



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF LABOR

Compliance Examination
 For the Two Years Ended June 30, 2015

Release Date: June 30, 2016

FINDINGS THIS AUDIT: 14	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	5	5	2013		15-8	
Category 2:	6	3	9	2007	15-3, 15-4	15-12	
Category 3:	0	0	0	2005	15-1, 15-2		
TOTAL	6	8	14	2003	15-5		
				1999		15-9	
FINDINGS LAST AUDIT: 9							

SYNOPSIS

- (15-01) The Department failed to ensure adequate controls were maintained over revenues and related reporting.
- (15-02) The Department lacked adequate controls over accounts receivable records and related reporting.
- (15-03) The Department did not ensure adequate controls were maintained over its Special State Trust Fund.
- (15-04) The Department performed inadequate expenditure and cash balance reconciliations during the examination period.
- (15-05) The Department exercised inadequate controls over the accuracy, completeness, and timeliness of State property records and related reporting.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).

Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.

Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Expenditures and Activity Measures are summarized on next page.}

**DEPARTMENT OF LABOR
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2015**

EXPENDITURE STATISTICS	2015	2014	2013
Total Expenditures.....	\$ 22,792,950	\$ 9,386,792	\$ 11,682,404
OPERATIONS TOTAL.....	\$ 9,205,388	\$ 8,760,541	\$ 9,511,853
% of Total Expenditures.....	40.4%	93.3%	81.4%
Personal Services.....	5,598,006	4,933,792	4,786,045
Other Payroll Costs (FICA, Retirement).....	643,049	531,636	543,025
All Other Operating Expenditures.....	2,964,333	3,295,113	4,182,783
AWARDS AND GRANTS.....	\$ 13,587,562	\$ 626,251	\$ 2,170,551
% of Total Expenditures.....	59.6%	6.7%	18.6%
Total Receipts per State Comptroller.....	\$ 4,256,954	\$ 5,405,056	\$ 6,987,220
Average Number of Employees (Not Examined).....	90	88	90

SELECTED ACTIVITY MEASURES (Not Examined)	2015	2014	2013
Number of employees impacted by remediation of hazardous conditions.....	*	199,234	**
Actual public workplace related fatality rate.....	*	10.0	**
Number of outreaches to public bodies, contractors, and labor management organizations.....	*	70.0	**
Number of Fair Labor cases completed.....	*	7,208	**
* The Department did not submit service efforts and accomplishments data to the Office of the State Comptroller for Fiscal Year 2015.			
** Metrics used to measure the Department's performance were modified for the Fiscal Year 2014 reporting period. Data for Fiscal Year 2013 for the new reporting categories was not available.			

AGENCY DIRECTOR	
During Examination Period:	Mr. Joseph Costigan (7/1/13 - 1/19/15) Vacant (1/20/15 - 1/31/15) Mr. Hugo Chaviano (2/1/15 - Present)
Currently:	Mr. Hugo Chaviano

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

INADEQUATE CONTROLS OVER REVENUES AND RELATED REPORTING

The Illinois Department of Labor (Department) did not exercise adequate controls over revenues and related reporting. Some of the conditions noted follow:

Discrepancies noted between Agency Fee Imposition Reports and Department Records

- The Department did not maintain documentation to support amounts reported on its Agency Fee Imposition Reports (Report) prepared for Fiscal Years 2014 and 2015. This resulted in discrepancies with Department records of \$202,104 and \$421,023, respectively. In addition, the Department filed its Fiscal Year 2015 Report 209 days late.

Reconciliations not performed

- The Department could not provide reconciliations of agency receipts to the Monthly Revenue Status Report for any months during Fiscal Year 2014 or 2015. This includes 190 monthly reconciliations for eight different funds: General Revenue Fund, Amusement Ride and Patron Safety Fund, Special State Trust Fund, Child Labor Law Enforcement Fund, Employee Classification Fund, Department of Labor Federal Projects Fund, Federal Industrial Services Fund, and Wage Theft Enforcement Fund.

Checks not deposited

- The Department did not process deposits for checks received during the months of March, April, May and June 2015. Per discussion with Department personnel, these checks were held by the Department for deposit at a later date while the Department attempted to resolve errors and discrepancies noted between their records and their clearing account. Department personnel indicated the checks were deposited during Fiscal Year 2016. In addition, the Department did not process Treasurer's Drafts or Receipt Deposit Transmittals for this same time period. We were unable to quantify the dollar value of the activity that was carried over into Fiscal Year 2016 from this time period. (Finding 1, pages 10-14) **This finding has been repeated since 2005.**

We recommended internal controls over receipts be enforced by the Department to ensure timely collection of revenue occurs and adequate documentation is maintained and readily available for all transactions. We also recommended the Department implement procedures to segregate the duties involved with the receipts processing function. Further, we recommended the Department ensure all receipts and refunds are entered into a system that is able to generate reports, provide balances, and produce transaction listings. Also, monthly reconciliations should be completed and reviewed for accuracy and any differences should be investigated. In

addition, the Department should document all collection efforts on returned checks and past due amounts owed and perform timely follow ups on these amounts. Lastly, we recommended the Department ensure all Fee Imposition Report Forms are adequately supported and filed timely with the State Comptroller.

Department agreed with auditors

Department personnel accepted our recommendations and reported they are working closely with the State's Chief Information Officer in establishing the necessary platform for a new case management and receipts processing and reporting system to address the deficiencies noted. *(For the previous Department response, see Digest Footnote #1.)*

INADEQUATE CONTROLS OVER ACCOUNTS RECEIVABLE RECORDS AND RELATED REPORTING

The Department did not exercise adequate controls over accounts receivable records and related reporting. Some of the conditions we noted follow:

Unable to provide certain accounts receivable records

- The Department was unable to provide certain requested accounts receivable records, including a listing of accounts, history of collection attempts, records of billings/collections, or records showing referral of accounts to the Comptroller's Offset system and/or the Attorney General's Office. In the absence of this information, we were unable to determine the accuracy and completeness of accounts receivable activities reported to the Office of the State Comptroller.

No current policies or procedures for handling receivables

- The Department was unable to provide current policies or procedures for the handling and reporting of receivables. We obtained a draft copy of policies and procedures from the Department dated January 9, 2009. We could not determine if these policies and procedures had been approved by management or were currently practiced by the Department.

Reports contained erroneous revenue source codes

- Four of 8 (50%) Quarterly Summary of Accounts Receivable Reports (C-97) and Aging of Total Gross Receivable Reports (C-98) for the General Revenue Fund contained revenue source codes that were not listed in the Statewide Accounting Management System Manual. (Finding 2, pages 15-17) **This finding has been repeated since 2005.**

We recommended the Department review all accounts receivable reports to ensure accuracy before timely submission to the Comptroller. In addition, the Department should maintain detailed records and supporting documentation of all billing and collection activity to support accounts receivable balances reported and to accurately estimate amounts that may be uncollectible.

Department agreed with auditors

Department personnel accepted our recommendation and reported they are taking steps to implement proper internal controls. (For the previous Department response, see Digest Footnote #2.)

INADEQUATE CONTROLS OVER SPECIAL STATE TRUST FUND

The Department did not exercise adequate controls over its Special State Trust Fund (Fund 251). The Department operates Fund 251 as an agency fund in the State Treasury. The purpose of this fund is to hold wage claims collected from employers by the Department on behalf of Illinois workers (claimants) and hold those monies until the claimants can be located and properly paid. Some of the conditions we noted follow:

No ledger of claimants maintained

- The Department did not maintain a ledger of claimants and corresponding dollar amounts comprising the balance held in Fund 251. Comptroller records showed balances of \$2,332,105 and \$1,279,400 held in Fund 251 as of June 30, 2014 and June 30, 2015, respectively.

Receipt records could not be reconciled

- Department receipt records were unable to be reconciled to the Comptroller’s Monthly Revenue Status (SB04) report for Fiscal Year 2015. The irreconcilable amount noted of \$116,884 is approximately 44% of the total receipts amount reported on the Comptroller’s SB04 report as of June 30, 2015. The Department was unable to provide reconciliations to explain the difference noted.

Documentation not maintained

- The Department transferred funds, totaling \$1,052,457, from Fund 251 to the General Revenue Fund, via voucher, during the engagement period. However, the Department could not provide documentation to substantiate the funds transferred were held for more than one year. Also, the Department could not provide support for how it determined which funds were required to be transferred. (Finding 3, pages 18-20)

This finding has been repeated since 2007.

We recommended the Department maintain detailed records for all Fund 251 transactions. These records should include a ledger of claimants and monthly reconciliations of the balance in the Fund to the State Comptroller’s SB04 reports. Finally, we recommended the Department comply with the Minimum Wage Law (820 ILCS 105/12(b)) by transferring the required amounts from Fund 251 to the General Revenue Fund and maintaining documentation of these transfers.

Department agreed with auditors

Department personnel accepted the recommendations and reported taking remedial actions to address the conditions noted. (For the previous Department response, see Digest Footnote #3.)

FAILURE TO PERFORM ADEQUATE AND/OR ACCURATE RECONCILIATIONS

The Department did not perform adequate and/or accurate expenditure and/or cash balance reconciliations during the examination period. The Department operated 8 funds during the examination period: the General Revenue Fund, the Amusement Ride and Patron Safety Fund, the Special State Trust Fund, the Child Labor Law Enforcement Fund, the Employee Classification Fund, the Department of Labor Federal Projects Fund, the Federal Industrial Services Fund, and the Wage Theft Enforcement Fund. The Department should have performed 190 expenditure reconciliations during Fiscal Years 2014 and 2015. Some of the conditions we noted follow:

Reconciliations not performed

- The Department failed to prepare 106 of 190 (56%) monthly reconciliations to the Comptroller's Monthly Appropriation Status (SB01) report. As a result, we were only able to test 84 monthly reconciliations.

Inaccurate reconciliations

- Twenty-six of 84 (31%) monthly reconciliations prepared by the Department did not actually reconcile with the SB01 report.

Reconciliations not signed or dated

- Twenty-five of 84 (30%) monthly reconciliations were not signed or dated. As a result, we could not determine if the reconciliations were prepared in a timely manner. (Finding 4, pages 21-23) **This finding has been repeated since 2007.**

We recommended the Department implement procedures to ensure all monthly reconciliations are complete, accurate, and prepared in a timely manner and update expenditure records when circumstances warrant. Further, we recommended the Department maintain all reconciliations and supporting documentation as required by the State Records Act.

Department agreed with auditors

Department personnel accepted our recommendation and reported implementing corrective action to address the issues noted. (*For the previous Department response, see Digest Footnote #4.*)

STATE PROPERTY CONTROL WEAKNESSES

The Department did not exercise adequate control over the accuracy, completeness, and timeliness of State property records and related reporting. Some of the conditions we noted follow:

Equipment additions did not reconcile to expenditure records

- We were unable to reconcile equipment additions reported on the Department's Quarterly Reports of State Property (C-15s) to equipment expenditures noted on records maintained by the Office of the State Comptroller. Differences noted totaled \$6,500 in Fiscal

Year 2014 and \$14,254 in Fiscal Year 2015. In addition, Department personnel were unable to provide support for additions, deletions, and transfers reported on the C-15s.

C-15s filed late

- Two of 8 (25%) C-15s filed with the Office of the State Comptroller during the examination period were not filed timely. They were filed 9 and 18 days late.

No physical inventory performed

- The Department did not perform a physical inventory of all property items and certify the inventory to the Department of Central Management Services (DCMS) during Fiscal Year 2015 as required. The certification was due to DCMS by July 1, 2015. In addition, the Department could not provide a complete property listing as of June 30, 2015 to us for testing purposes. (Finding 5, pages 24-27) **This finding has been repeated since 2003.**

We recommended the Department strengthen controls over the recording and reporting of State property by reviewing their inventory and recordkeeping practices to ensure compliance with statutory and regulatory requirements. In addition, the Department should ensure all equipment is accurately and timely recorded on the Department's property records, equipment additions are properly tagged and charged to proper detail object codes, and the Department should maintain documentation of any equipment additions, deletions and transfers. Lastly, we recommended the Department thoroughly review all reports prepared from internal records for accuracy before timely submission to the Comptroller and DCMS.

Department agreed with auditors

Department personnel accepted the recommendations and stated they are making a concerted effort to improve controls over the recording and reporting of State property. (*For the previous Department response, see Digest Footnote #5.*)

OTHER FINDINGS

The remaining findings pertain to 1) noncompliance with the Fiscal Control and Internal Auditing Act, 2) lack of disaster contingency planning or testing to ensure recovery of computer systems, 3) inadequate controls over personal services, 4) inadequate controls over voucher processing, 5) incomplete and inaccurate agency workforce reports, 6) noncompliance with the Employee Classification Act, 7) inadequate controls over travel expenditures, 8) failure to maintain leave of absence documentation, and 9) inadequate monitoring and controls over contract and grant agreements. We will review the Department's progress toward implementation of our recommendations during our next regularly scheduled compliance examination.

ACCOUNTANT'S OPINION

We conducted a compliance examination of the Department for the two years ended June 30, 2015 as required by the Illinois State Auditing Act. The accountants qualified their report on State Compliance for findings 2015-001 through 2015-005. Except for the noncompliance described in these findings, the accountants stated the Department complied, in all material respects, with the requirements described in the report.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

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AUDITORS ASSIGNED

This examination was performed by the Office of the Auditor General's staff.

DIGEST FOOTNOTES

#1 – Inadequate controls over revenues and related reporting – Previous Department Response

2013 – The Department is in the process of hiring two Account Tech II positions to increase the Fiscal Division to three employees. The procedures for processing checks have been changed, and all checks are now submitted to the Fiscal Division which will expedite processing and allow for better controls.

#2 – Inadequate controls over accounts receivable records and related reporting – Previous Department Response

2013 – The Department is in the process of hiring two Account Tech II positions to increase the Fiscal Division to three employees. The procedures for processing accounts receivable information have been changed, and all such information is now submitted to the Fiscal Division which will expedite processing and allow for better controls.

#3 – Inadequate controls over Special State Trust Fund – Previous Department Response

2013 – The Department began a ledger in Fiscal Year 2013. The Department is working diligently in Fiscal Year 2014 to ensure the ledger contains all necessary information regarding Fund 251 and the balance in Fund 251. The Department is also in the process of employing two Account Tech II positions which should allow enough staff to maintain the ledger. In addition, the Department has implemented new procedures for the accounting of funds and centralized fiscal responsibilities. The Department will continue in its efforts to comply with the State statutes.

#4 – Failure to perform adequate and/or accurate reconciliations – Previous Department Response

2013 – The Department is in the process of increasing the Fiscal Division personnel to three by employing two additional Account Tech II positions. With the additional staff, the Department should be able to perform accurate and timely expenditure reconciliations.

#5 – State property control weaknesses – Previous Department Response

2013 – The Department is in the process of hiring two Account Tech II positions to increase the Fiscal Division to three employees. In addition, the Department has created a Chief Information Officer position. The Fiscal Division and the Chief Information Officer will work together in strengthening controls over state property held by the Department.