



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF EMPLOYMENT SECURITY

**FINANCIAL AUDIT AND COMPLIANCE
EXAMINATION**

For the Year(s) Ended: June 30, 2013

Release Date: March 5, 2014

Summary of Findings:

Total this audit: 7

Total last audit: 7

Repeated from last audit: 4

SYNOPSIS

- The Department had inadequate controls over financial close and reporting to allow management or employees to prevent or detect financial statement misstatements in a timely manner.
- The Department did not execute intergovernmental agreements with other State agencies in a timely manner.
- The Department did not issue eligibility determinations within the prescribed timeframe.

{Financial data is summarized on the reverse page.}

**ILLINOIS DEPARTMENT OF EMPLOYMENT SECURITY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Year Ended June 30, 2013**

STATEMENT OF CHANGES IN REVENUES, EXPENSES AND CHANGES IN NET POSITION		
Unemployment Compensation Trust Fund (in thousands)	2013	2012
Operating Revenues		
Unemployment taxes.....	\$ 3,209,923	\$ 3,216,031
Federal government.....	1,440,204	2,535,043
Total Operating Revenues.....	<u>4,650,127</u>	<u>5,751,074</u>
Operating Expenses		
Benefit Payments and Refunds.....	3,560,948	5,041,591
Interest Expense.....	2,351	46,040
Total Operating Expenses.....	<u>3,563,299</u>	<u>5,087,631</u>
Operating Income.....	1,086,828	663,443
Nonoperating revenues (expenses)		
Interest/investment income/interest expense and other	<u>(10,074)</u>	101,764
Income Before Transfers.....	1,076,754	765,207
Transfers In/(Out)	<u>(19,910)</u>	2,952
Change in Net Position.....	1,056,844	768,159
Net Position (Deficit), beginning of year.....	<u>(419,171)</u>	<u>(1,187,330)</u>
Net Position (Deficit), end of year.....	<u>\$ 637,673</u>	<u>\$ (419,171)</u>

STATEMENT OF NET POSITION		
Unemployment Compensation Trust Fund (in thousands)	2013	2012
Assets:		
Cash and cash equivalents.....	\$ 102,505	\$ 94,355
Deposits held by the federal government.....	1,104,400	-
Receivables, Net:		
Taxes.....	693,459	625,667
Intergovernmental.....	63,280	95,499
Other.....	224,394	109,166
Other assets.....	11,857	14,373
Total Assets.....	<u>2,199,895</u>	<u>939,060</u>
Liabilities:		
Benefit payments payable.....	164,231	166,153
Intergovernmental payables.....	4,441	52,428
Due to other State funds.....	3,236	1,386
Accrued bond interest expense.....	2,596	-
Revenue bonds payable.....	1,387,718	-
Due to federal government.....	-	1,138,264
Total Liabilities.....	<u>1,562,222</u>	<u>1,358,231</u>
Net Position (Deficit).....	<u>\$ 637,673</u>	<u>\$ (419,171)</u>

AGENCY DIRECTOR

During the Examination Period: Jay Rowell

Currently: Jay Rowell

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**INADEQUATE CONTROLS OVER FINANCIAL CLOSE
AND REPORTING**

**Need to improve controls over
financial statement preparation**

The Department of Employment Security (Department) did not have adequate controls over financial close and reporting to allow management, in the normal course of performing their assigned functions, to prevent or detect financial statement misstatements in a timely manner.

The Department submitted “GAAP Reporting Packages” to the Illinois Office of the Comptroller (Comptroller) 1 to 21 days late. The “GAAP Reporting Packages” are used by the Comptroller to prepare the State’s Basic Financial Statements.

Some of the errors noted follow:

**Expenses were understated by
\$3.8 million**

- For the Title III Social Security and Employment Services Fund, the accrual for outstanding unpaid facilities, statistical, and telecommunication services provided by agency was understated by \$3.8 million.
- For the Unemployment Compensation Special Administration Fund, the Department overstated accounts payable and expenditures in the amount of \$2.9 million.
- For the Unemployment Compensation Trust Fund and the Master Bond Fund, the Department failed to record eliminating entries totaling \$323.9 million.
- The Notes to Financial Statements included a disclosure on federal expenditures totaling \$1,019.3 million, identified under the American Recovery and Reinvestment Act of 2009. However, this disclosure was not applicable for the current year.

**\$323.9 million in eliminating
entries were not made**

All of the above referenced errors were subsequently corrected by the Department on their financial statements.

The auditors also noted the other errors related to Financial Statement Reporting. Department officials, however, did not adjust their financial statements since they were deemed to be immaterial. The conditions noted follow:

\$8.9 million in overstatements

- For the Unemployment Compensation Trust Fund, the allowance for uncollectible taxes, interest and penalties was erroneously calculated resulting in an overstatement of \$8.9 million to the allowance and an understatement to contribution revenues.

- Benefit payments payable in the Unemployment Compensation Trust Fund were understated by \$5.3 million. (Finding 1, Pages 13-18)

We recommended the Department establish and implement procedures to ensure required financial information is prepared and submitted to the Comptroller in a timely manner. Further, the Department should improve controls over yearend financial closure and reporting to ensure accurate financial statement presentation and disclosure.

Department officials accepted the recommendation.

Department agrees with the auditors

INTERAGENCY AGREEMENTS NOT EXECUTED IN A TIMELY MANNER

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

Untimely execution of interagency agreements

During our review of 8 interagency agreements, we noted that 4 of the 8 (50%) Intergovernmental Agreements for Utilization of Leased Space were signed after the effective date of the lease. The agreements were signed between 57 and 201 days after the start of the lease term. (Finding 4, Page 25) **This finding was first reported in 2005.**

We recommended the Department improve its process for timely executing intergovernmental agreements.

Department agrees with auditors

Department officials accepted the recommendation and stated that they will continue to improve and streamline the approval process. (For the previous Department response, see Digest Footnote #1)

UNTIMELY ISSUANCE OF ELIGIBILITY DETERMINATIONS

Need to improve upon timeliness of eligibility determinations

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

During FY 13, the Department did not meet the acceptable coverage of at least 80% for timely non-monetary determinations in 21 days. The Department's quarterly performance was between 61% and 73%. The Code of Federal Regulation (20 CFR Part 640.3) states 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. (Finding 5, Pages 26-27) **This finding was first reported in 2009.**

We recommended the Department implement procedures to ensure all eligibility determinations are made within the

prescribed timeframes.

Department agrees with auditors

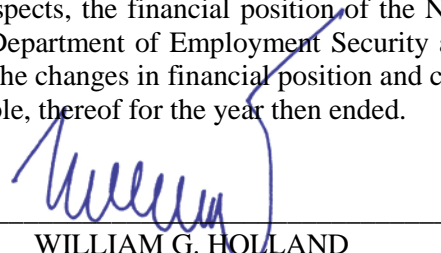
Department officials accepted the recommendation and stated that Federal funding reductions led to staff reductions that have adversely impacted timeliness. (For the previous Department response, see Digest Footnote #2)

OTHER FINDINGS

The remaining findings are reportedly being given attention by Department personnel. We will review progress toward implementation of our recommendations in our next audit.

AUDITORS' OPINIONS

Our auditors stated the financial statements present fairly, in all material respects, the financial position of the Non-shared Funds of the Department of Employment Security as of June 30, 2013, and the changes in financial position and cash flows, where applicable, thereof for the year then ended.



WILLIAM G. HOLLAND
Auditor General

WGH:TLK

SPECIAL ASSISTANT AUDITORS

E.C. Ortiz & Co., LLP were our special assistant auditors.

DIGEST FOOTNOTES

#1 – Interagency Agreements Not Executed in a Timely Manner – Previous Department Response

2011-We accept the recommendation. The Department is continuing to improve the approval process by beginning the MOU approvals earlier in the year and meeting regularly to speed up the approval process. As a result, nine of the agreements cited in the finding were executed timely in FY 12.

#2 – Untimely Issuance of Eligibility Determination – Previous Department Response

2011-We accept the recommendation. Through load-balancing and revised operations procedures, the determination completion time frame has significantly improved, with the last two quarters exceeding the ETA requirement.