



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, 2017

Release Date: February 14, 2019

FINDINGS THIS AUDIT: 14	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	6	6	2015		17-7, 17-8, 17-11, 17-13	
Category 2:	2	6	8	2013	17-6		
Category 3:	0	0	0	2007	17-3, 17-4	17-9	
TOTAL	2	12	14	2005	17-1, 17-2		
FINDINGS LAST AUDIT: 14				2003	17-5		
				1999		17-14	

SYNOPSIS

- (17-01) The Department did not exercise adequate control over its cash receipts and related reporting.
- (17-02) The Department did not exercise adequate control over its accounts receivable and related reporting.
- (17-03) The Department failed to establish and maintain adequate control over its Special State Trust Fund, which holds unpaid wages due to employees.
- (17-04) The Department did not perform adequate and accurate reconciliations during the examination period.
- (17-05) The Department did not exercise adequate control over the accuracy, completeness, and timeliness of its State property records and related reporting.
- (17-06) The Department failed to maintain proper controls over its personal services functions.

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, 2017**

EXPENDITURE STATISTICS	2017	2016	2015
Total Expenditures.....	\$ 9,075,942	\$ 9,693,265	\$ 22,792,950
OPERATIONS TOTAL.....	\$ 8,796,240	\$ 9,082,826	\$ 9,205,388
% of Total Expenditures.....	96.9%	93.7%	40.4%
Personal Services.....	6,128,675	6,320,356	5,598,006
Other Payroll Costs (FICA, Retirement).....	1,558,370	1,620,598	643,049
All Other Operating Expenditures.....	1,109,195	1,141,872	2,964,333
AWARDS AND GRANTS.....	\$ 279,702	\$ 610,439	\$ 13,587,562
% of Total Expenditures.....	3.1%	6.3%	59.6%
Total Receipts per State Comptroller.....	\$ 4,216,717	\$ 5,619,606	\$ 4,256,954
Average Number of Employees (Not Examined).....	83	85	90

SELECTED ACTIVITY MEASURES	2017	2016	2015
*	*	*	*

* The Department did not submit service efforts and accomplishments data to the Office of the State Comptroller for Fiscal Year 2015, Fiscal Year 2016, and Fiscal Year 2017.

DEPARTMENT DIRECTOR
During Examination Period: Mr. Hugo Chaviano (7/1/15 - 1/16/17); Ms. Anna Hui (Acting) (1/17/17 - 4/16/17); Mr. Joseph Beyer (Acting) (4/17/17 - 4/23/18); Mr. Joseph Beyer (4/24/18 - 1/21/19) Currently: Mr. Michael Kleinik (Acting) (effective 1/22/19)

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

INADEQUATE CONTROL OVER RECEIPTS

The Department did not exercise adequate control over its cash receipts and related reporting. According to the State Comptroller's records, the Department remitted \$9,836,323 to the State Treasury during the examination period.

Some of the conditions we noted follow:

Outdated computer system

- The Department was unable to provide individual receipt records for the General Revenue Fund, Amusement Ride and Patron Safety Fund, Department of Labor Special State Trust Fund, Child Labor and Day and Temporary Labor Services Enforcement Fund, Employee Classification Fund, and Wage Theft Enforcement Fund which reconciled to the *Monthly Revenue Status Report* from the Office of the State Comptroller. We noted this condition was primarily due to the computer program used by the Department to process receipts, which was outdated and not fully functional. As such, it is difficult for Department staff to track receipts after entry, produce reports of receipts collected, or sort data stored within the system.

Receipt Deposit Transmittals did not reconcile with individual receipt records

- While the Department's monthly reconciliations of the SB04 reports agreed between the Department's Receipt Deposit Transmittal (Form C-64) reports and the Comptroller's records, we noted the Form C-64s did not reconcile with the Department's individual receipt records.

Receipts deposited late

- Fourteen of 60 (23%) receipts tested, totaling \$19,965, were deposited between 3 to 198 days late, even after allowing for the Department's 10-day deposit extension granted by the State Comptroller and State Treasurer.

Fees not reported

- The Department omitted fees related to private employment counseling from its Fiscal Year 2016 Agency Fee Imposition Report (Report). The required fees are set forth in the Private Employment Agency Act (225 ILCS 515/1.5(a)(3) and 225 ILCS 515/4), as well as the Illinois Administrative Code (68 Ill. Admin. Code 680.1000(b)). It appears, based off our calculations, \$17,345 should have been reported by the Department for this fee. (Finding 1, pages 11-15) **This finding has been repeated since 2005.**

We recommended the Department develop and maintain internal controls over its receipts to ensure the timely collection of revenues and adequate documentation is maintained and readily available for all transactions. In addition, we recommended the Department ensure its

accounting records reside within a system capable of generating reports, providing detailed records and balances, and producing transaction listings, which are timely reconciled to the State Comptroller's records and as a part of this reconciliation, any discrepancies should be investigated. Further, we recommended the Department timely establish receivables and initiate collection for NSF checks and ensure its annual Report is complete and accurate and filed timely with the State Comptroller.

Department agrees with auditors

Department personnel accepted our recommendations. *(For the previous Department response, see Digest Footnote #1.)*

INADEQUATE CONTROL OVER ACCOUNTS RECEIVABLE

The Department did not exercise adequate control over its accounts receivable and related reporting. At June 30, 2017, the Department's *Aging of Total Gross Receivables* (Form C-98) reported \$2.158 million in total gross receivables.

Some of the conditions we noted follow:

Unable to provide certain accounts receivable records

- The Department was unable to provide detailed individual accounts receivable records for the General Revenue Fund, Child Labor and Day and Temporary Labor Services Enforcement Fund, Employee Classification Fund, and Wage Theft Enforcement Fund.

Could not produce accurate additions and collections amounts

- During analytical reviews, we noted the Department reported the same outstanding accounts receivable balance throughout Fiscal Year 2016, with no adjustments, additions, or collections. In following up on this matter with Department officials, they indicated a former employee carried over the prior year's accounts receivable amount for all funds and all quarters during Fiscal Year 2016 because the Department did not have any reports available to produce accurate additions and collections amounts.

Fiscal Year 2016 activity was not recorded

- The Department was unable to provide an aging schedule to support its Form C-98s. (Finding 2, pages 16-20) **This finding has been repeated since 2005.**

Unable to provide an aging schedule

We recommended the Department take action to ensure its accounts receivable are properly recorded, collection efforts are made, and accounts receivable reports are properly prepared in accordance with all applicable laws, rules, and regulations.

Department agreed with auditors

Department personnel accepted our recommendation. *(For the previous Department response, see Digest Footnote #2.)*

FAILURE TO ESTABLISH AND MAINTAIN ADEQUATE INTERNAL CONTROL OVER THE SPECIAL STATE TRUST FUND

The Department failed to establish and maintain adequate control over its Special State Trust Fund (Fund 251), which holds unpaid wages due to employees. As of June 30, 2017, Fund 251 had \$1,402,480 in cash.

Pursuant to the Illinois Wage Payment and Collection Act (WPCA) (820 ILCS 115/11.5(a)), the Department collects, when necessary, an employee's wages or final compensation due and holds these moneys until the employee (now, claimant) can be located by the Department and properly paid. Additionally, pursuant to the Minimum Wage Law (MWL) (820 ILCS 105/12(b)), the Department collects, when necessary, unpaid minimum wages and overtime due to employees and holds these moneys until the employee (now, claimant) can be located by the Department and properly paid. Finally, the Statewide Accounting Management System (SAMS) (Procedure 05.50.01) notes fiduciary funds account for assets held by a governmental unit in a trustee capacity or as an agent for individuals and SAMS (Exhibit 27.50.10-A) notes Fund 251 is an agency type of fiduciary fund.

During testing, we noted the following:

Payment requests approved late

- 32 of 60 (53%) claimant payment requests tested, totaling \$127,119, were approved for payment between 14 and 334 days after the claimant filed their claim with the Department.

Ledger of claimants could not be reconciled

- We were unable to reconcile the Department's ledger of claimants to the Fund 251's cash balance from the *Monthly Cash Report* (SB05) prepared by the Office of the State Comptroller. We noted unreconciled differences of \$73,346 and \$75,377 at June 30, 2016, and June 30, 2017, respectively.

Old activity not handled properly

- At June 30, 2017, the Department is holding claimant balances related to as far back as Calendar Year 2003 activity. Each of these balances require a proper disposition by the Department. (Finding 3, pages 21-24) **This finding has been repeated since 2007.**

We recommended the Department take action to ensure:

- supporting documentation is obtained and preserved, along with the posting of proper accounting entries, when receipts for unclaimed wages are collected and remitted into Fund 251;
- a notation within the Department's records is made to indicate amounts collected pursuant to the WPCA or the MWL when receipts are collected and remitted into Fund 251;

- claimant claims are promptly processed and paid, along with the posting of proper accounting entries, when distributed from Fund 251;
- reconciliations of the total amount due to claimants at the end of each month to the SB05 report are performed and any unreconciled discrepancies are investigated and properly resolved;
- amounts due to claimants older than one year under the MWL are promptly transferred to the General Revenue Fund, with the timely posting of proper accounting entries; and,
- amounts due to claimants under the WPCA are properly handled under the relevant provisions of the Revised Uniform Unclaimed Property Act (RUUPA), with the timely posting of proper accounting entries.

Department agreed with auditors

Department personnel accepted our recommendations. (*For the previous Department response, see Digest Footnote #3.*)

INADEQUATE AND INACCURATE RECONCILIATIONS

The Department did not perform adequate and accurate reconciliations during the examination period. We noted discrepancies with the Department’s reconciliations of its activity against the *Monthly Appropriations Status Report* (SB01), the Non-Shared Funds *Monthly Cash Report* (SB05), the *Agency Contract Report* (SC14), and the *Obligation Activity Report* (SC15).

Some of the conditions we noted follow:

Reconciliations not performed

- The Department did not prepare any reconciliations of its records to the SB01 prepared by the Office of the State Comptroller during Fiscal Year 2017.
- During our comparison of the Comptroller’s expenditure records to the Department’s expenditure records, we noted 1) eight vouchers, totaling \$123,028, were reversed or voided within the Comptroller’s records, but were not reversed or voided in the Department’s records, 2) four vouchers, totaling \$7,928, were reversed or voided within the Department’s records, but were not reversed or voided in the Comptroller’s records, 3) twelve vouchers, totaling \$170,250, were included within the Comptroller’s records, but did not appear within the Department’s records, and 4) twenty-two vouchers, totaling \$35,821, were included within the Department’s records, but did not appear within the Comptroller’s records.
- The Department did not prepare 120 of 168 (71%) SB05 reconciliations for the Amusement Ride and Patron Safety Fund, Department of Labor Special State Trust Fund, Child Labor and Day and

Expenditure records incomplete and/or inaccurate

Reconciliations not performed

Temporary Labor Services Enforcement Fund, Employee Classification Fund, and Wage Theft Enforcement. The combined cash balance of those funds, according to the Comptroller's records, was \$3,266,697 and \$3,022,922 at June 30, 2016, and June 30, 2017, respectively. (Finding 4, pages 25-28) **This finding has been repeated since 2007.**

We recommended the Department take action to ensure it timely prepares adequate and accurate reconciliations of its accounting records to the Comptroller's records each month and investigates and resolves all discrepancies.

Department agreed with auditors

Department personnel indicated our recommendation was implemented. (*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 its State property records and related reporting.

Lacked detailed property records to support quarterly reports

During testing, we noted the Department did not maintain detailed documentation supporting its quarterly *Agency Report of State Property* reports (Form C-15) filed with the Office of the State Comptroller. As of June 30, 2016, and June 30, 2017, the Department reported total property balances of \$1,214,870 and \$1,257,540, respectively.

Form C-15s did not agree to underlying support

Some of the conditions we noted follow:

- We could not agree the addition and deletion reports provided to us by the Department to activity reported on the Department's Form C-15s, as we noted an unreconciled difference of \$11,285.
- The Department's ending property balance reported on its fourth quarter Form C-15 for Fiscal Year 2015 did not agree with the beginning balance reported on its first quarter Form C-15 for Fiscal Year 2016, as we noted an unreconciled difference of \$692.
- We were unable to reconcile the Department's Form C-15s to the State Comptroller's *Object Expense/Expenditures Report* (SA02), as personnel at the Department were unable to provide any documentation to support amounts reported on its Form C-15s. We noted unreconciled differences between the Form C-15s and the SA02s of \$35,752 and \$20,757 during Fiscal Year 2016 and Fiscal Year 2017, respectively.
- The Department could not provide its Fiscal Year 2016 *Certification of Inventory and Discrepancy Report* which should have been filed with the Department of Central Management Services. As

Beginning balances did not agree to prior ending balances

Unreconciled differences noted

Report not filed

such, we were unable to determine if any discrepancies were noted during the annual inventory count and the risk of data exposure from missing or stolen data stored on items like computers, servers, and laptops.

- The Department's property listing was incomplete. For the 1,279 items on the listing we noted the purchase date was not reported for 994 (78%) items, a voucher number was not reported for 961 (75%) items, the purchase prices was not reported for 835 (65%) items, and the listing included 16 (1%) items which appeared to be missing, or were not tagged with an equipment number. (Finding 5, pages 29-34)

This finding has been repeated since 2003.

We recommended the Department strengthen its controls over the recording and reporting of State property by reviewing its inventory and recordkeeping practices to ensure compliance with State law. In addition, we recommended the Department ensure all equipment is tagged as State property and accurately and timely recorded on the Department's property records and maintain documentation of any equipment additions, deletions, and transfers. Finally, we recommended the Department thoroughly review all reports prepared from its records for accuracy and completeness prior to submitting the reports to external parties.

Department agreed with auditors

Department personnel indicated our recommendations were implemented. *(For the previous Department response, see Digest Footnote #5.)*

INADEQUATE CONTROL OVER PERSONAL SERVICES

The Department failed to maintain proper controls over its personal services functions. Some of the conditions we noted follow:

Performance evaluations not performed

- We tested performance evaluations for 18 employees and noted six (33%) employees did not have annual performance evaluations during Fiscal Year 2016 and/or Fiscal Year 2017; three (17%) employees requiring probationary performance evaluations did not have these evaluations performed during the examination period, as these employees were missing five total probationary evaluations; and six (33%) employees' annual performance evaluations during Fiscal Year 2016 and/or Fiscal Year 2017 were completed between 67 and 621 days late.

Leave requests not properly approved

- Leave requests for 12 of 18 (67%) employees tested were not properly approved in advance of the requested day off. We noted 42 instances when leave time was approved between 1 and 40 days after the leave had occurred. These leave requests included

Late post-approval of sick time

vacation time, personal time, compensatory time, equivalent earned time, holiday time, and other authorized absences.

- The use of sick time was not post-approved within a reasonable amount of time for 11 of 18 (61%) employees tested, as requests were approved between 2 and 20 days after the sick leave occurred. (Finding 6, pages 35-39). **This finding has been repeated since 2013.**

We recommended the Department establish and maintain fiscal and administrative internal controls over its personal services functions, including:

- timely performing performance evaluations in accordance with the *Illinois Department of Labor Policy Manual* and the Illinois Administrative Code;
- ensuring employees submit leave documentation in a timely manner;
- ensuring employees obtain approval prior to working overtime;
- maintaining complete and accurate personnel files, including correct Form C-25s and authorizations for deductions;
- ensuring all employees timely complete ethics training and complete the associated attendance verification for retention by the Department;
- ensuring payroll vouchers are prepared from and agree with all source documentation; and,
- ensuring all payroll vouchers are signed by an authorized person.

Department agreed with auditors

Department personnel accepted our recommendations and/or indicated the recommendations have been implemented. (*For the previous Department response, see Digest Footnote #6.*)

OTHER FINDINGS

The remaining findings pertain to noncompliance with the Employee Classification Act and the Fiscal Control and Internal Auditing Act, inadequate control over travel expenditures and voucher processing, inaccurate financial reporting of federal grant activity, lack of disaster contingency planning or testing to ensure the recovery of computer systems, improper disposal of State records and noncompliance with the Private Employment Agency Act, and reporting procedural deficiencies. We will review the Department's progress towards the implementation of our recommendations in our next compliance examination.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the Department for the two years ended June 30, 2017, as required

by the Illinois State Auditing Act. The accountants qualified their report on State compliance for findings 2017-001 through 2017-006. 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.

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

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:cmd

DIGEST FOOTNOTES

#1 – Inadequate Control over Receipts – Previous Department Response

2015: The Department accepts the recommendations. Many of the issues noted in the finding either occurred during the prior administration or were due to a lack of internal controls and proper recordkeeping in place under the prior administration. When the Department's current leadership learned of the underlying causes and conditions, it took remedial actions. The Department has undertaken a review of all internal fiscal controls and is 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. During development, the Department will continue to use, to the best of its ability, the current set up for tracking cases, revenues, and payments. The Department intends to make every effort to correct all deficiencies and streamlining all processes that it has the capability and resources to accomplish.

#2 – Inadequate Control over Accounts Receivable – Previous Department Response

2015: The Department accepts the recommendations. Many of the issues noted in the finding either occurred during the prior administration or were due to a lack of internal controls and proper recordkeeping in place under the prior administration. Under the current administration, the Department's leadership has taken steps

to implement proper internal controls. The Department is reviewing the basis of receivables reported under the previous administration. The Department intends to identify all forms of debt to the State under our programs and will make every effort to develop a formal billing, collections, and reporting process in accordance with the State Finance Act, the Fiscal Control and Internal Auditing Act, and all relevant SAMS procedures.

#3 – Failure to Establish and Maintain Adequate Internal Control over the Special State Trust Fund – Previous Department Response

2015: The Department accepts the recommendations. The issues noted in the finding were due to a lack of internal controls and proper oversight of Fund 251 by the Department under prior administrations. The Department's current leadership discovered the inherited issues with the management of Fund 251 and took remedial actions during calendar year 2015 to rectify such issues.

In CY 2015, the Department experienced complete turnover at the executive level and complete turnover at every level of the fiscal section, including the resignation of the Department's Chief Fiscal Officer (CFO) in late February 2015. When the current administration learned of the conditions it inherited, it took immediate steps to address the problem. Although unable to locate any documentation of reconciliations of the Department's general ledger and Fund 251 balances against the Comptroller reports from prior administrations, the current CFO and fiscal staff implemented policies and procedures to ensure that such documentation is maintained and that the general ledger and funds are reconciled. The Department also implemented changes to its check-processing procedures to make sure that adequate controls are in place to ensure proper transfers from Fund 251 to the General Revenue Fund in compliance with the Minimum Wage Law (820 ILCS 105/12(b)) and maintain adequate documentation. The Department also retained an independent accounting firm to conduct an audit, which confirmed that all funds were properly placed into and transferred out of Fund 251 during CY 2015.

The Department intends to maintain adequate controls and documentation and to continue these new policies and procedures to comply with the Minimum Wage Law (820 ILCS 105/12(b)) by transferring the required amounts from Fund 251 to the General Revenue Fund with documentation of these future transfers.

Under previous administrations, numerous audits found repeated reconciliation and documentation problems with Fund 251. In the spirit of good government and transparency, the current administration is committed to restoring the public's confidence in the Department's management of this special trust fund.

#4 – Inadequate and Inaccurate Reconciliations – Previous Department Response

2015: The issues noted in the finding were due to a lack of internal controls and proper oversight of by the Department under the prior administration. The Department's current leadership discovered the inherited issues and is continuing its efforts to remedy the deficiencies identified in the findings. The Department has been

involved in reconciling expenditures and cash receipts from prior years since the change in administration and fiscal positions during the 3rd and 4th quarters of Fiscal Year 2015. For the current transactions, the Department has implemented reconciliations of the expenditure data from the Accounting Information System (AIS) to the Comptroller's SB01 appropriation status report for all payables. On the receipts side, the Department has implemented reconciliations of Department transmittals to the Treasurer's deposit record and the Comptroller's monthly SB04 and SB05 reports.

#5 – State Property Control Weaknesses – Previous Department Response

2015: The Department accepts the recommendations. Current administration staff is unable to comment on the root cause of deficiencies under the prior administration and is making every effort to remedy the deficiencies identified in the findings. The Department has made, and will continue to make, a concerted effort to improve controls over the recording and reporting of State property. The Department performed a complete inventory of its offices, including properly tagging all items and marking their correct location on inventory records. Fiscal staff also will charge all expenditures to the proper detail object codes going forward.

#6 – Inadequate Control over Personal Services – Previous Department Response

2015: The Department accepts the recommendations. Many of the issues noted in the finding either occurred during the prior administration or were due to a lack of internal controls and proper recordkeeping in place under the prior administration. When the Department's current administration learned of these inherited conditions, it took steps to remedy deficiencies. The current Chief of Staff and HR Manager have made a concerted effort to make sure all senior staff understands the importance of completing evaluations in a timely manner and approving time requests pursuant to the Illinois Administrative Code, Department policies, and any applicable collective bargaining agreements. The Department will continue to make every effort to ensure compliance.