



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

William G. Holland, Auditor General

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**SUMMARY REPORT DIGEST**

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**DEPARTMENT OF EMPLOYMENT SECURITY**

**FINANCIAL AUDIT**

**For the Year Ended: June 30, 2012**

**Release Date: February 6, 2013**

**Summary of Findings:**

<b>Total this audit:</b>	<b>2</b>
<b>Total last audit:</b>	<b>2</b>
<b>Repeated from last audit:</b>	<b>1</b>

**INTRODUCTION**

This report covers our financial audit of the Department of Employment Security's Non-Shared Funds for the years ended June 30, 2012. A State compliance examination covering the two years ended June 30, 2013 will be performed next year.

**SYNOPSIS**

- The Department had inadequate controls over the security and use of Super IDs.
- The Department did not properly account for unapplied credits relating to unemployment tax contributions received from other State agencies and component units, totaling \$4.9 million.
- In July 2009 the State of Illinois began receiving repayable advances from the Federal Government for the Illinois Unemployment Compensation Trust Fund. At June 30, 2012, this amount totaled approximately \$1,138,264,000.

{Expenditures and Activity Measures are summarized on the reverse page.}

**ILLINOIS DEPARTMENT OF EMPLOYMENT SECURITY**  
**FINANCIAL AUDIT**  
For the Year Ended June 30, 2012

<b>STATEMENT OF CHANGES IN REVENUES, EXPENSES AND CHANGES IN NET ASSETS Unemployment Compensation Trust Fund and Title XII Interest Fund (in thousands)</b>	<b>2012</b>	<b>2011</b>
<b>Operating Revenues</b>		
Unemployment taxes.....	\$ 3,216,031	\$ 2,716,928
Federal government.....	2,535,043	3,756,303
Total Operating Revenues.....	<u>5,751,074</u>	<u>6,473,231</u>
<b>Operating Expenses</b>		
Benefit Payments and Refunds.....	5,041,591	6,424,471
Interest Expense.....	66,977	50,485
Total Operating Expenses.....	<u>5,108,568</u>	<u>6,474,956</u>
<b>Operating Income (Loss).....</b>	642,506	(1,725)
<b>Nonoperating Revenue / Other Financing Uses</b>		
Interest, investment income, and other.....	101,771	5
Transfers Out	<u>(15,638)</u>	<u>(13,294)</u>
<b>Increase / (Decrease) in Net Assets.....</b>	728,639	(15,014)
<b>Net Assets (Deficit), Beginning of Year.....</b>	<u>(1,147,810)</u>	<u>(1,132,796)</u>
<b>Net Assets (Deficit), End of Year.....</b>	<u>\$ (419,171)</u>	<u>\$ (1,147,810)</u>

<b>STATEMENT OF NET ASSETS Unemployment Compensation Trust Fund and Title XII Interest Fund (in thousands)</b>	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Cash and cash equivalents.....	\$ 94,355	\$ 196,439
Deposits held by the federal government.....	-	6
Receivables, Net:		
Taxes.....	625,667	626,853
Intergovernmental.....	95,499	72,748
Other.....	109,166	192,783
Due from State funds and Component Units.....	<u>14,373</u>	<u>61,250</u>
Total Assets.....	<u>939,060</u>	<u>1,150,079</u>
<b>Liabilities</b>		
Benefit payments payable.....	166,153	102,832
Intergovernmental payables.....	52,428	4,976
Due to other State funds.....	1,386	1,532
Due to federal government.....	<u>1,138,264</u>	<u>2,188,549</u>
Total Liabilities.....	<u>1,358,231</u>	<u>2,297,889</u>
<b>Net Assets (Deficit).....</b>	<u>\$ (419,171)</u>	<u>\$ (1,147,810)</u>

**AGENCY DIRECTOR**  
During the Audit Period and Current: Jay Rowell

**FINDINGS, CONCLUSIONS, AND  
RECOMMENDATIONS**

**INADEQUATE CONTROLS OVER COMPUTER SECURITY**

**Super ID controls are inadequate**

The Department of Employment Security (Department) had inadequate controls over the security and use of Super IDs.

The Information Services Division (ISD) is responsible for the development and maintenance of the Department's information systems and for preserving the integrity and security of information warehoused within those systems. The Department processed approximately \$3.2 billion in employer unemployment tax revenue contributions and \$5.04 billion of unemployment benefit payments in fiscal year 2012.

**Non-emergency use is still prevalent**

During the audit period we found that ISD programmers were sharing and using Super IDs generally on a weekly basis and sometime multiple times in one day, on a non-emergency basis in the production environment for resolving transactional or application-related problems that occurred during the regular day or at night batch processing. The Super ID is necessary to fix production problems when production control staff is not available and to fix data errors directly to the production environment. Since the Super IDs were shared, the individual accountability over its use was limited.

**No assurance that only authorized and appropriate modifications were made**

A log of the use of the Super ID and approvals is maintained; however, there is no documented approval (pre or post) by the data owner on the use of the Super ID, nor is there a formal notification and user acceptance of the resolutions performed. Only the ISD Manager of the programmer signs the approval form. Furthermore, transaction logs that documented the use of the Super ID were not descriptive enough to show the actual transaction codes that were executed, or the tables or files that were accessed to provide audit trails. Therefore, there is no assurance that only authorized and appropriate modifications were made to the production data.

The use of the Super IDs increases 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 resolution of production problems when the Production Control Unit staff is either not scheduled or unavailable. (Finding 1, Pages 41-43)  
**This finding was first reported in 2008.**

We recommended that 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 recommended that the use of the Super ID be restricted to emergency uses as required by Department policy.

**The Department agrees with auditors**

Department officials accepted the recommendation and stated that they have worked to reduce their reliance on Super IDs. Their goal is to eliminate the use of Super IDs completely by increasing the skill level of Department employees working in Information Service Bureau's Support Services. (For the previous Department response, see Digest footnote #1)

**IMPROPER ACCOUNTING OF UNAPPLIED CREDITS**

The Department did not properly account for unapplied credits relating to unemployment tax contributions received from other State agencies and component units, totaling \$4.9 million.

**The Department had \$38 million in unapplied credits**

As of June 30, 2012, the Department had unapplied refunds payable (presented as part of benefit payments payable) of about \$38 million. This account consists of unapplied credits for overpayments made by employers to the Department due to wage or rate adjustments, consolidation or deconsolidation of accounts of companies under common ownership, and erroneous overpayment.

The unapplied refunds payable is applied by the Benefit Funding System (BFS) automatically in the following taxable quarter when there is tax due from the employer and the employer did not request a refund. When the unapplied credit is applied to a certain taxable quarter, the Department credits the revenue account in the books. The Department reviews unapplied credits upon request of the employers.

**One account had \$4.8 million in unapplied credits**

During our review of 25 employer accounts with unapplied credits totaling \$11 million (30%), we noted one account had unapplied credits totaling \$4.8 million. This account pertains to unapplied credits of a State agency for unemployment benefits paid to its former employees from June 2010 through March 2011. Upon further review, we noted four State agencies and component units with unapplied credits totaling \$63,000 for benefits paid to their former employees during various taxable quarters in 2011 and 2000.

820 ILCS 405/1405 of the Unemployment Insurance Act states that state entities may elect, instead, in lieu of paying contributions, to reimburse the Department for the actual amount of any benefits paid to their former workers. Contributions received from state entities electing to reimburse benefits were considered reimbursable transactions; however, the unapplied credits were due to the Department's posting these transactions under inactive accounts in BFS. (Finding 2, Pages 44-45)

**The Department agrees with auditors**

We recommended that the Department implement procedures to ensure reimbursable transactions and other unapplied credits relating to State agencies and component units are properly posted in BFS to ensure that the records and the financial statements are accurate.

Department officials accepted the recommendation and stated that the individual posting these receipts in BFS has been notified and informed of the proper process.

**LOANS PAYABLE AND SUBSEQUENT EVENTS**

**Liability totals \$1,138,264,000**

In July 2009 the State of Illinois began receiving repayable advances from the Federal Government for the Illinois Unemployment Compensation Trust Fund. At June 30, 2012, this amount totaled approximately \$1,138,264,000.

**Subsequent Events**

In July 2012, the Department issued Unemployment Insurance Fund Building Receipts Revenue Bonds for \$1,469,940,000 consisting of Series 2012A for \$652,075,000, Series 2012B for \$707,865,000 and Series 2012C for \$110,000,000.

**Bonds Issued to Repay Advances**

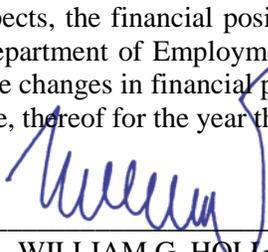
The series bonds were issued for the purposes of repaying principal and interest on unpaid advances to the State's unemployment trust account with the federal unemployment trust fund; paying unemployment benefits by depositing a portion of the proceeds in the State's unemployment trust fund; paying a portion of the interest on the series 2012 bonds; and, paying costs of issuance.

**Congress extends Federal Emergency Unemployment Compensation**

In January 2013, Congress extended the federal Emergency Unemployment Compensation (EUC) insurance program as part of the on-going fiscal cliff negotiations. The federal EUC program extends unemployment benefits past the 25 or 26-week state insurance period, generally providing benefits for an additional 53 weeks. Congress, however, did not add new weeks of benefits. (See notes 10 and 11 to the Financial Statements, pages 36-38).

**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, 2012, and the changes in financial position and cash flows, where applicable, thereof for the year then ended.

  
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WILLIAM G. HOLLAND  
- Auditor General

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## **SPECIAL ASSISTANT AUDITORS**

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

### **DIGEST FOOTNOTES**

#### **#1 –Inadequate Controls Over Computer Security –Previous Department Response**

We accept the recommendation. Since July of 2011, after the time of these findings, the Department has worked to reduce our reliance on Super IDs. We have restricted the use of these IDs to emergency cases, which occur outside of regular business hours. Additionally, in August of 2010, we launched our new Unemployment Insurance system, IBIS. All of the data from our old system, BIS, was converted at that time and we are currently working on a plan to decommission the BIS application. Therefore, issues surrounding the use of Super IDs to correct BIS data are no longer relevant. Our goal is to eliminate the use of Super IDs completely by increasing the skill level of Department employees working in Information Services Bureau's (ISB) Support Services. We will work with our ISB staff to ensure Super ID forms provide a more meaningful description showing the nature of the changes made using the Super ID, including the actual transaction codes that were executed, or the tables or files that were accessed. All of this documentation will continue to be reviewed on a weekly basis and retained by ISB's Support Services manager. Finally, in order to ensure we keep a better audit trail of Super ID usage, we will implement a new policy that only night shift Computer Room supervisors have access to Super ID passwords. Staff needing to use a Super ID will need to call the Computer Room supervisor for the password before making any modifications. All calls to the Computer Room are currently logged and retained.