit system (IBIS) and then must enter the final result in the mainframe system (BIS). When IBIS is fully implemented, the time-consuming double entry will be eliminated, which should positively impact timeliness. Although the Department's practice is to issue determinations based on the oldest first, the performance could drop as the backlog is eliminated. The backlog should be eliminated before IBIS implementation.

**State of Illinois
Department of Employment Security**

Compliance Report

**Current Findings – State Compliance
For the Two Years Ended June 30, 2009**

09-7 Performance Evaluation Not Completed Timely

The Department did not complete performance evaluations timely.

During our examination of 60 personnel files, we noted 15 employees (25%) whose performance evaluations were completed untimely. The evaluations were completed from 15 to 204 days late.

In addition, we noted five employees that did not have a current performance evaluation on file.

80 Illinois Administrative Code 302.260 requires that “Performance records shall constitute any material in an employee’s personnel file which, in the judgment of the Director, is relevant to determining the appropriateness of proposed or recommended personnel transactions.”

80 Illinois Administrative Code 302.270 requires that “For any employee serving a six month probationary period, the agency shall prepare and submit to the Department two such evaluations, one at the end of the third month of the employee’s probationary period and another 15 days before the conclusion thereof. For an employee serving a four-month probationary period, the agency shall prepare and submit to the Department an evaluation form three and one half months after the commencement of the probationary period. For a certified employee, each agency shall prepare such evaluation not less than annually.”

Department officials stated that the delays were due to the delays of the managers/ supervisors responsible for preparing the evaluations, which have increased dramatically in FY09 due to high unemployment and the number of Unemployment Insurance extensions that have occurred.

Failure to observe the required process in completing performance evaluation resulted in noncompliance with Illinois Administrative Code on Personnel Rules. (Finding Code No. 09-7, 07-3, 05-5, 03-2)

Recommendation

We recommend the Department ensure the timely completion and submission of employee performance evaluation and assign responsibility for its monitoring for compliance with the applicable law.

Department Response

We accept the recommendation. The Department has assigned responsibility for monitoring performance evaluations to the Manager of the Transactions and Benefits Unit who sends supervisors monthly a list of evaluations that are past due along with a list of evaluations that will be due in the coming month. In addition, the Deputy Director takes an active role in directing leadership to ensure performance evaluations are completed timely.

**State of Illinois
Department of Employment Security**

Compliance Report

**Prior Findings Not Repeated
For the Two Years Ended June 30, 2009**

A. Inaccurate Balance of Allowance for Uncollectible Accounts

The Department overstated its allowance for uncollectible taxes receivable by \$24.2 million. The methodology utilized by the Department to calculate its allowance for uncollectible taxes, penalties, and interest receivable did not correlate with its known history of collecting these types of receivables. (Finding Code No. 08-1)

Status: Implemented

The current period sample testing did not disclose the same exception.

B. Employee Failed to Properly Record Time and Performed Services for Another Agency

The Department had an employee who failed to properly record time worked for the Department and who performed services for another agency. (Finding Code No. 07-4)

Status: Implemented

The current period sample testing did not disclose the same exception.

State of Illinois
Department of Employment Security

Supplementary Information for State Compliance Purposes

Summary

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:
 - Schedule of Expenditures of Federal Awards
 - Notes to the Schedules of Expenditures of Federal Awards
 - Schedule of Appropriations, Expenditures, and Lapsed Balances
 - Notes to Schedules of Appropriations, Expenditures, and Lapsed Balances
 - Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances
 - Schedule of Changes in State Property
 - Comparative Schedule of Cash Receipts
 - Reconciliation Schedules of Cash Receipts to Deposits Remitted to the State Comptroller
 - Analysis of Significant Variations in Expenditures
 - Analysis of Significant Variations in Receipts
 - Analysis of Significant Lapse Period Spending
 - Analysis of Significant Account Balances
 - Analysis of Accounts Receivable
 - Cash Basis Schedules – Locally Held Special Programs Fund

- Analysis of Operations:
 - Agency Functions and Planning Program
 - Average Number of Employees
 - Annual Cost Statistics (Not Examined)
 - Emergency Purchases
 - Service Efforts and Accomplishments (Not Examined)

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states the auditors have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General, except for information on the Annual Cost Statistics and Service Efforts and Accomplishments on which they did not perform any procedures. However, the accountants do not express an opinion on the supplementary information.

State of Illinois
Department of Employment Security

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009
(Expressed in Thousands)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U. S. Department of Labor Programs:		
Unemployment Insurance, Trust		
Unemployment Insurance Trust	17.225	\$ 3,509,059
Temporary Extended Unemployment Compensation,	17.225	(1,061)
Extended Benefits	17.225	79,738
Emergency Unemployment Compensation (FUTA)	17.225	1,052,098
ARRA Emergency Unemployment compensation (GRF)	17.225	152,862
ARRA Federal Additional Unemployment Compensation	17.225	172,530
Unemployment Insurance, Administrative		
Unemployment insurance	17.225	148,664
Emergency Unemployment Compensation	17.225	2,771
ARRA Emergency Unemployment Compensation	17.225	5,359
ARRA Federal Additional Unemployment Compensation	17.225	51
Stimulus REED Act	17.225	3,188
Federal Employment Compensation Act (FECA):		
Unemployment Compensation for Ex-Military Employees (UCX)	17.225	19,761
Unemployment Compensation for Ex-Federal Employees (UCFE)	17.225	12,007
Trade Readjustment Act (TRA):		
Trade Adjustment Activities (TAA)	17.225	5,609
Alternative Trade Adjustment Act (ATAA)	17.225	575
Disaster Unemployment Act		
Disaster Unemployment Benefits	17.225	210
Disaster Unemployment Administrative	17.225	29
Total Unemployment Insurance		<u>5,163,450</u>
Workforce Investment Act (WIA):		
Adult Program	17.258	68
Youth Program	17.259	74
Dislocated Workers	17.260	83
Total Workforce Investment Act (WIA)		<u>225</u>
Employment Services:		
Wagner Peysor	17.207	22,008
One Stop Service-Labor Market Information	17.207	52
Workforce Info Core	17.207	897
Total Employment Services		<u>22,957</u>

See Notes to Schedule of Expenditures of Federal Awards.

State of Illinois
Department of Employment Security

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009
(Expressed in Thousands)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Labor Programs, continued:		
Veterans Programs:		
Disabled Veterans Outreach Program (DVOP)	17.801	\$ 2,786
Local Veteran Employment Representative (LVER)	17.804	2,753
Total Veterans Program		<u>5,539</u>
 Bureau of Labor Statistics	 17.002	 <u>2,707</u>
 Work Opportunities Tax Credit	 17.271	 <u>850</u>
 Temporary Labor Certifications for Foreign Workers	 17.273	 <u>391</u>
 Total U.S. Department of Labor		 <u>5,196,119</u>
 U.S. Department of Education		
Voc. Ed-Perkins Title IIA Leadership	84.048	20
Pass-Through from the Illinois State Board of Education		
Voc. Ed - Perkins Title IIA Leadership	84.048A	<u>168</u>
		<u>188</u>
 Total Expenditures of Federal Awards		 <u>\$ 5,196,307</u>

See Notes to Schedule of Expenditures of Federal Awards.

State of Illinois
Department of Employment Security

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008
(Expressed in Thousands)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U. S. Department of Labor Programs:		
Unemployment Insurance:		
Unemployment Insurance Trust	17.225	\$ 1,982,464
Temporary Extended Unemployment Compensation, Trust	17.225	(1,199)
Unemployment Insurance Administration	17.225	134,309
Federal Employment Compensation Act (FECA):		
Unemployment Compensation for Ex-Military Employees (UCX)	17.225	17,832
Unemployment Compensation for Ex-Federal Employees (UCFE)	17.225	10,109
Trade Readjustment Act (TRA):		
Trade Adjustment Activities (TAA)	17.225	39,381
Alternative Trade Adjustment Act (ATAA)	17.225	810
Disaster Unemployment Act		
Disaster Unemployment, Benefit	17.225	11
Disaster Unemployment, Administration	17.225	1
Total Unemployment Insurance		<u>2,183,718</u>
Workforce Investment Act (WIA):		
Pass-Through from the Illinois Department of Commerce and Economic Opportunity		
Adult Program	17.258	72
Youth Program	17.259	80
Dislocated Workers	17.260	98
Incentive Grants	12.267	26
Total Workforce Investment Act (WIA)		<u>276</u>
Employment Services:		
Wagner Peyser	17.207	28,957
One Stop Service-Labor Market Information	17.207	1,059
Reemployment Services	17.207	389
Total Employment Services		<u>30,405</u>

See Notes to Schedule of Expenditures of Federal Awards.

State of Illinois
Department of Employment Security

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008
(Expressed in Thousands)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Labor Programs, continued:		
Veterans Programs:		
Disabled Veterans Outreach Program (DVOP)	17.801	\$ 2,912
Local Veteran Employment Representative (LVER)	17.804	3,369
Total Veterans Program		<u>6,281</u>
 Bureau of Labor Statistics	 17.002	 <u>2,619</u>
 Work Opportunities Tax Credits	 17.271	 <u>1,242</u>
 Temporary Labor Certification for Foreign Workers	 17.273	 <u>144</u>
 Total U.S. Department of Labor		 <u>2,224,685</u>
U.S. Department of Education		
Pass-Through from the Illinois State Board of Education		
Voc. Ed - Perkins Title IIA Leadership	84.048A	<u>128</u>
 Total U.S. Department of Education		 <u>128</u>
 Total Expenditures of Federal Awards		 <u>\$ 2,224,813</u>

See Notes to Schedule of Expenditures of Federal Awards.

State of Illinois
Department of Employment Security

Notes to the Schedules of Expenditures of Federal Awards
For the Years Ended June 30, 2009 and 2008
(Expressed in Thousands)

Organization and Grant Administration

The State of Illinois, Department of Employment Security (Department) is a part of the executive branch of government of the State of Illinois.

The Department has been designated as the primary recipient for the federal programs for which it receives federal awards. The major responsibilities of the Department as a primary recipient are to ensure that all planning, public participation, reporting and auditing requirements associated with the federal awards programs are met and that all available federal awards are received and expended in accordance with the requirements of the related grant or contract.

The schedules of expenditures of federal awards present the activity of all federal financial assistance programs of the Department.

Significant Accounting Policies

Reporting Entity

The schedule of expenditures of federal awards presents all programs in which expenditures were made and/or claimed by the Department. The Department is an integral part of the State of Illinois, the reporting entity.

Basis of Accounting

The schedules of expenditures of federal awards are presented on the modified accrual basis of accounting with the exception of Unemployment Insurance Trust Accounts and Federal Employment Compensation Act (FECA) accounts, which are reported on a full accrual.

Relationships to Federal Financial Reports

Amounts reported in the schedules of expenditures of federal awards reconcile with amounts reported in the related federal financial reports.

**State of Illinois
Department of Employment Security**

Schedule of Appropriations, Expenditures, and Lapsed Balances

**Appropriations for Fiscal Year 2009
Fourteen Months Ended August 31, 2009**

	Final Appropriations (Note 1)	Expenditures through June 30	Lapse Period Expenditures 7/1/09- 8/31/09	Total Expenditures	Balances Lapsed
APPROPRIATED FUNDS:					
TITLE III - SOCIAL SECURITY AND EMPLOYMENT SERVICES FUND - 052					
Central Administration	\$ 11,796,400	\$ 9,979,885	\$ 584,065	\$ 10,563,950	\$ 1,232,450
Finance and Administration	89,529,600	65,920,810	13,633,027	79,553,837	9,975,763
Workforce Development	156,785,900	121,876,591	9,015,050	130,891,641	25,894,259
Trust Fund Unit	1,734,300	29,299	11,705	41,004	1,693,296
Federal Stimulus-ARRA	4,953,000	-	-	-	4,953,000
Total	<u>264,799,200</u>	<u>197,806,585</u>	<u>23,243,847</u>	<u>221,050,432</u>	<u>43,748,768</u>
UNEMPLOYMENT COMPENSATION - SPECIAL ADMINISTRATION ACCOUNT FUND - 055					
Workforce Development	14,100,000	13,424,213	47,445	13,471,658	628,342
GENERAL REVENUE FUND - 001					
Trust Fund Unit	14,242,700	12,293,996	1,948,704	14,242,700	-
ROAD FUND - 011					
	1,900,000	1,900,000	-	1,900,000	-
NON-DEPARTMENT FUND:					
IMSA INCOME FUND - 768	16,700	-	2,082	2,082	14,618
TOTAL APPROPRIATED FUNDS	<u>\$ 295,058,600</u>	<u>225,424,794</u>	<u>25,242,078</u>	<u>250,666,872</u>	<u>\$44,391,728</u>
NON-APPROPRIATED FUND:					
UNEMPLOYMENT COMPENSATION - SPECIAL ADMINISTRATION ACCOUNT FUND - 055					
		2,106,578	58,313	2,164,891	
TOTAL NON-APPROPRIATED FUND		<u>2,106,578</u>	<u>58,313</u>	<u>2,164,891</u>	
GRAND TOTAL - ALL FUNDS		<u>\$ 227,531,372</u>	<u>\$25,300,391</u>	<u>\$ 252,831,763</u>	

**State of Illinois
Department of Employment Security**

Schedule of Appropriations, Expenditures, and Lapsed Balances

**Appropriations for Fiscal Year 2008
Fourteen Months Ended August 31, 2008**

	Final Appropriations (Note 2)	Expenditures through June 30	Lapse Period Expenditures 7/1/08- 8/31/08	Total Expenditures	Balances Lapsed
APPROPRIATED FUNDS:					
TITLE III - SOCIAL SECURITY AND EMPLOYMENT SERVICES FUND - 052					
Central Administration	\$ 10,957,164	\$ 9,049,219	\$ 491,317	\$ 9,540,536	\$ 1,416,628
Finance and Administration	88,429,390	63,023,139	6,542,247	69,565,386	18,864,004
Workforce Development	158,581,528	106,130,805	5,525,866	111,656,671	46,924,857
Trust Fund Unit	1,734,300	157,152	21,448	178,600	1,555,700
Total	<u>259,702,382</u>	<u>178,360,315</u>	<u>12,580,878</u>	<u>190,941,193</u>	<u>68,761,189</u>
UNEMPLOYMENT COMPENSATION - SPECIAL ADMINISTRATION ACCOUNT FUND - 055					
Workforce Development	12,100,000	11,320,629	127,580	11,448,209	651,791
GENERAL REVENUE FUND - 001					
Frontline Staff	128,200	-	-	-	128,200
Trust Fund Unit	14,992,300	9,193,481	4,277,553	13,471,034	1,521,266
Total	<u>15,120,500</u>	<u>9,193,481</u>	<u>4,277,553</u>	<u>13,471,034</u>	<u>1,649,466</u>
ROAD FUND - 011					
Trust Fund Unit	1,900,000	1,553,692	346,308	1,900,000	-
NON-DEPARTMENT FUND:					
IMSA INCOME FUND - 768	16,700	-	-	-	16,700
TOTAL APPROPRIATED FUNDS	<u>\$ 288,839,582</u>	<u>200,428,117</u>	<u>17,332,319</u>	<u>217,760,436</u>	<u>\$ 71,079,146</u>
NON-APPROPRIATED FUND:					
UNEMPLOYMENT COMPENSATION - SPECIAL ADMINISTRATION ACCOUNT FUND - 055					
		2,192,078	144,774	2,336,852	
TOTAL NON-APPROPRIATED FUND		<u>2,192,078</u>	<u>144,774</u>	<u>2,336,852</u>	
GRAND TOTAL - ALL FUNDS		<u>\$ 202,620,195</u>	<u>\$ 17,477,093</u>	<u>\$ 220,097,288</u>	

State of Illinois
Department of Employment Security

Notes to Schedules of Appropriations, Expenditures, and Lapsed Balances

1. Appropriation Authorization, Fiscal Year 2009

Appropriation amounts were authorized by Public Act 095-0731, as approved by the Governor on July 9, 2008, pursuant to Article IV, Section 9(d) of the Illinois Constitution of 1970. Pursuant to Section 13.2 of the State Finance Act, the sum of transfers among line item appropriations shall not exceed 2% of the aggregate appropriation. Based on the Office of the Comptrollers records, the Department's appropriated transfers totaling \$1.25 million did not exceed this 2% ceiling.

2. Appropriation Authorization, Fiscal Year 2008

Appropriation amounts were authorized by Public Act 095-0348 as approved by the Governor on October 17, 2007, pursuant to Article IV, Section 9(d) of the Illinois Constitution of 1970. Pursuant to Section 13.2 of the State Finance Act, the sum of transfers among line item appropriations shall not exceed 2% of the aggregate appropriation. Based on the Office of the Comptrollers records, the Department did not have any appropriation transfers

3. Basis of Accounting

Data contained in these schedules have been taken directly from the records of the State Comptroller.

The Comptroller's Statewide Accounting Management System (SAMS) controls expenditures by line item as established in approved appropriation bills. Budgets are essentially on the cash basis, modified for expenditures during the lapse period.

4. Non-Department Funds

Funds under this title are not controlled by the Department. However, state appropriation laws pertaining to these funds give the Department authority to appropriate monies for unemployment benefits claimed by employees of these funds.

State of Illinois
Department of Employment Security

Notes to Schedules of Appropriations, Expenditures, and Lapsed Balances, Continued

5. Director and Board of Review Salaries Paid from Title III – Social Security and Employment Services Fund

The Department directly pays its Director and Board of Review from the Title III – Social Security and Employment Services Fund appropriations. The appropriations and expenditures are as follows for the fiscal year ended June 30:

	Director	Board of Review	Total
2009			
Appropriation	\$ 142,339	\$ 75,000	\$ 217,339
Expenditures	142,339	75,000	217,339
Lapse	\$ -	\$ -	\$ -
2008			
Appropriation	\$ 137,200	\$ 75,000	\$ 212,200
Expenditures	128,730	75,000	203,730
Lapse	\$ 8,470	\$ -	\$ 8,470
2007			
Appropriation	\$ 129,000	\$ 75,000	\$ 204,000
Expenditures	125,936	65,376	191,312
Lapse	\$ 3,064	\$ 9,624	\$ 12,688

State of Illinois
Department of Employment Security

**Comparative Schedule of Net Appropriations, Expenditures,
and Lapsed Balances**
For the Years Ended June 30, 2009, 2008, and 2007

	Year ended June 30		
	2009	2008	2007
	PA095-0731	PA095-0348	PA094-0798
CENTRAL ADMINISTRATION			
Title III - Social Security and Employment Services Fund:			
Appropriations (net of transfers)	\$ 11,796,400	\$ 10,957,164	\$ 10,596,000
Expenditures:			
Personal services	6,936,695	6,349,791	5,937,733
Contribution to State Employee's Retirement System	1,454,943	1,051,745	684,451
Contribution to Social Security	504,990	469,213	440,164
Contributions to group insurance	1,271,368	1,246,937	1,121,318
Contractual services	265,265	261,406	301,319
Travel	52,716	85,161	65,609
Telecommunications services	77,973	76,283	128,714
Total Expenditures	10,563,950	9,540,536	8,679,308
Lapsed Balances	\$ 1,232,450	\$ 1,416,628	\$ 1,916,692
FINANCE AND ADMINISTRATION			
Title III - Social Security and Employment Services Fund:			
Appropriations (net of transfers)	\$ 89,529,600	\$ 88,429,390	\$ 87,849,700
Expenditures:			
Personal services	17,585,052	17,320,763	16,461,089
Contribution to State Employee's Retirement System	3,700,725	2,869,048	1,898,082
Contribution to Social Security	1,295,262	1,274,384	1,214,137
Contribution to group insurance	3,480,711	3,531,270	3,387,205
Contractual services	48,547,357	40,288,378	36,781,669
Travel	61,897	75,259	81,346
Commodities	1,093,022	910,802	968,166
Printing	1,859,536	1,383,498	1,474,134
Equipment	75,318	105,541	624,730
Telecommunications services	1,646,901	1,531,670	1,563,850
Operation of automotive equipment	59,536	79,417	76,867
America's Labor Market Information System	148,520	195,356	242,074
Total Expenditures	79,553,837	69,565,386	64,773,349
Lapsed Balances	\$ 9,975,763	\$ 18,864,004	\$ 23,076,351

State of Illinois
Department of Employment Security

**Comparative Schedule of Net Appropriations, Expenditures,
and Lapsed Balances, Continued**
For the Years Ended June 30, 2009, 2008, and 2007

	Year ended June 30		
	2009 PA095-0731	2008 PA095-0348	2007 PA094-0798
WORKFORCE DEVELOPMENT			
Title III - Social Security and Employment Services Fund:			
Appropriations (net of transfers)	\$ 156,785,900	\$ 158,581,528	\$ 155,337,100
Expenditures:			
Personal services	78,475,551	69,881,602	68,543,997
Contribution to State Employee's Retirement System	16,515,954	11,567,767	7,897,151
Contribution to Social Security	5,777,041	5,135,605	5,031,326
Contributions to group insurance	16,601,866	15,961,669	15,814,597
Contractual services	836,877	602,665	1,022,255
Travel	616,804	945,436	1,028,513
Telecommunications services	4,521,364	3,560,450	3,247,347
Employment Security Automation	343,840	244,889	207,270
Benefit information System	7,199,468	3,744,053	4,708,338
Awards and Grants	2,876	5,415	4,167
Tort Claims	-	7,120	714,696
Refunds	-	-	4,751
Total Expenditures	130,891,641	111,656,671	108,224,408
Lapsed Balances	\$ 25,894,259	\$ 46,924,857	\$ 47,112,692
Unemployment Compensation Special Administration Account Fund:			
Appropriations (net of transfers)	\$ 14,100,000	\$ 12,100,000	\$ 12,100,000
Expenditures:			
Legal assistance required by law	1,471,658	1,448,209	1,398,970
For deposit into Title III Social Security and Employment Services Fund	12,000,000	10,000,000	10,000,000
Total Expenditures	13,471,658	11,448,209	11,398,970
Lapsed Balances	\$ 628,342	\$ 651,791	\$ 701,030
TOTAL WORKFORCE DEVELOPMENT			
Appropriations (net of transfers)	\$ 170,885,900	\$ 170,681,528	\$ 167,437,100
Expenditures:	144,363,299	123,104,880	119,623,378
Lapsed Balances	\$ 26,522,601	\$ 47,576,648	\$ 47,813,722
TRUST FUND UNIT			
General Revenue Fund:			
Appropriations (net of transfers)	\$ 14,242,700	\$ 15,120,500	\$ 15,298,300
Expenditures:			
Unemployment Compensation benefits to former State employees	14,242,700	13,471,034	13,571,567
Lapsed Balances	\$ -	\$ 1,649,466	\$ 1,726,733

**State of Illinois
Department of Employment Security**

**Comparative Schedule of Net Appropriations, Expenditures,
and Lapsed Balances, Continued
For the Years Ended June 30, 2009, 2008, and 2007**

	Year ended June 30		
	2009	2008	2007
	PA095-0731	PA095-0348	PA094-0798
TRUST FUND UNIT, continued			
Road Fund:			
Appropriations (net of transfers)	\$ 1,900,000	\$ 1,900,000	\$ 1,900,000
Expenditures:			
Unemployment Compensation benefits to Department of Transportation employees	1,900,000	1,900,000	1,900,000
Lapsed Balances	\$ -	\$ -	\$ -
Title III - Social Security and Employment Services Fund:			
Appropriations (net of transfers)	\$ 1,734,300	\$ 1,734,300	\$ 1,734,300
Expenditures:			
Unemployment Compensation benefits to former State employees	41,004	178,600	216,285
Lapsed Balances	\$ 1,693,296	\$ 1,555,700	\$ 1,518,015
IMSA Income Fund:			
Appropriations (net of transfers)	\$ 16,700	\$ 16,700	\$ 16,700
Expenditures:			
Unemployment Compensation benefits to former State employees	2,082	-	16,700
Lapsed Balances	\$ 14,618	\$ 16,700	\$ -
TOTAL TRUST FUND UNIT			
Appropriations (net of transfers)	\$ 17,893,700	\$ 18,771,500	\$ 18,949,300
Expenditures	16,185,786	15,549,634	15,704,552
Lapsed Balances	\$ 1,707,914	\$ 3,221,866	\$ 3,244,748
FEDERAL STIMULUS-ARRA FED TITLE III Approp			
Appropriations (net of transfers)	\$ 4,953,000	\$ -	\$ -
Expenditures	-	-	-
Lapsed Balances	\$ 4,953,000	\$ -	\$ -
GRAND TOTALS - ALL DIVISIONS			
Appropriations (net of transfers)	\$ 295,058,600	\$ 288,839,582	\$ 284,832,100
Expenditures	250,666,872	217,760,436	208,780,587
Lapsed Balances	\$ 44,391,728	\$ 71,079,146	\$ 76,051,513
SUMMARY BY FUND - Expenditures			
General Revenue Fund	\$ 14,242,700	\$ 13,471,034	\$ 13,571,567
Title III - Social Security and Employment Services Fund	221,050,432	190,941,193	181,893,350
Unemployment Compensation Special Administration Fund	13,471,658	11,448,209	11,398,970
Road Fund	1,900,000	1,900,000	1,900,000
IMSA Income Fund	2,082	-	16,700
Total Expenditures	\$ 250,666,872	\$ 217,760,436	\$ 208,780,587

**State of Illinois
Department of Employment Security**

**Comparative Schedule of Net Appropriations, Expenditures,
and Lapsed Balances - All Funds
For the Years Ended June 30, 2009, 2008, and 2007**

	Year ended June 30		
	2009	2008	2007
	PA095-0731	PA095-0348	PA094-0798
Appropriations (net of transfers)	\$ 295,058,600	\$ 288,839,582	\$ 284,832,100
Expenditures:			
Personal services	102,997,298	93,552,156	90,942,819
Contribution to State Employee's Retirement System	21,671,622	15,488,560	10,479,684
Contribution to Social Security	7,577,293	6,879,202	6,685,627
Contributions to group insurance	21,353,945	20,739,876	20,323,120
Contractual services	49,649,499	41,152,449	38,105,243
Travel	731,417	1,105,856	1,175,468
Commodities	1,093,022	910,802	968,166
Printing	1,859,536	1,383,498	1,474,134
Equipment	75,318	105,541	624,730
Telecommunications services	6,246,238	5,168,403	4,939,911
Legal assistance required by law	1,471,658	1,448,209	1,398,970
For deposit into Title III Social Security and Employment Services Fund	12,000,000	10,000,000	10,000,000
Unemployment Compensation benefits to former State employees	16,185,786	15,549,634	15,704,552
America's Labor Market Information System	148,520	195,356	242,074
Employment security automation	343,840	244,889	207,270
Benefit information system redefinition	7,199,468	3,744,053	4,708,338
Operation of automotive equipment	59,536	79,417	76,867
Awards and grants	2,876	5,415	4,167
Tort claims	-	7,120	714,696
Refunds	-	-	4,751
Total Expenditures	250,666,872	217,760,436	208,780,587
Lapsed Balances	\$ 44,391,728	\$ 71,079,146	\$ 76,051,513

State of Illinois
Department of Employment Security

Schedule of Changes in State Property
For the Two Years Ended June 30, 2009

	Year Ended June 30, 2009				
	Balance July 1, 2008	Additions	Deletions	Net Transfers	Balance June 30, 2009
Equipment	\$24,828,177	\$ 145,475	\$ 1,446	\$ (1,058,815)	\$ 23,913,391

	Year Ended June 30, 2008				
	Balance July 1, 2007	Additions	Deletions	Net Transfers	Balance June 30, 2008
Equipment	\$26,286,083	\$ 110,809	\$ 130,257	\$ (1,438,458)	\$ 24,828,177

Note: Additions and deletions were reconciled to property reports submitted to the Office of the Comptroller by the Department

**State of Illinois
Department of Employment Security**

**Comparative Schedule of Cash Receipts
For the Years Ended June 30, 2009, 2008 and 2007**

<u>Descriptions of Receipts</u>	<u>Year ended June 30</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
TITLE III - SOCIAL SECURITY AND EMPLOYMENT SERVICES FUND - 052			
U. S. Department of Labor	\$ 185,136,068	\$ 171,621,803	\$ 160,804,536
U. S. Department of Education	-	-	23,455
Federal Stimulus Package	3,187,913	-	-
Fund Transfers - Unemployment Compensation			
Special Adm. Fund	12,000,000	20,000,000	10,000,000
Miscellaneous	740,836	1,182,065	1,272,680
Illinois State Board of Education	173,631	130,929	135,630
Health Care and Family Services	4,884	4,884	4,884
Other States	90,000	-	80,000
Fines, Penalties or Violations	17,898	10,961	13,744
User Fees	300	8,295	600
Conference Fees	-	-	1,625
Returned Petty Cash Fund	300	500	-
Subscriptions and Publications	720	1,015	2,215
One Stop Participants	586,488	699,318	757,112
Reimbursement/Jury Duty & Recoveries	2,692	2,602	3,131
General Revenue Fund	40,000	40,000	25,000
Copy Fees	4,285	7,451	6,864
Shared Data Access Fees	2,220	2,193	2,779
Labor Market Information	16,375	1,155	21,325
Commerce & Economic Opportunity	244,110	204,723	469,251
Investment Income Repurchase Agreements	172,151	600,514	978,094
Prior Year Refunds and Voids	6,467	3,504	3,705
Total Fund (052)	<u>\$ 202,427,338</u>	<u>\$ 194,521,912</u>	<u>\$ 174,606,630</u>
UNEMPLOYMENT COMPENSATION SPECIAL ADMINISTRATION FUND - 055			
Payroll Tax Penalties	\$ 13,841,336	\$ 13,220,617	\$ 15,505,007
Unemployment Insurance	1,717,981	1,908,853	2,040,069
Judgment Interest/UI Claim	158,675	129,682	239,903
IPTIP UC Special Administration	84,651	518,691	803,094
Total Fund (055)	<u>\$ 15,802,643</u>	<u>\$ 15,777,843</u>	<u>\$ 18,588,073</u>

**State of Illinois
Department of Employment Security**

**Reconciliation Schedule of Cash Receipts to Deposits
Remitted to the State Comptroller
For the Two Years Ended June 30, 2009**

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Title III - Social Security and Employment Service Fund (052)		
Cash receipts per Department	\$ 202,427,338	\$ 194,521,912
Add: Deposits in transit* at July 1, 2008	-	-
Less: Deposits in transit* at June 30, 2009	-	-
Less: Investment income	172,151	600,514
	<u>202,255,187</u>	<u>193,921,398</u>
Deposits remitted to the State Comptroller	<u>\$ 202,255,187</u>	<u>\$ 193,921,398</u>
Unemployment Compensation Special Administration Fund (055)		
Cash receipts per Treasurer's Office	\$ 15,802,643	\$ 15,777,843
Add: Deposits in transit at July 1, 2007	-	-
Less: Deposits in transit at June 30, 2008	-	-
Less: Investment income	-	-
	<u>15,802,643</u>	<u>15,777,843</u>
Deposits remitted to the State Comptroller	<u>\$ 15,802,643</u>	<u>\$ 15,777,843</u>

* To avoid deposits in transit, monies are requested from the Federal government a week before the end of the period.

**State of Illinois
Department of Employment Security**

**Analysis of Significant Variations in Expenditures
(Expressed in Thousands)**

The variations presented below were obtained from amounts presented in the Schedules of Appropriations, Expenditures and Lapsed Balances, except for the Unemployment Compensation Trust Fund information, which was obtained from the Individual Non-Shared Proprietary Fund Financial Statements.

Variations totaling over \$1,000 and 15% were considered significant.

Title III – Social Security and Employment Services Fund

	<u>2009</u>	<u>2008</u>	Increase (Decrease)	
			<u>Amount</u>	<u>%</u>
Expenditures	\$221,050	\$190,941	\$30,109	15.77

The increase in expenditures was due to an increase in Payroll & Benefits, Postage and Management Services paid.

Unemployment Compensation Special Administration Fund

	<u>2009</u>	<u>2008</u>	Increase (Decrease)	
			<u>Amount</u>	<u>%</u>
Expenditures	\$13,472	\$11,448	\$2,024	17.67

The increase in expenditures was due to an increase in interfund cash transfers.

Unemployment Compensation Trust Fund

	<u>2009</u>	<u>2008</u>	Increase (Decrease)	
			<u>Amount</u>	<u>%</u>
Expenditures	\$5,086	\$1,991	\$3,095	155.45%

The increase in expenditures was due to an increase in the number of claims paid and various Federal stimulus plans implemented in SFY 2009.

**State of Illinois
Department of Employment Security**

**Analysis of Significant Variations in Receipts
(Expressed in Thousands)**

The variations presented below were obtained from amounts presented in the Comparative Schedule of Cash Receipts for fiscal years 2009, 2008 and 2007, except for the Unemployment Compensation Trust Fund information, which was obtained from the Individual Non-Shared Proprietary Fund Financial Statements.

Variations totaling over \$1,000 and 15% were considered significant.

Unemployment Compensation Special Administration Fund

	<u>2008</u>	<u>2007</u>	Increase (Decrease)	
			<u>Amount</u>	<u>%</u>
Revenues	\$15,778	\$18,588	(\$2,810)	(15.12)

The decrease in revenues was due to a decrease in payroll tax penalties and unemployment insurance.

Unemployment Compensation Trust Fund

	<u>2009</u>	<u>2008</u>	Increase (Decrease)	
			<u>Amount</u>	<u>%</u>
Revenues	\$3,245,574	\$1,998,139	\$1,247,435	62.43

The increase in revenues was due to an increase in federal grants.

	<u>2008</u>	<u>2007</u>	Increase (Decrease)	
			<u>Amount</u>	<u>%</u>
Revenues	\$1,998,139	\$2,359,807	(\$361,668)	(15.33)

The decrease in revenues was due to a decrease in unemployment insurance taxes.

**State of Illinois
Department of Employment Security**

Analysis of Significant Lapse Period Spending

Lapse period spending totaling 20% or more of total expenditures were considered significant.

July 1, 2009 to August 31, 2009

There were no significant lapse period spending in fiscal year 2009.

July 1, 2008 to August 31, 2008

General Revenue Fund

During fiscal year 2008, \$13.5 million benefit was paid to former State employees. Out of this amount, \$4.0 million was paid during lapsed period.

State of Illinois
Department of Employment Security

Analysis of Significant Account Balances

A. Nonshared Governmental Funds

Title III - Social Security and Employment Services Fund

There was a \$9.0 million (71%) decrease in “Cash and Cash Equivalents” account from fiscal year 2008 to 2009 due to timing of funding drawn from the Federal government and also due to increase in expenditure paid at June 30, 2009.

There was a \$12.4 million (75%) increase in the “Intergovernmental Receivables” account from fiscal year 2008 to 2009 due to timing of funding drawn from the Federal government and also due to increase in expenditure paid at June 30, 2009.

There was a \$5.4 million (49%) increase in the “Intergovernmental Receivables” account from fiscal year 2007 to 2008 due to timely draw of funding to cover reimbursable expenses from the federal government during fiscal year 2008.

“Due from Other State Funds” account increased by \$18.3 million (20,326%) due to receipt of Stimulus Reed Act from fiscal year 2008 to 2009 granted by the federal government and was deposited under the Unemployment Trust Fund, Treasury Account.

There was a \$3.4 million (55%) increase in the “Accounts Payable” account from fiscal year 2008 to 2009 due to late receipt of invoices from vendors resulting in processing of payments during lapse period.

“Due to Other State Funds” account increased \$7.2 million (120%) in fiscal year 2009 compared to 2008 due mostly to late receipt of billings from Central Management Services for various consolidated expenses such as facilities expenses and statistical services.

“Due to Other State Funds” account decreased \$2.0 million (26%) from fiscal year 2007 to 2008 due to timely receipt of billings from Central Management Services, where in fiscal year 2007 two months of billings for facility charges were paid in lapse period compared to one month billing in fiscal year 2008.

Unemployment Compensation Special Administration Fund

There was no significant change in “Cash and Cash Equivalents” during fiscal year 2009 compared to 2008.

The “Cash and Cash Equivalents” account increased by \$2.0 million (19%) from fiscal year 2007 to 2008 due to on time receipts of invoice from vendors resulting in processing of payments before June 30, 2007.

The Fund’s “Due from Other State Funds” decreased by 58% in fiscal year 2009 compared to 2008 due to reported payroll penalties for the quarter ended June 2009 decreasing by \$2.5 million compared to the same period in fiscal year 2008.

State of Illinois
Department of Employment Security

Analysis of Significant Account Balances, Continued

Unemployment Compensation Special Administration Fund, continued

There was no significant change in “Due from Other State Funds” account from fiscal year 2007 to 2008.

B. Nonshared Proprietary Funds

Unemployment Compensation Trust Fund

There was a \$92.0 million (20,566%) increase in the “Cash and Cash Equivalents” account from fiscal year 2008 to 2009 because the Department is now maintaining three days of cash in advance per CMIA regulations. Because of the change in rule regarding payment of all benefits electronically, by direct or debit card instead of issuing checks, there was a need for additional cash held in bank. This increase was also due to June 30, 2009 benefit claims processed and funded by the Department which was withdrawn from the bank on July 1, 2009 instead of June 30, 2009.

State of Illinois
Department of Employment Security

Analysis of Accounts Receivable
(Expressed in Thousands)

For financial reporting purposes for fiscal years 2009 and 2008, the Department classified its accounts receivable in the following categories:

A. Nonshared Governmental Funds

Intergovernmental Receivables

Intergovernmental receivables represent reimbursements due from federal government to reimburse the Department's administrative expenditures. Intergovernmental receivables totaled \$28,903 at June 30, 2009 and \$17,873 at June 30, 2008.

The Department does not calculate an allowance for uncollectible accounts for intergovernmental receivables as the amounts are due from other governmental entities and receipt is reasonably assured. In addition, the Department does not maintain records that age entire intergovernmental receivable balance. Therefore, an account receivable aging schedule for intergovernmental receivable has not been provided on the accompanying schedules.

B. Nonshared Proprietary-Unemployment Compensation Trust Fund

Taxes Receivable

Taxes receivable represent unemployment taxes, known as contributions, owed by private, nongovernmental employers to the Trust Fund. The Department records the receivable based on actual outstanding receivable plus estimate based on Budget's Trust Fund Model and an allowance for uncollectible accounts is recorded. Taxes receivable totaled \$353,635 at June 30, 2009 and \$432,901 at June 30, 2008. Some of the methods used by the Department to collect these receivables include statements of account, telephone collections, determination and assessments, property liens, outside collection agencies, comptroller's offset, deferred payment agreements and bank levies.

Intergovernmental Receivables

Intergovernmental receivables represent reimbursements due from other State governments for unemployment benefits paid to those states' ex-employees by the Trust Fund. The receivables also include amounts due from the federal government, for ex-military and federal employees and temporary emergency unemployment compensation. Intergovernmental receivables totaled \$107,914 at June 30, 2009 and \$30,886 at June 30, 2008. For local and other state governments, the Department sends quarter billings or statements to collect the receivables. For ex-military and federal employees' claims, the Department draws the funds for the receivable due.

State of Illinois
Department of Employment Security

Analysis of Accounts Receivable, Continued
(Expressed in Thousands)

B. Nonshared Proprietary-Unemployment Compensation Trust Fund, Continued

Other Receivables

Other receivables represent monies owed from claimants who received benefits which exceeded the allowable amounts. The Department records the receivable based on actual outstanding overpayment receivable plus an estimate of additional overpayments related to the period, and an allowance for uncollectible accounts is recorded based on historical collections. Other receivables totaled \$109,459 at June 30, 2009 and \$123,446 at June 30, 2008. Methods used to collect these receivables include recoupments from Future benefits, use of the comptroller's offset, statements of indebtedness, deferred payment agreements and referral to the Illinois Attorney General.

State of Illinois
Department of Employment Security

Analysis of Accounts Receivable
(Relates to Proprietary Unemployment Compensation Trust Fund Only)
(Expressed in Thousands)

See the following schedules for an aging of the taxes receivable and other receivable account balances.

Taxes Receivable at June 30, 2009		
Receivable for the quarter ended June 30, 2009	Receivable from prior quarters	Total Taxes Receivable
\$ 314,329	\$ 164,894	\$ 479,223
Less: Allowance for uncollectible accounts		(125,588)
		<u>\$ 353,635</u>

Other Receivables at June 30, 2009					
2005 and Prior	2006	2007	2008	2009	Total Other Receivables
\$ 94,800	\$ 34,420	\$ 42,465	\$ 43,571	\$ 127,937	\$ 343,193
Less: Allowance for uncollectible accounts					(233,734)
					<u>\$ 109,459</u>

State of Illinois
Department of Employment Security

Analysis of Accounts Receivable, Continued
(Relates to Proprietary Unemployment Compensation Trust Fund Only)
(Expressed in Thousands)

Taxes Receivable at June 30, 2008				
Receivable for the quarter ended June 30, 2008		Receivable from prior quarters		Total Taxes Receivable
\$ 388,190	\$	151,355	\$	539,545
Less: Allowance for uncollectible accounts				(106,644)
				<u>\$ 432,901</u>

Other Receivables at June 30, 2008						
2004 and Prior	2005	2006	2007	2008		Total Other Receivables
\$ 97,675	\$ 43,429	\$ 39,745	\$ 50,657	\$ 97,017	\$	328,523
Less: Allowance for uncollectible accounts						(205,077)
						<u>\$ 123,446</u>

**State of Illinois
Department of Employment Security**

**Cash Basis Schedules
Locally Held Special Programs Fund
For the Years Ended June 30, 2009 and 2008**

	June 30, 2009			
	Cash	Cash	Cash	Cash
	Balance July 1, 2008	Receipts	Disbursements	Balance June 30, 2009
Trade Readjustment Act	\$ (593,430)	\$ 6,197,418	\$ 5,608,638	\$ (4,650)
Disaster Unemployment Assistance	-	210,358	210,358	-
Alternative Trade Adjustment Act	2,857	570,699	575,971	(2,415)
Total Special Program Fund	\$ (590,573)	\$ 6,978,475	\$ 6,394,967	\$ (7,065)

	June 30, 2008			
	Cash	Cash	Cash	Cash
	Balance July 1, 2007	Receipts	Disbursements	Balance June 30, 2008
Trade Readjustment Act	\$ (522,417)	\$ 39,309,559	\$ 39,380,572	\$ (593,430)
Disaster Unemployment Assistance	-	10,998	10,998	-
Alternative Trade Adjustment Act	-	813,057	810,200	2,857
Total Special Program Fund	\$ (522,417)	\$ 40,133,614	\$ 40,201,770	\$ (590,573)

Note: The negative cash balance is due to the timing of Federal Draw. The draws were based on claims checks issued in SFY 2008 and direct deposits and debit cards issued in SFY 2009.

**State of Illinois
Department of Employment Security**

Agency Functions and Planning Program

Programs

The Illinois Department of Employment Security (Department) is a cabinet-level State government agency under the leadership of a Director who is responsible for both general policy and day-to-day agency management. The **Offices of the Director** include the Chief Financial Officer, Legal Counsel/Federal Administration, EEO/Affirmative Action, and Information Services. Other functions are carried out by the following two Bureaus:

Administration maintains the Department's Policies and Procedures Manual online. It is responsible for the provision of space, equipment and supplies. It conducts quality assurance and compliance reviews and is responsible for the Department's plans and program analyses. The Bureau provides services for human resources, labor management relations, and workforce development.

Program Support Operations employs the majority of the Department's staff. It is responsible for operating a statewide system of regional and local offices for the programmatic oversight for the Unemployment Insurance, Employment Services and related programs. The Bureau administers the employer payroll tax assessed for purposes of funding UI benefit payments. It is responsible for audit and collections activity related to the UI tax, the processing of reports and remittances, and providing customer service to employers with respect to their account with the Department. The Bureau also provides strategic planning for the Department and economic information and analysis for all interested parties.

The Department operates three major programs: Unemployment Insurance, Job Service, and Labor Market Information.

Unemployment Insurance

The Unemployment Insurance (UI) program is designed to partially protect eligible workers against loss of income during periods of unemployment and to contribute to overall economic stability. Like any insurance system, UI is based on a reserve of funds. The reserve fund, the Unemployment Insurance Trust Fund, is maintained through contributions collected by the Department from employers defined as liable under the *Illinois Unemployment Insurance Act*. When a worker employed by a liable employer becomes unemployed, he/she can file a claim for unemployment insurance benefits. If the worker meets all the eligibility requirements set forth by the UI Act, he/she may receive benefits for the maximum number of weeks payable under the law.

**State of Illinois
Department of Employment Security**

Agency Functions and Planning Program, Continued

Programs, Continued

Employment Service

The Employment Services (ES) program is operated under the authority of the federal Wagner-Peyser Act, as amended by the Job Training Partnership Act of 1983, and is part of the nationwide labor exchange system. The central aim of ES is to speed re-employment through job matching and employability development services. The Department maintains close contacts with employers to locate job opportunities and to meet those labor needs as soon as possible with qualified job applicants. This is accomplished by matching workers' skills to employers' job orders and referring qualified applicants for employment interviews. If there are no suitable job openings listed for an individual or group of applicants, the Department staff attempts to develop openings with employers known to use the skills these applicants possess.

Labor Market Information

The Labor Market Information (LMI) program is also operated under the Wagner-Peyser Act and requires the Department maintain a labor market program to monitor employment-related conditions and trends. The LMI program staff collects, analyzes and distributes labor force and economic information. Using direct surveys, administrative data, and related economic information, LMI describes past, monitors current, and projects future economic trends in terms of indicators such as population, civilian labor force, unemployment, employment by industry and occupation, wages, and hours worked. This information is distributed through regular publications, workshops and seminars, and by the statewide network of Labor Market Economists.

Plans

The Department prepares a number of compliance plans to obtain federal funding and to satisfy a requirement of the State budget process.

Federal program plans and reports are submitted to the regional office of the U. S. Department of Labor's Employment and Training Administration (ETA) or Veterans Employment and Training Service (VETS). Plans cover one of two fiscal years: the Federal Fiscal Year (FFY) which runs from October 1 through September 30; or the Program Year (PY) which covers July 1 through June 30, the same period as the State Fiscal Year (SFY).

The State Quality Service Plan (SQSP) is the annual vehicle for requesting federal funds to administer the Unemployment Insurance program for the coming FFY. The narrative portion of the SQSP includes a summary of current-year program activities, program directions and initiatives for the next year; plans to support ETA's Strategic Plan objectives under the Government Performance and Results Act (GPRA); corrective action plans to meet federal performance standards that were not met for the twelve month period ending March 31 of the current FFY; and a discussion of any program and program review deficiencies and plans to address them. The budget portion of the plan includes worksheets detailing the Department's plan for distributing the funds (by function and quarter) that ETA estimates the Department will receive for the coming fiscal year. These estimates are based on preliminary federal budget requests.

**State of Illinois
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Agency Functions and Planning Program, Continued

Plans, Continued

ETA requires the Department to submit quarterly reports to monitor the status of the SQSP's corrective action plans. Focusing on action steps scheduled for completion during the report quarter, the narrative describes actions taken to complete the steps or reasons steps were not completed plus alternate plans and/or completion dates.

The Jobs for Veterans Act of 2002 requires the Department to submit a 5-year State Grant Application and annual Grant Modification Requests for each FFY to support a small number of program administrators as well as field staff who provide direct labor exchange services to veterans. Field staff – Disabled Veterans Outreach Program (DVOP) staff and Local Veterans Employment Representatives (LVER) – are assigned to IDES offices throughout the state to ensure that veterans receive the priority of service mandated by federal regulations. In 2009, IDES was required to submit its most recent five-year Grant Application which covers FFY 2010-2014.

A State Grant Application and subsequent annual grant modification requests include a program plan (or modification) and an annual budget plan. The program plan assesses the state's labor market and the representation of veterans in the civilian labor force; describes the manner in which the Department provides or facilitates the delivery of employment, training, and placement services for veterans and the role of DVOPs and LVERs in that effort; and discusses the Department's plan for implementing performance incentive awards for quality employment, training and placement services and for serving special target groups e.g., veterans transitioning from the military to civilian employment. It also includes the performance goals the Department has negotiated with the Illinois VETS Director. The budget plan details the distribution of Illinois' projected allocation to staff positions, incentives, and any other expenditures planned to support or provide needed services to the state's veteran population. The completed Grant Application and modification requests are submitted to the VETS National Office via the Illinois VETS Director and the VETS Regional Office.

In addition to the above, states may submit proposals for Special Initiatives to target needs not covered by existing funding. If approved, states may receive funding in addition to their allocations to cover associated expenditures.

Federal Wagner-Peyser funding represents a significant proportion of the Department's budget, but annual compliance planning is not currently required as a condition for receiving it each PY. With the passage of the Workforce Investment Act (WIA) of 1998, the annual Wagner-Peyser planning process for basic labor exchange and labor market information services was incorporated into Illinois' comprehensive five-year strategic plan which treats the many aspects of workforce development. IDES and the Department of Commerce and Economic Opportunity prepare the plan jointly. Illinois' initial strategic plan expired in 2005 and two two-year interim plans have replaced it while Congress debates WIA's reauthorization. With the passage of the Recovery Act, a Program Year 2009 state plan modification was required covering the year through June 30, 2010.

**State of Illinois
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Agency Functions and Planning Program, Continued

Plans, Continued

The annual Migrant and Seasonal Farmworkers (MSFW) Plan has been a stand alone plan since the Wagner-Peyser Plan became part of the Strategic Plan. The MSFW Plan, also known as the Agricultural Services Plan, has been incorporated into the Foreign Labor Certification Plan that has included H2A and H2B activity as well as prevailing wage. (H2B was recently removed from the plan and prevailing wage will be next spring.) Basically, the MSFW plan describes how the Department, with Wagner-Peyser funding, will make agricultural workers aware of and provide them with services that will improve their opportunities for more stable employment and will do so in a manner that is qualitatively equivalent and quantitatively proportionate to services provided to non-MSFWs. Elements of the outreach plan include the resources the Department will make available for outreach and how those outreach activities will be conducted. Since there is no discrete allocation for this program, the plan does not include a budget.

In addition to the plans required for federal funding, the Department is mandated by the Illinois Welfare and Rehabilitation Services Planning Act (20 ILCS 10/1 et. seq.) to submit its Human Services Plan to the General Assembly every two years. The plan contains a comprehensive narrative of products and services the Department provides through the programs it administers, associated workload and budget for several past, the current, and the coming State Fiscal Years, and descriptions of how the Department provides for the best possible use of available resources and delivers its services in coordination with other state agencies. In addition to submitting the plan to the General Assembly, IDES distributes copies to the Governor's Office and to the general public upon request.

State of Illinois
Department of Employment Security

Average Number of Employees
June 30, 2009, 2008 and 2007

The following table summarizes the average number of employees of the Department categorized by divisional code at June 30, 2009, 2008 and 2007.

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Central Administration	130	115	108
Finance and Administration	263	275	287
Workforce Development	<u>1,360</u>	<u>1,264</u>	<u>1,320</u>
Total Employees	<u>1,753</u>	<u>1,654</u>	<u>1,715</u>

State of Illinois
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Annual Cost Statistics
(Not Examined)

	<u>2009</u>	<u>2008</u>
Average Benefit Paid Per Client	\$3,409	\$2,700
Average Administrative Cost Per Claimant	\$134	\$167

Amounts were based on Federal fiscal year.

State of Illinois
Department of Employment Security

Emergency Purchases
For the Two Years Ended June 30, 2009

During 2009, the Department had two emergency purchases, one for maintenance of mailing equipment for an estimated cost of \$30,000 and one for establishing and staffing a local office for the processing of Extended Benefit (EB) claims for an estimated cost of \$1.0 million.

In 2008, the Department had one emergency purchase, at no additional cost, for replacement of phone notification systems.

**State of Illinois
Department of Employment Security**

**Service Efforts and Accomplishments
(Expressed in Thousands)
(Not Examined)**

Activities and Performance	For the Years Ended June 30,		
	2009	2008	2007
Unemployment Insurance:			
Initial Claims	1,154.46	734.20	686.50
Job Placement:			
Entered employments	149.30	176.00	212.10
Job openings received	36.60	51.80	54.90

- (1) The Department provides temporary income assistance in the form of unemployment benefits to individuals who qualify under federal and state laws.
- (2) The Department provides match assistance for employees and specialized assessment and referral services for job seekers.

**Unemployment Rates
(Not Examined)**

The funding for the administration of the Department's programs is provided by the federal government and is largely based upon State levels of unemployment. National and State unemployment rates by quarter for calendar 2007 through 2009, as provided by the Bureau of Labor Statistics, are summarized below:

	Rates by Quarter			
	<u>1st</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>
<u>2009:</u>				
National	8.1 %	9.2 %	9.6 %	*
State	8.5	9.9	10.3	*
<u>2008:</u>				
National	4.9	5.4	6.0	6.9 %
<u>2007:</u>				
National	4.5	4.5	4.7	4.8
State	4.7	5.0	5.2	5.5

* Figures not available at time of report.