STATE OF ILLINOIS
DEPARTMENT OF EMPLOYMENT SECURITY

COMPLIANCE EXAMINATION
FOR THE TWO YEARS ENDED JUNE 30, 2017

Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

State of Illinois
Department of Employment Security

Compliance Examination
For the Two Years Ended June 30, 2017

Table of Contents **Page**

Financial Statement Report:

The Department's financial statement report for the year ended June 30, 2017, which includes Independent Auditor's Report, Basic Financial Statements and Notes to Financial Statements, and the Independent Auditor's 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* has been issued separately.

Table of Contents (Continued)

Agency Officials

Director	Mr. Jeffrey D. Mays
Chief of Staff	Mr. James McDonough
Deputy Chief of Staff	Ms. Helen Cashman
Deputy Director Service Delivery Bureau	Ms. Trina Taylor
Deputy Director Business Services Bureau	Ms. Dolores Simon
Chief Legal Counsel	Mr. Joseph P. Mueller
Chief Financial Officer	Ms. Linda DeMore
Chief Administration Officer	Mr. John Waters
Chief Operating Officer	Ms. Jennifer Waldinger
Chief Internal Auditor	Mr. Rex Crossland
Chief Information Officer	Mr. Thomas Revane
Chief Technology Officer	Mr. Venkata Twarakavi
Equal Employment Opportunity Officer	Ms. Anna D'Ascenzo
Manager, Accounting Services Division	Mr. L. Briant Coombs
Manager, Economic Information and Analysis Division	Ms. Evelina Loescher, PhD
Manager, Revenue Division	Ms. Lois Cuevas
Statewide Manager, Field Operations	Ms. Janice Taylor Brown
Statewide Manager, Unemployment Insurance Programs	Mr. Justin Brissette

The Department's Administrative offices are located at:

33 South State Street
Chicago, IL 60603-2802

607 East Adams Street, 9th floor
Springfield, IL 62701-1606

Bruce Rauner
Governor

ILLINOIS DEPARTMENT OF EMPLOYMENT SECURITY

Jeffrey D. Mays
Director

April 4, 2018

RSM US LLP
Certified Public Accountants
20 N. Martingale Road
Schaumburg, Illinois 60173

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 Department of Employment Security. 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 of Employment Security's compliance with the following assertions during the two-year period ended June 30, 2017. Based on this evaluation, we assert that during the years ended June 30, 2017 and June 30, 2016, the Department of Employment Security has materially complied with the assertions below.

A. The Department of Employment Security 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 of Employment Security 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 of Employment Security 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 of Employment Security 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 of Employment Security on behalf of the State or held in trust by the Department of Employment Security have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours truly,

Department of Employment Security

SIGNED ORIGINAL ON FILE

Jeffrey Mays, Director

SIGNED ORIGINAL ON FILE

Linda DeMore, Chief Financial Officer

SIGNED ORIGINAL ON FILE

Joseph Mueller, Chief Legal Counsel

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.

ACCOUNTANT'S REPORT

The Independent Accountant's 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

Number of	Current Report	Prior Report
Findings	11	9
Repeated findings	7	5
Prior recommendations implemented or not repeated	2	2

SCHEDULE OF FINDINGS

Item No.	Page	Description	Finding Type
		FINDINGS (*GOVERNMENT AUDITING STANDARDS*)	
2017-001	11	Inadequate Controls over Financial Close and Reporting	Significant Deficiency
		FINDINGS (STATE COMPLIANCE)	
2017-002	12	Noncompliance with Unemployment Insurance Act	Noncompliance and Significant Deficiency
2017-003	14	Performance Evaluation Not Completed Timely	Noncompliance and Significant Deficiency
2017-004	16	Untimely Issuance of Eligibility Determinations	Noncompliance and Significant Deficiency
2017-005	18	Noncompliance with Statutes and Regulation on Internal Auditing	Noncompliance and Significant Deficiency
2017-006	20	Inadequate Controls Over Travel Reimbursements	Noncompliance and Significant Deficiency
2017-007	22	Inadequate Controls Over Wireless Telecommunication Devices	Noncompliance and Significant Deficiency

SCHEDULE OF FINDINGS (CONTINUED)

FINDINGS (STATE COMPLIANCE) (Continued)

2017-008	24	Inadequate Controls Over Property and Equipment Records	Noncompliance and Significant Deficiency
2017-009	27	Noncompliance with Election Code	Noncompliance and Significant Deficiency
2017-010	29	Inadequate Controls over the Submission of Monthly Reconciliations	Noncompliance and Significant Deficiency
2017-011	31	Lack of Disaster Contingency Planning or Testing to Ensure Recovery of Applications and Data	Noncompliance and Significant Deficiency

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

FINDINGS (*GOVERNMENT AUDITING STANDARDS*)

2017-001	11	Inadequate Controls over Financial Close and Reporting	Noncompliance and Significant Deficiency

PRIOR FINDINGS NOT REPEATED

A	33	Inadequate Controls over Tax Rate Information Used to Calculate Employer Contributions
B	33	Noncompliance with the Veterans' Employment Representative Act

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference conducted on March 20, 2018. Attending were:

<u>Illinois Department of Employment Security</u>
Jeffrey D. Mays, Director
Joseph P. Mueller, Legal Counsel
Linda DeMore, Chief Financial Officer
Rex Crossland, Chief Internal Auditor
Thomas Revane, Chief Information Officer
Trina Taylor, Department Director of Benefit Services
James M. Schreiber, Audit Liaison
L. Briant Coombs, Manager, Accounting Services
Kelly McGrath, Manager of Accounting and Reporting

<u>Office of the Auditor General</u>
Kathleen Devitt, IS Audit Manager
Jose Roa, Audit Manager

<u>RSM US LLP</u>
Joseph Evans, Partner
Dan Sethness, Manager
Dan Harker, Manager
Paul Rosario, Senior

Responses to the recommendations were provided by James M. Schreiber, Audit Liaison, in correspondence dated March 30, 2018.

Independent Accountant's Report on State Compliance, on Internal Control Over Compliance and on Supplementary Information for State Compliance Purposes

Honorable Frank J. Mautino
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, 2017. 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.

Our examination was conducted 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 (the Audit Guide). Those standards, the Act, and the Audit Guide require that we plan and perform the examination to obtain reasonable assurance about whether the Department complied, in all material respects, with the specified requirements listed above. An examination involves performing procedures to obtain evidence about whether the Department complied with the specified requirements listed above. The nature, timing and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance, whether due to fraud or error.

We believe that the evidence we obtained is sufficient and appropriate to provide 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 compliance requirements listed in the first paragraph of this report during the two years ended June 30, 2017. However, the results of our procedures disclosed instances of noncompliance with the requirements, 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 items 2017-002 to 2017-011.

The Department's responses to the findings identified in our examination are described in the accompanying schedule of findings. The Department's responses were not subjected to the procedures applied in the compliance examination and, accordingly, we express no opinion on the responses.

The purpose of this report on compliance is solely to describe the scope of our testing and the results of that testing in accordance with the requirements of the Audit Guide issued by the Illinois Office of the Auditor General. Accordingly, this report is not suitable for any other purpose.

Internal Control

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 to determine the examination procedures that are appropriate in the circumstances 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.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance 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 in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings as items 2017-001 to 2017-011 that we consider to be significant deficiencies.

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 internal control findings identified in our examination are described in the accompanying schedule of findings. The Department's responses were not subjected to the procedures applied in the compliance examination and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Audit Guide, issued by the Illinois Office of the Auditor General. Accordingly, this report is not suitable for any other purpose.

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 for the years ended June 30, 2017 and June 30, 2016 in Schedules 1 through 8 and the Analysis of Operations Section are 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 June 30, 2017 and June 30, 2016 accompanying supplementary information in Schedules 1 through 8. However, we do not express an opinion on the accompanying supplementary information.

We have not applied procedures to the June 30, 2015 accompanying supplementary information in Schedules 1 through 8 and in the Analysis of Operations Section, and accordingly, we do not express an opinion or provide any assurance on it.

The accompanying supplementary information in the Analysis of Operations Section is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance 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 another other than these specified parties.

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
April 4, 2018

RSM

RSM US LLP

Independent Auditor's 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 Frank J. Mautino
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the 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, the financial statements of the Unemployment Compensation Trust Fund (Individual Nonshared Proprietary Funds) of the State of Illinois, Department of Employment Security (Department), as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated December 22, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as item 2017-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Individual Nonshared Proprietary Fund of the Department's financial statements are free from 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*.

Department's Response to Finding

The Department's response to the finding identified in our audit is described in the accompanying schedule of finding and response. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
December 22, 2017

Current Finding - *Government Auditing Standards*

2017-001 Inadequate Controls over Financial Close and Reporting

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

During our audit of the Unemployment Trust Fund (Fund 1138), we noted amounts associated with additional contribution refunds for reimbursement-basis employers which were indicated in the Department's Benefit Funding System were not captured in the total amount of employer refunds at year-end. As a result, the payables for employer contribution refunds were understated by $5.7 million, and associated revenues were overstated by the same amount.

The Department subsequently corrected the financial statements for the above adjustment.

Government Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions (Paragraph 16)*, states that revenues should be recognized, net of estimated refunds and estimated uncollectible accounts, in the same period that the assets are recognized, provided that the underlying exchange transaction has occurred.

In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance obligations and costs are in compliance with applicable law. Good internal controls include ensuring revenues are recorded net of refunds.

Department management stated unidentified payment transactions were not captured in the Department's Trust Fund General Ledger due to oversight. This misstatement was identified during the Department's conversion to a new tax revenue system and was adjusted accordingly.

Failure to properly account for employer refunds associated with employer contributions resulted in overstatement of revenues and understatement of liabilities in the financial statements. (Finding Code No. 2017-001)

Recommendation

We recommend the Department implement procedures to ensure reimbursable transactions and other unapplied credits are properly recorded in the Department's reporting system for proprietary funds to ensure the underlying records and financial statements are accurate.

Department Response

The Department agrees with the finding. On September 11, 2017, the Department implemented a new tax revenue system (GenTax). All receivables and payables are available and reconciled on the new system.

Current Findings - State Compliance

2017-002 Noncompliance with Unemployment Insurance Act

The Illinois Department of Employment Security (Department) did not fully comply with the Unemployment Insurance Act (Act).

Based on our examination of the Department's requirements related to the Economic Data Task Force, the Department:

a. had only appointed four out of five members to the task force;
b. held only one of at least three required public hearings;
c. had not reported its findings and recommendations to the Governor and General Assembly by June 30, 2013; and
d. had not designated each member of the Task Force and each Department employee as an agent of Bureau of Labor Statistics (BLS) pursuant to the federal Confidential Information Protection and Statistical Efficiency Act of 2002.

The Act (820 ILCS 405/1900.2(a) thru (e)) requires the Department Director to appoint five members, one from the employee class, one from the employer class, two academic researchers, and one employee from the United States Bureau of Labor to the Economic Data Task Force by March 2, 2013, or 60 days after the effective date of January 1, 2013. The Task Force shall report its findings and recommendations to the Governor and the General Assembly no later than June 30, 2013, and shall be dissolved upon submission of the report. Each member of the Task Force and each Department employee must be designated as an agent of BLS pursuant to the federal Confidential Information Protection and Statistical Efficiency Act of 2002, as a condition of being able to participate in any activities of the Task Force.

The Department stated that the purpose of the Economic Data Task Force was essentially to expand upon the labor market information that the Department shares with the public. According to the Department, no further meetings were scheduled after the Economic Data Task Force's initial meeting, as no information was identified that the Department could legally share. The Department plans to pursue repeal of the statutory provision establishing the Economic Data Task Force.

Failure to timely appoint members and hold the required public hearings of the Economic Data Task Force contributed to the delay in the submission of required reports. Failure to submit recommendations to the Governor and the General Assembly timely precludes them from performing oversight functions and results in noncompliance with the statute. In addition, failure to designate each member of the Economic Data Task Force as an agent of BLS results in noncompliance with the statute. (Finding Code No. 2017-002, 2015-002, 2013-002, 11-3)

Current Findings - State Compliance

2017-002 Noncompliance with Unemployment Insurance Act (Continued)

Recommendation

We recommend the Department comply with the Act by fulfilling the requirements of the Economic Data Task Force or seek legislative remedy.

Department Response

The Department agrees with this finding and will continue working to resolve the finding through legislation. Task Force members were not designated as BLS agents because it was determined they would not examine any data deemed confidential under state or federal law, so the designation would be unnecessary.

Current Findings - State Compliance (Continued)

2017-003 Performance Evaluation Not Completed Timely

The Illinois Department of Employment Security (Department) did not complete or timely complete employee performance evaluations.

During our examination of a sample of 52 employee personnel files, we noted the following:

- Eight (15%) employees did not have performance evaluations completed, four for Fiscal Year 2016 and four for Fiscal Year 2017.
- Thirty-eight (73%) employees' performance evaluations were completed after the due date. The evaluations were performed between 11 to 347 days after they were due, 19 for Fiscal Year 2016 and 19 for Fiscal Year 2017.
- One (2%) performance evaluation for Fiscal Year 2017 did not have the proper documentation to support when Human Resource Management (HRM) received the evaluation and that the evaluation was reviewed by the Agency Head.
- The performance evaluation of four (8%) newly hired employees were not completed, one for Fiscal Year 2016 and three for Fiscal Year 2017.

The Illinois Administrative Code (80 Ill. Admin. Code 302.270(d)) requires that, for a certified employee, each agency shall prepare an employee performance evaluation not less often than annually. The Illinois Administrative Code (80 Ill. Admin. Code 310.450(c)) also requires that evaluations be completed prior to when annual merit increases are awarded. In addition, the Department's personnel manual requires the Department to complete performance evaluations for newly appointed employees upon completion of the first probationary period (3 months) and 15 days prior to the completion of the final probationary period (6 months). Further, the Department Procedures Manual (2020.30) states that performance evaluations should be processed sufficiently in advance so that they are normally received by Department's HRM at least two weeks prior to the date they are due. Upon review, the HRM should affix the Department Director's signature.

Department management stated the current IDES procedures do not offer a reasonable timeframe to complete and submit evaluations because they are due before the end of the reporting period. Lack of regular training and emphasis on timely completion has caused some of the delays as well.

Employee performance evaluations are a systematic and uniform approach used for the development of employees and to communicate performance expectations. The evaluation measures actual work performance against the performance criteria established at the beginning of the appraisal period. Without timely completion of an employee's performance evaluation, the employee will not be provided with formal feedback, which could lead to continued poor performance. (Finding Code No. 2017-003, 2015-003, 2013-003, 11-4, 09-7, 07-03, 05-5, 03-2)

Current Findings - State Compliance (Continued)

2017-003 Performance Evaluation Not Completed Timely (Continued)

Recommendation

We recommend the Department evaluate its procedures for monitoring performance evaluations to ensure completion on a timely basis.

Department Response

The Department agrees with this finding and will continue to be committed to eliminating this finding. On February 20, 2018, the IDES Procedures Manual Section 2020 was updated to offer a more reasonable timeframe for the submission of some evaluations. The procedure stipulates that annual evaluations for all employees will not be considered past due until one month after the end of the evaluation period. New staff hired in the area responsible for processing evaluations and notices continue to send notices to supervisors regarding current and past due evaluations. In 2018, the Labor Relations Division will provide training for managers on how to properly complete evaluations. After managers have a better understanding of how to complete the tool, the Department expects agency compliance to improve.

Current Findings - State Compliance (Continued)

2017-004 Untimely Issuance of Eligibility Determinations

The Illinois Department of Employment Security (Department) did not issue eligibility determinations within the designated timeframe.

The Department did not meet the acceptable coverage of at least 80% for timely non-monetary eligibility determinations within the required 21 days. The Department's quarterly workflow summaries stated timely determinations of 63% in Fiscal Year 2016 and 73% in Fiscal Year 2017. During our examination of 25 claimants, we noted that the Department failed to make a determination within 21 days for 8 claimants (32%). The determinations were made 1 to 47 days late.

The Code of Federal Regulation (20 CFR Part 640.3) requires that a State law include provisions for methods of administration that will reasonably ensure the full payment of unemployment benefits for eligible claimants will be made 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 there are a number of factors that have contributed to the Department's failure to issue timely determinations. The most significant factors include the prolonged impact of the closure and consolidation of field offices; the volatility of staffing levels attributed to constant transfers, promotions, retirements and new hires; and the implementation of a number of integrity efforts which has increased the number of adjudication issues. The Department also noted the inefficient processing of incoming adjudication documents. In addition, the Department stated timeliness was affected by the posting of non-issues and the noticing of claim to employers that were not interested parties.

Failure to issue eligibility determinations within the prescribed timeframes could result in withholding of unemployment compensation. (Finding Code No. 2017-004, 2015-004, 2013-005, 11-6, 09-6)

Recommendation

We recommend the Department implement procedures to enable them to make all eligibility determinations within the designated timeframes.

Current Findings - State Compliance (Continued)

2017-004 Untimely Issuance of Eligibility Determinations (Continued)

Department Response

The Department agrees with this finding and has focused on the reduction and elimination, where possible, of the posting and scheduling of adjudication assignments which are actually non-issues. The Department's attention has been directed to the Document Processing Unit and the Internet Claims Unit, which are in positions to ensure that valid issues get posted. Staff in these units, by way of a continuous process improvement model, learn to properly identify documents, to properly index documents to the correct issue, and to prevent the posting of duplicate and unnecessary issues. Also, the Department has identified and focused in on localized causes of untimeliness and began pilot projects in those areas to fix the problems. For example, the Southern Region began a project to shift majority focus on backlogged cases to completing cases which are timely, which also prevents such cases from becoming backlogged and untimely. Another pilot focused in on adjudication issues identified in regional offices and had staff post selected issues as they were identified instead of shifting the burden to the local office via a time-wasting referral. In addition, during the 3rd calendar year quarter of 2017, the Department implemented technical solutions in order to automatically prevent improper employer notification posting of issues related to employers without party status. A critical aspect in correcting this finding is providing ongoing training opportunities for management and staff. Further, it should be noted that the performance level for the federal fiscal year under review is 8.6 percent points greater than the prior year reviewed. Moreover, the Department completed the calendar year at a 76.9% performance level.

Current Findings - State Compliance (Continued)

2017-005 Noncompliance with Statutes and Regulation on Internal Auditing

The Department of Employment Security (Department) did not ensure its internal auditing program fully complied with the requirements of the Fiscal Control and Internal Auditing Act (FCIAA) and International Standards for the Professional Practice of Internal Audit. Also, the Department's Office of Internal Audit did not effectively manage information security risks and information security related audits.

The Department carries out its mission through the use of Information Technology. For example, the Illinois Benefit Information System application is critical to the Department's daily operations and functions.

In our review of internal audit activities, we found the Department's Office of Internal Audit:

- Did not timely submit either the Department's two-year audit plan for Fiscal Year 2016 or the Department's internal audit annual report for Fiscal Year 2017.
- Had not filled a vacancy in the Information Technology Auditor position for over two years and did not have adequate personnel in place to manage information security risks and perform information security related audits.
- Did not complete the three Information Technology audits scheduled during the audit period.
- Had not performed an Information Technology Risk Assessment to drive the information technology audit plan.

The Fiscal Control Internal Auditing Act (Act) (30 ILCS 10/2003(a)) requires the internal auditing program include audits of major systems of internal accounting and administrative control be conducted on a periodic basis so that all major systems are reviewed at least once every two years. The Act further requires reviews of the design of major new electronic data processing systems and major modifications to those systems before their installation to ensure the systems provide for adequate audit trails and accountability. The Act also requires the chief executive officer to ensure that the internal auditing program includes a two-year plan, identifying audits scheduled for the pending fiscal year, approved by the chief executive officer before the beginning of the fiscal year. Also, by September 30 of each year the chief internal auditor shall submit to the chief executive officer a written report detailing how the audit plan for that year was carried out, the significant findings, and the extent to which recommended changes were implemented.

The International Standards for the Professional Practice of Internal Auditing (Section 2500) states that the chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management. The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

Department management indicated that the 2016 audit exception was due to the resignation of the prior Chief Internal Auditor. Once the new Chief Internal Auditor was hired, a plan was put in place as soon as practicable. Department officials also stated the delay of the submission of the 2017 annual report was due to a leave of absence by the Chief Internal Auditor and, as a result, the Chief Internal Auditor worked with the Executive Director to establish a new due date for the report.

Current Findings - State Compliance (Continued)

2017-005 Noncompliance with Statutes and Regulation on Internal Auditing (Continued)

Additionally, Department Management indicated that until recently the unfilled positions in Internal Audit had been subject to a temporary hold on hiring for job-protected Rutan-exempt positions per agreement with the Shakman case Special Master. The hold has now been lifted but a more time-intensive hiring process can be required than in the past. The lack of staff did not leave time to adequately address Information Technology audit issues.

Failure to submit and approve internal audit plan hinders the Director from assessing areas of risks within the Department. A lack of formal procedures to monitor audit recommendations may result in untimely implementation of corrective actions. Further, failure to properly manage information security risks or perform information security related audits increases the risk that significant internal control weaknesses will exist and errors and irregularities may go undetected. The lack of independent reviews of major computer systems and major modifications to those systems could result in undetected security and integrity problems in new or modified systems. (Finding Code No. 2017-005, 2015-005, 2013-006)

Recommendation

We recommend the Department comply with the requirements of the FCIAA and International Standards for the Professional Practice of Internal Auditing. The Department should:

- Submit a two-year audit plan and internal audit annual report before their due dates.
- Fill the vacancy in the Information Technology Auditor position.
- Perform an Information Technology Risk Assessment, develop an effective Information Technology audit plan, and complete Information Technology audits as scheduled.

Department Response

The Department agrees with this finding. The 2016 – 2017 two-year audit plan was unavoidably late due to the position of Chief Internal Auditor being unfilled. Both the 2017 -2018 and 2018 – 2019 plans were in place timely after the risk analysis and appropriate discussion with the Director. The 2015 and 2016 annual reports were timely. The late 2017 report was due to an approved leave of absence. The Chief Internal Auditor maintains a system of regular monitoring of audit findings and conducts ongoing discussions with the Director regarding their disposition. The Department will continue efforts to hire an IT auditor. Currently, additional staff already hired will allow the Chief Internal Auditor to be more active in pre-implementation reviews. A comprehensive IT Risk Analysis and System Security Review is currently in progress working with the Department of Innovation and Technology.

Current Findings - State Compliance (Continued)

2017-006 Inadequate Controls Over Travel Reimbursements

The Department of Employment Security (Department) did not have adequate controls over travel reimbursements to employees.

During our review of 25 travel vouchers totaling $42,020, we noted the following:

- Two (8%) vouchers did not have supervisor approval dates indicated on the In-State Travel Authorization Forms.
- One (4%) voucher did not have In-State Travel Authorization Forms associated with the travel reimbursement request.
- Two (8%) vouchers did not have the top third portion of the travel vouchers completed.
- Two (8%) vouchers had travel reimbursement amounts that were greater than amounts allowed according to IDES travel policies and procedures.

In addition, the auditors conducted a review of the travel vouchers of employees associated with the Rapid Results program and noted 75 of 137 vouchers (55%) did not have In-State Travel Authorization Forms associated with the travel reimbursement request.

The Governor’s Travel Control Board Rules (Rules) (80 Ill. Admin. Code 2800.240) states that all claims for the reimbursement of travel expenses shall be submitted on authorized reimbursement forms (Form C-10) and shall be itemized accordingly. When applicable, the travel voucher shall show in the space provided the dates and times of travel, the points of departure and destination, the mode of transportation, the cost of the transportation secured, lodging, meals per diem and other expenses. When a privately owned vehicle is used, the travel voucher shall show, at minimum, commuting mileage (if applicable), the dates, points of travel and mileage. If the distance traveled between any given points is greater than the usual route between these points shown on a road map, the reason for the greater distance shall be explained and detailed separately.

Travel Guide Section 3000.220 states that an employee whose travel does not include travel through headquarters shall be reimbursed for all mileage. An employee whose travel does include travel through headquarters shall be reimbursed for all mileage in excess of commuting mileage. All travel must be by the most direct route.

Department Procedures Manual Section 3001.35 states that in order to monitor and control the amount of travel expenses incurred by the Department, all staff and management are required to complete an In-State Travel Authorization Form (Form FI-02a), for all in-State travel costing greater than $50. Travelers must submit a completed and signed In-State Travel Authorization Form to their immediate supervisor or manager for approval. The Director has expressly delegated the approval/signature of the form FI-02a to the supervisor/manager of the traveler. Requests should be submitted at least 24 hours in advance of the travel date. Any requests for travel submitted less than 24 hours in advance must include an additional explanation for the late submission in the space provided.

Current Findings - State Compliance (Continued)

2017-006 Inadequate Controls Over Travel Reimbursements (Continued)

Department Procedures Manual Section 3001.35 also states that the traveler should compare the actual expenses incurred to the expenses estimated on the In-State Travel Authorization Form. If the actual expenses are more than 10% greater than the approved expenses, the traveler must include an additional explanation of the actual expenses in the space provided on the In-State Travel Authorization Form.

Department officials stated exceptions noted were a result of oversight.

Delays in travel voucher submission increases the risk of processing errors and may result in untimely and inaccurate information on agency obligations. Inadequate control over travel expenditures may result in overpayments to travelers to and are inefficient use of State resources. Inadequate documentation and late submission/approval of travel vouchers may result in payment of unauthorized travel expenditures and noncompliance with the Governor's Travel Control Board Rules and Department's Procedures. (Finding Code No. 2017-006, 2015-006, 2013-007)

Recommendation

We recommend the Department monitor their procedures for processing travel reimbursements in order to comply with the Travel Regulation Council rules, the Governor's Travel Control Board Rules and Department Procedures.

Department Response

The Department agrees with the finding. The Accounts Payable unit responsible for reviewing and submitting travel reimbursement requests to the Comptroller will publish training segments on the Department's Intranet highlighting the issues reported in the finding and offer face-to-face group training for staff as requested by division and regional managers. The travel procedures have been updated and changes made in the requirement for completion of Form FI-2A – In-State Travel Authorization Form. Some employees will no longer need to submit this form.

Current Findings - State Compliance (Continued)

2017-007 Inadequate Controls Over Telecommunication Devices

The Department of Employment Security (Department) was unable to provide adequate records for the population of telecommunication devices that were acquired and retired during the examination period. Further, the Department also did not have adequate controls over the issuance and cancellation of wireless communication devices.

During testing, we requested the Department provide the population of telecommunication devices that were acquired and retired during the examination period to test compliance with the review criteria for issuances and control over and use or revocation of these devices. In response to our request, the Department asserted that there were no additions or deletions during the period and therefore no spreadsheet was maintained. The Department, however, was able to provide the listing of active telecommunication devices as of June 30, 2017.

We compared the listing against the prior year report to confirm there were no movements reflected during the examination period. As a result of the comparison, we noted the following items:

- Eighty telecommunication devices included in the 2015 listing were not found in the 2017 listing. These appear to be retirements or deletions during the examination period.
- Nineteen telecommunication devices included in the 2017 listing were not found in the 2015 listing. These appear to be additions during the examination period. Eight of these 19 items were issued on various dates ranging from January 2016 to June 2017, as indicated in the listing. The remaining eleven items are without dates of issuances.

In addition, during our sample testing of two wireless communication device additions, we noted that the two devices did not have the proper form signed by the Director or his designee. And during our sample testing of eight wireless communication device deletions, we noted that all wireless devices cancelled or returned by an employee did not have the supporting documentation that it was physically returned to the Department.

Department Procedures Manual (1113.3035) states that, when ordering a cellular telephone, cost center managers shall complete and submit a Cellular Phone Application (application) form, with written justification to the regional/division manager for approval. When approved, the regional/division manager shall send the application to Information Services Telecom (IS Telecom). IS Telecom will obtain the Director's or designee's signature on the application and submit it to the Department of Central Management Services (DCMS) Telecom to order the equipment and establish service. IS Telecom notifies the requester whenever the cellular telephone is received. The requester signs the receipt section of the application and returns it to IS Telecom.

Department Procedures Manual (1113.403) also states that, when cancelling and returning other equipment/service, the cost center managers shall ensure that employees who separated from the State service or transfer out of the cost center, return any pagers, cellular telephones, telephone credit cards, or other equipment/services assigned to them before they leave.

Current Findings - State Compliance (Continued)

2017-007 Inadequate Controls Over Telecommunication Devices (Continued)

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department maintain a system, or systems, of internal fiscal and administrative controls to provide assurance resources are utilized efficiently, effectively, and in compliance with applicable law. Good internal controls include ensuring the Department generates, maintains, and reports reliable information that is accurate and complete.

Department officials indicated that they had a difficult time finding a qualified candidate to fill the Telecom Coordinator's position that had been vacant for over one year. The Department had to post the position both in Chicago and Springfield numerous times before hiring a qualified candidate in December of 2017.

Without the Department providing complete and adequate documentation to enable testing, we were unable to complete our procedures and provide useful and relevant feedback regarding the Department's compliance review criteria for issuances and control and use or revocation of the telecommunication devices during the examination period.

Inadequate controls over issuance and cancellation of wireless telecommunication devices could result in unnecessary expenditures for the Department, as well as inappropriate use of State funds. (Finding Code No. 2017-007, 2015-007)

Recommendation

We recommend the Department maintain a permanent record of issuances and revocations of portable communication devices in accordance with the Department's Property Control Procedure.

We also recommend the Department strengthen controls over wireless communication devices by following policies and procedures regarding the issuance and revocation of wireless communication devices after the termination and separation of an employee. Further, inventory of devices should be maintained in accordance with DCMS policy.

Department Response

The Department agrees with the finding and has hired a full-time Telecommunications Coordinator on December 1, 2017, after months of trying to find a qualified candidate. The first task that the Telecommunications Coordinator will take on is on the identification and accuracy of all telecommunication inventory, including wireless communication devices. Once this is completed, the Department will be able to accurately account for all telecommunication equipment.

Current Findings - State Compliance (Continued)

2017-008 Inadequate Controls Over Property and Equipment Records

The Department of Employment Security (Department) did not have adequate controls over its property and equipment and related records.

We reviewed the Department's property inventory certification as of December 31, 2015 that was submitted to the Department of Central Management Services (DCMS). The inventory certification as of December 31, 2015 reported 16 items totaling $18,588 of equipment that could not be located by the Department. Included in the equipment that was reported as "unlocated" was one laptop. The Department could not determine what type of data or whether confidential information was stored on the missing laptop.

The Personal Information Protection Act (815 ILCS 530/30) states that any State agency that collects personal data that is no longer needed or stored at the agency shall dispose of the personal data or written material it has collected in such a manner as to ensure the security and confidentiality of the material.

In addition, we noted the following:

- The Department did not properly update their property and equipment records. 30 of 46 (65%) items selected for physical inspection, with a value of $121,367, were not found in the location indicated in the inventory listing. 22 (73%) of the 30 assets tested were assigned to one location within the Central Office. However, it was later determined that the assets were disbursed to several locations within the Central Office and the inventory listing was not updated. In addition, we toured the facilities and randomly selected equipment to be traced back to the inventory listing. 20 (48%) of the 42 equipment items selected could not be found on the inventory listing. Of the 20 items not found, 14 cost less than $500 and therefore did not satisfy the dollar threshold for data conversion to SAP.

- During the engagement period, the Department started a conversion process to an enterprise resource planning system (SAP). During the conversion process, the Department only carried forward equipment equal to or greater than $500. All other items were no longer tracked on the property control records in SAP, including items under $500 that would be susceptible to theft. However, despite the revisions in the inventory records, assets under $500 still had valid inventory tags that would be indistinguishable from assets that were valued at $500 or above.

  DCMS Property Rules (44 Illinois Administrative Code Section 5010.210: Marking of State-Owned Equipment) requires each piece of equipment to be marked with a unique six-digit identification number. The identification number may be applied by using the agency's inventory decal or by indelibly marking the number on the property.

- The Department no longer monitors obsolete or surplus equipment retained at the warehouse to be transferred to the DCMS. In addition, the Department had surplus and obsolete equipment at various cost centers in the Central Office which were considered transferrable property to be relocated to the warehouse and eventually transferred over to DCMS.

Current Findings - State Compliance (Continued)

2017-008 Inadequate Controls Over Property and Equipment Records (Continued)

The Illinois Procurement Code (30 ILCS 500/50-55) states that every State agency shall inventory or stock no more than a 12-month need of equipment, supplies, commodities, articles, and other items, except as otherwise authorized by the State agency's regulations. Every State agency shall periodically review its inventory to ensure compliance with this Section. If, upon review, an agency determines it has more than a 12-month supply of any equipment, supplies, commodities, or other items, the agency shall undertake transfers of the oversupplied items or other action necessary to maintain compliance with this Section.

The Department Procedures Manual (1101.80) states that one principle of sound warehouse management dictates that only useable and useful items be maintained in storage to keep space costs at a minimum. In order to use space efficiently, the Department must periodically review all property to determine its continued value to the Department and to dispose of or recycle that property in accordance with applicable DCMS rules, which has no further use.

- Due to the conversion to SAP, the Department does not have updated policies and procedures to reflect the new process.

DCMS Property Rules (44 Illinois Administrative Code Section 5010.220) requires all equipment with an acquisition value of $500 or more and equipment that is subject to theft with a value less than $500 must be reported to DCMS by the holding agency. Equipment with an acquisition value of less than $500 that is not subject to theft is not subject to reporting; however, agencies will be responsible for establishing and maintaining internal control records over these items.

The Department's Procedures Manual (1101.52) states the Property Control Officer, and the managers of Information Services and General Services have the authority to transfer property to DCMS or other state agencies and to accept property transfers. Department managers use the OS-5 to transfer property out. In addition, for disposal of Electronic Data Processing (EDP) Equipment, the Manual (1101.80.801) requires the relinquishing cost center manager to prepare, sign the OS-5 and give the OS-5 with the attached scan list to the driver who picks up the items. The relinquishing cost center manager is also required to retain the relinquishing copy of the OS-5 and a copy of the scan list for the cost center files.

The Department's Procedures Manual (1101.60.604) states that for transfers of EDP property to the warehouse, the relinquishing cost center manager shall prepare an Enterprise Service Request and submits, by e-mail, to the Chief Information Officer requesting transfer of property to the warehouse (i.e., considered surplus), detailing the specific items, including bar code numbers.

Current Findings - State Compliance (Continued)

2017-008 Inadequate Controls Over Property and Equipment Records (Continued)

The State Property Control Act (30 ILCS 605/7.3) states that the Administrator shall have charge of all transferable property and shall have authority to take possession and control of such property in order to transfer or assign any such property to any other State agency that has need or use for such property or to dispose of said property. The Act further states responsible officers shall periodically report all transferable property at locations under their jurisdictions to the Administrator. The Administrator shall review such reports and arrange for physical examination of said property if necessary to determine if said items of transferable property should be transferred to another State agency, transferred to a central warehouse, or disposed of. The Administrator shall advise responsible officers of the results of these reviews as necessary.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) states that State agencies are to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that resources are utilized efficiently, effectively, and in compliance with applicable law; and that funds, property, and other assets and resources, are safeguarded against waste, loss, unauthorized use, and misappropriation.

Department management stated that the inventory control is a manual process susceptible to human error. Department management also stated scanners were used in the past for the annual physical inventory, but are no longer available and with limited staff, the Department can only inventory a quarter of the total assets annually, limiting the opportunity to make adjustments and corrections timely.

Inaccurate property reporting reduces the reliability of the Department's capital asset information and results in incorrect accounting information that could cause unnecessary equipment expenditures and inaccurate financial reporting of the State. Failure to follow-up on missing computer equipment increases the risks associated with the potential exposure of confidential information. (Finding Code No. 2017-008, 2015-008)

Recommendation

We recommend the Department adhere to the requirements of the Illinois Procurement Code, State Property Control Act, DCMS Property Rules, Personal Information Protection Act and Department Procedures by providing additional training to employees to enable the Department to properly maintain property and equipment records and to accurately report information to DCMS. We also recommend the Department review procedures for maintaining surplus/unused items in order to minimize the amount of idle property and equipment.

Department Response

The Department agrees with the finding. Procedures are in the process of being updated to reflect the new inventory system in SAP. Scanners will be acquired to (1) enable more items to be inventoried in a calendar year, which will facilitate more control, and (2) more effectively control the surplus process. Results of item locations of the recent physical inventory certified for December 31, 2017, will be updated in SAP. Scanners will also be employed to assist in identifying equipment and fixtures with an acquired value of less than $500 to ear mark the bar code tags as items not in the SAP inventory system.

Current Findings - State Compliance (Continued)

2017-009 Noncompliance with Election Code

The Department of Employment Security (Department) did not fully comply with the requirements of the State's Election Code (Code) to establish a voter registration and enter into an agreement with the Board of Election for the delivery of the related information with regards to the operation of the voter registration system.

During testing of the Department's compliance with the Code, we noted the following:

- The Department has not established and operated a voter registration system capable of transmitting voters' registration information to the portal made by the State Board of Elections.
- The Department has not entered into an agreement with the State Board of Election to deliver the related required information under the Electronic Registration Information Center Membership Agreement.

The Code (10 ILCS 5/1A-16.6) requires designated government agencies, one of which is the Department, to maintain a data transfer mechanism capable of transmitting voter registration application information, including electronic signatures where available, to the online voter registration system established by State Board of Election. The designated government agencies are required to establish and operate this voter registration system by July 1, 2016.

The Code (10 ILCS 5/1A-45 (b-5)) also requires the Department to enter into an agreement with the State Board of Election for the provision of the related information necessary to transmit member data under Electronic Registration Information Center Membership Agreement. The Director of the Department is required to deliver the information on an annual basis to the State Board of Election pursuant to the agreement between the entities.

Department officials stated failure to establish and maintain the data transfer mechanism was due to the lack of administrative funds that could legally be used for that purpose. Department officials also stated execution of the agreement is pending the State Board of Elections entering into a shared data agreement regarding the records to be shared.

Failure to establish and operate the voter registration system resulted in noncompliance with the Code. In addition, lack of an agreement precludes the provision of the necessary information to transmit members' data to the Board of Election. (Finding Code No. 2017-009)

Current Findings - State Compliance (Continued)

2017-009 Noncompliance with Election Code (Continued)

Recommendation

We recommend the Department seek a funding source through legislative remedy, if necessary, that would allow for payments toward fulfilling the requirements of the Code. In addition, we recommend the Department work towards entering into an agreement with the State Board of Election to deliver the related required information under the Electronic Registration Information Center Membership Agreement.

Department Response

The Department agrees with the finding and will explore the potential availability of funding sources that could legally be used for the data transfer mechanism.

The Department will continue to work with the State Board of Elections to obtain the shared data agreement required by federal law and authorized under state law, governing the transfer and safeguarding of confidential Department records sought for the Electronic Registration Information Center.

Current Findings - State Compliance (Continued)

2017-010 Inadequate Controls over the Submission of Monthly Reconciliations

The Department of Employment Security (Department) did not have adequate controls over the submission of reconciliation records with the Comptroller’s Monthly Reports (SB01, SB04, and SB05).

<u>SB01 Reconciliations</u>
During our testing of 24 monthly reconciliation reports, we noted the following:

- Nine (38%) monthly reconciliations were not prepared and completed for the Fiscal Year 2017.
- Seven (29%) monthly reconciliations were not reconciled timely, six for Fiscal Year 2016 and one for Fiscal Year 2017.

<u>SB04 Reconciliations</u>
During our testing of 48 monthly revenue reconciliation reports, we noted the following:

- Fourteen (29%) monthly reconciliations were not prepared and completed for Fiscal Year 2017.
- Twelve (25%) monthly revenue reconciliations were prepared but with no evidence of review, seven for Fiscal Year 2016 and five for Fiscal Year 2017.
- Twenty-one (44%) monthly revenue reconciliations were prepared and reviewed but not dated. We could not determine if the reconciliations were timely prepared and reviewed.

<u>SB05 Reconciliations</u>
No cash reconciliations were prepared starting October 2016 through the new system implementation. The Department has yet to determine how to pull the appropriate reports from enterprise resource planning system (SAP) to facilitate the reconciliation.

Sections 11.40.20, 25.40.20 and 09.40.30 of the SAMS Manual states that reconciliation should be performed monthly and the Comptroller's Office must be notified of any irreconcilable differences so that the necessary corrective action can be taken to locate the differences and correct the accounting records.

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 to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Department management officials stated the deficiency occurred because of unexpected turnover of Accounting & Reporting supervisor, staff and the many issues associated with the development and implementation of reports from the new SAP software.

Inadequate controls over the submission of monthly reconciliations hinders necessary and reasonable corrective action to locate differences and correct the accounting records timely between Agency and Comptroller’s records. (Finding Code No. 2017-010)

Current Findings - State Compliance (Continued)

2017-010 Inadequate Controls over the Submission of Monthly Reconciliations (Continued)

Recommendation

We recommend the Department consistently complete monthly reconciliations of the Comptroller's Monthly Appropriation Status Reports (SB01), Monthly Revenue Status (SB04) and Monthly Cash Reconciliation (SB05).

Department Response

The Department agrees with the finding. The Department has already appointed a new Accounting and Reporting Supervisor and is in the process of expanding the Accounting and Reporting Division staff. The Department is also currently working in conjunction with the Statewide ERP Project Management staff on any issues that remain regarding pulling reports from the new SAP software.

Current Findings - State Compliance (Continued)

2017-011 Lack of Disaster Contingency Planning or Testing to Ensure Recovery of Applications and Data

The Department of Employment Security (Department) had not updated its Disaster Recovery Plan (Plan) during the audit period. In addition, the disaster recovery testing performed did not include the ability to recover systems in the event that the primary data center is unavailable.

The Department carries out its mission through the use of Information Technology. For example, the Illinois Benefit Information System application is critical to the Department's daily operations and functions. The Department processed approximately $2.4 billion in employer unemployment tax revenue contributions and $1.84 billion of unemployment benefit payments in fiscal year 2017.

The Plan was last updated in fiscal year 2014 instead of annually as required by the Department's Procedures Manual. Additionally, the Department does not have detailed procedures to recover all necessary systems in the event of a catastrophic failure in the primary data center.

The Department conducted a data recovery test in fiscal year 2016 covering four systems.

During our review, we noted the following:

- The recovery plan does not test the ability to restore critical systems, such as the Illinois Benefits Information System (IBIS), to an off-site location.
- If the primary data center were unavailable, there is insufficient recovery capacity to bring all systems online.
- The Plan did not list all critical systems and did not assign a target timeframe for system recovery nor establish a benchmark for acceptable data loss.

Failure to establish recovery time and data lost targets could result in an inability to meet Department recovery objectives as recovery time and data loss thresholds are the key drivers of a recovery plan and technology solution.

Information technology guidance (including the National Institute of Standards and Technology and Government Accountability Office) endorse the formal development and testing of disaster recovery plans. Tests of disaster recovery plans (and the associated documentation of the test results) verify that the plan, procedures, and resources provide the capability to recover critical systems within the required timeframe.

Department officials stated they did not have the resources in place to update the Disaster Recovery Plan.

Failure to adequately update and test the disaster recovery plans leaves the Department exposed to the possibility of major disruptions of services. A comprehensive test of the plan across all platforms utilized will assist management in identifying weaknesses to ensure recovery procedures are adequate in the event a disaster. Continuous reviews and tests of plans would help management ensure the plans are appropriately modified, as the Department's computing environment and disaster recovery needs change. (Finding Code No. 2017-011)

Current Findings - State Compliance (Continued)

2017-011 Lack of Disaster Contingency Planning or Testing to Ensure Recovery of Applications and Data (Continued)

Recommendation

We recommend the Department:

- Review and update its Plan at least annually.
- Perform and document tests of its Plan at least once a year.
- Evaluate and document procedures to recover key Department systems in the event that the primary data center is unavailable.
- List all critical systems and assign a target timeframe for system recovery and establish a benchmark for acceptable data loss.

Department Response

The Department agrees with the finding. Internal Audit has begun a Comprehensive Risk Analysis for IT systems in partnership with the Department of Innovation and Technology. Disaster recovery planning and testing is already part of that analysis. A prioritized corrective action plan guided by the analysis will be in place to assist in correcting this deficiency.

Prior Findings Not Repeated
For the Two Years Ended June 30, 2017

A. Inadequate Controls over Tax Rate Information Used to Calculate Employer Contributions

During the fiscal year 2015 audit, the Illinois Department of Employment Security (Department) erroneously overcharged tax contributions for new employers in 2013 through 2015.

During the fiscal year 2016 and 2017 audits, our sample testing did not disclose any instances where the Department overcharged tax contributions for new employers for 2015, 2016, and 2017. (Finding Code No. 2015-001)

B. Noncompliance with the Veterans' Employment Representative Act

In the prior examination, the Department of Employment Security (Department) did not fully comply with the requirements of the Veterans Employment Representative Act. The Department did not have at a minimum one full time Veterans' Employment Representation assigned to each full service Office.

In the current examination, the Department had a full time Veterans' Employment Representative to each full service office of the employment service. (Finding Code No. 2015-009)

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 Appropriations, Expenditures and Lapsed Balances
    - Fiscal Year Ended June 30, 2017
    - Fiscal Year Ended June 30, 2016
  - Notes to Schedules of Appropriations, Expenditures and Lapsed Balances
  - Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
  - Comparative Schedule of Receipts, Disbursements and Fund Balance (Cash Basis) – Locally Held Funds for Special Programs
  - Schedule of Changes in State Property
  - Comparative Schedule of Cash Receipts
  - Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller

- Analysis of Operations (Unaudited):
  - Agency Functions and Planning Program (Unaudited)
  - Analysis of Significant Variations in Expenditures (Unaudited)
  - Analysis of Significant Variations in Receipts (Unaudited)
  - Analysis of Significant Lapse Period Spending (Unaudited)
  - Analysis of Significant Account Balances (Unaudited)
  - Analysis of Accounts Receivable (Unaudited)
  - Budget Impasse Disclosure (Unaudited)
  - Alternative Financing in Lieu of Appropriations and Programs to Address Untimely Payments to Vendors (Unaudited)
  - Interest Costs on Fiscal Year 2017 Invoices (Unaudited)
  - Average Number of Employees (Unaudited)
  - Annual Cost Statistics (Unaudited)
  - Service Efforts and Accomplishments (Unaudited)
  - Unemployment Rates (Unaudited)

The accountant’s report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states the accountants have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the June 30, 2017 and June 30, 2016 accompanying supplementary information in Schedules 1 through 8. However, the accountants do not express an opinion on the supplementary information. The accountant’s report also states that they have not applied procedures to the Analysis of Operations Section, and accordingly, they do not express an opinion or provide any assurance on it.

State of Illinois **Schedule 1**
Department of Employment Security

Schedule of Appropriations, Expenditures and Lapsed Balances
Appropriations for Fiscal Year 2017
Sixteen Months Ended October 31, 2017

	Final Appropriations (Note 1)	Expenditures through June 30	Lapse Period Expenditures 07/01/16 - 10/31/17	Total Expenditures	Lapsed Balances
Title III Social Security and Employment Services Fund - 052					
Workforce Development	$ 231,792,900	$ 176,737,238	$ 12,204,352	$ 188,941,590	$ 42,851,310
Trust Fund Unit	1,734,300	27,193	-	27,193	1,707,107
Total	233,527,200	176,764,431	12,204,352	188,968,783	44,558,417
Unemployment Compensation Special Administration Fund - 055					
Workforce Development	2,100,000	931,601	85,736	1,017,337	1,082,663
General Renvenue Fund - 001					
Trust Fund Unit	-	-	-	-	-
Road Fund - 011					
Trust Fund Unit	4,000,000	2,838,330	1,161,670	4,000,000	-
Non-Department Fund					
IMSA Income Fund - 768	16,700	-	-	-	16,700
Total Appropriated	$ 239,643,900	$ 180,534,362	$ 13,451,758	$ 193,986,120	$ 45,657,780
Grand Total - ALL FUNDS		$ 180,534,362	$ 13,451,758	$ 193,986,120	

See Notes to Schedules of Appropriations, Expenditures and Lapsed Balances.

Schedule of Appropriations, Expenditures and Lapsed Balances
Appropriations for Fiscal Year 2016
Seventeen Months Ended November 30, 2016

	Final Appropriations (Note 2)	Expenditures through June 30	Lapse Period Expenditures 07/01/16 - 11/30/16	Total Expenditures	Lapsed Balances
Title III Social Security and Employment Services Fund - 052					
Workforce Development	$ 280,102,400	$ 186,986,658	$ 13,157,199	$ 200,143,857	$ 79,958,543
Trust Fund Unit	1,734,300	57,132	43,418	100,550	1,633,750
Total	281,836,700	187,043,790	13,200,617	200,244,407	81,592,293
Unemployment Compensation Special Administration Fund - 055					
Workforce Development	37,100,000	963,271	195,065	1,158,336	35,941,664
General Renvenue Fund - 001					
Trust Fund Unit	-	-	-	-	-
Road Fund - 011					
Trust Fund Unit	4,000,000	-	4,000,000	4,000,000	-
Non-Department Fund					
IMSA Income Fund - 768	16,700	-	-	-	16,700
Total Appropriated	$ 322,953,400	$ 188,007,061	$ 17,395,682	$ 205,402,743	$ 117,550,657
Grand Total - ALL FUNDS		$ 188,007,061	$ 17,395,682	$ 205,402,743	

See Notes to Schedules of Appropriations, Expenditures and Lapsed Balances.

Notes to Schedules of Appropriations, Expenditures and Lapsed Balances

1. Appropriation Authorization, Fiscal Year 2017

Note 1: Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the Department's records as of October 31, 2017, and have been reconciled to State Comptroller's records.

Note 2: Expenditure amounts are vouchers approved for payment by the Department and submitted to the State Comptroller for payment to the vendor. 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.

Note 3: The Circuit Court of St. Clair County in AFSCME Council 31 v. Munger (15 CH 475) ordered the State Comptroller, in the absence of enacted annual appropriations, to “draw and issue warrants accomplishing payment of wages [for all State employees] at their normal rates of pay." As Public Act 100-0021 states appropriation authority granted by the General Assembly does not supercede any court order directing the expenditure of funds and states such payments are added to the appropriations granted by the General Assembly, the Department was able to submit vouchers to pay its employees in full from Fund 052 without a maximum expenditure limit for personal service costs during Fiscal Year 2017. Further, except for unemployment benefit payments, the Department incurred non-payroll obligations within Fund 011, Fund 052, and Fund 055, which the Department was unable to pay until the passage of Public Act 100-0021. The Department made all unemployment benefit payments without interruption during the fiscal year.

Note 4: Public Act 99-0524 authorized the Department to pay Fiscal Year 2016 costs using its Fiscal Year 2017 appropriations for non-payroll expenditures. The Analysis of Operations section of this report at page 63 includes information from Department management about the number of invoices and the total dollar amount of invoices held by the Department submitted against its Fiscal Year 2017 appropriation.

Note 5: During Fiscal Year 2017, the Department operated without enacted appropriations until Public Act 100-0021 was approved on July 6, 2017. During the impasse, except for unemployment benefit payments, the Board incurred non-payroll obligations within Fund 001 and Fund 007, which the Board was unable to pay until the passage of Act 100-0021. The Department made all unemployment benefit payments without interruption during the fiscal year.

Note 6: Notwithstanding anything within Public Act 100-0021 to the contrary, Public Act 100-0021 authorized the Board to pay for all costs incurred prior to July 1, 2018, using either its Fiscal Year 2017 or Fiscal Year 2018 appropriations for non-payroll expenditures. The Analysis of Operations section of this report at page 63 includes information from Board management about the number of invoices and the total dollar amount of invoices from Fiscal Year 2016 and Fiscal Year 2017 held by the Board to be submitted against either its Fiscal Year 2017 or Fiscal Year 2018 appropriation.

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

2. Appropriation Authorization, Fiscal Year 2016

Note 1: Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the Department's records as of November 30, 2016, and have been reconciled to State Comptroller's records.

Note 2: Expenditure amounts are vouchers approved for payment by the Department and submitted to the State Comptroller for payment to the vendor. 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.

Note 3: During Fiscal Year 2016, the Department operated without enacted appropriations until Public Act 99-0409 and Public Act 99-0524 were signed into law on August 20, 2015, and June 30, 2016, respectively. During the impasse, the Circuit Court of St. Clair County in AFSCME Council 31 v. Munger (15 CH 475) ordered the State Comptroller, in the absence of enacted annual appropriations, to “draw and issue warrants accomplishing payment of wages [for all State employees] at their normal rates of pay." As such, the Department's court-ordered payroll payments were merged into the enacted appropriation for Fund 52. Further, the Department incurred non-payroll obligations within Fund 011, Fund 52, and Fund 55, which the Department was unable to pay until the passage of Public Act 99-0409 and Public Act 99-0524.

Note 4: Public Act 99-0524 authorized the Department to pay Fiscal Year 2016 costs using its Fiscal Year 2017 appropriations for non-payroll expenditures. The Analysis of Operations section of this report at page 63 includes information from Department management about the number of invoices and the total dollar amount of invoices held by the Department submitted against its Fiscal Year 2017 appropriation.

State of Illinois
Department of Employment Security

Compliance Examination
For the Two Years Ended June 30, 2017

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

3. Directors 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
2017			
Appropriation	$ 142,400	$ 75,000	$ 217,400
Expenditures	142,339	71,890	214,229
Lapse	$ 61	$ 3,110	$ 3,171
2016			
Appropriation	$ 142,400	$ 75,000	$ 217,400
Expenditures	142,339	74,349	216,688
Lapse	$ 61	$ 651	$ 712
2015			
Appropriation	$ 143,033	$ 75,657	$ 218,690
Expenditures	132,734	75,657	208,391
Lapse	$ 10,299	$ -	$ 10,299

State of Illinois **Schedule 4**
Department of Employment Security

Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
For the Fiscal Years Ended June 30, 2017, 2016 and 2015

	2017 Total Appropriation	2016 Total Appropriation	2015 Total Appropriation	2017 Total Expenditures	2016 Total Expenditures	2015 Total Expenditures
Title III Social Security and Employment Services Fund - 052	$ 233,527,200	$ 281,836,700	$ 286,836,700	$ 188,968,783	$ 200,244,407	$ 194,980,895
Total	233,527,200	281,836,700	286,836,700	188,968,783	200,244,407	194,980,895
Unemployment Compensation Special Administration Fund - 055						
Workforce Development	2,100,000	37,100,000	37,100,000	1,017,337	1,158,336	882,298
General Renvenue Fund - 001						
Trust Fund Unit	-	-	24,000,000	-	-	20,629,536
Road Fund - 011						
Trust Fund Unit	4,000,000	4,000,000	1,900,000	4,000,000	4,000,000	1,900,000
Non-Department Fund						
IMSA Income Fund - 768	16,700	16,700	16,700	-	-	-
Total Appropriated	239,643,900	322,953,400	349,853,400	193,986,120	205,402,743	218,392,729
Grand Total - All Funds	$ 239,643,900	$ 322,953,400	$ 349,853,400	$ 193,986,120	$ 205,402,743	$ 218,392,729

See Notes to Schedules of Appropriations, Expenditures and Lapsed Balances.

Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
For the Fiscal Years Ended June 30, 2017, 2016 and 2015

	Fiscal Year Ended June 30		
	2017	2016	2015
Workforce Development			
Title III Social Security and Employment Services Fund:			
Appropriations (net of transfers)	$ 231,792,900	$ 280,102,400	$ 285,102,400
Expenditures from:			
Lump Sum	179,619,327	199,710,547	194,927,242
Tort Claims	69,806	433,310	400
Employment Security Automation	6,500,000	-	-
Benefit Information System Redefinition	2,752,457	-	-
Total Expenditures	188,941,590	200,143,857	194,927,642
Appropriation Lapsed Balances	$ 42,851,310	$ 79,958,543	$ 90,174,758
Unemployment Compensation Special Administration Fund:			
Appropriations (net of transfers)	$ 2,100,000	$ 37,100,000	$ 37,100,000
Expenditures:			
Legal assistance required by law	1,017,337	1,138,797	880,852
Interest penalty	-	19,539	1,446
Total Expenditures	1,017,337	1,158,336	882,298
Appropriation Lapsed Balances	$ 1,082,663	$ 35,941,664	$ 36,217,702
Total Workforce Development			
Appropriations (net of transfers)	$ 233,892,900	$ 317,202,400	$ 322,202,400
Expenditures	189,958,927	201,302,193	195,809,940
Lapsed Balances	$ 43,933,973	$ 115,900,207	$ 126,392,460
Trust Fund Unit			
General Revenue Fund:			
Appropriations (net of transfers)	$ -	$ -	$ 24,000,000
Expenditures:			
Unemployment compensation benefits to former State employees	-	-	20,629,536
Appropriation Lapsed Balances	$ -	$ -	$ 3,370,464
Road Fund:			
Appropriations (net of transfers)	$ 4,000,000	$ 4,000,000	$ 1,900,000
Expenditures:			
Unemployment compensation benefits to Department of Transportation employees	4,000,000	4,000,000	1,900,000
Appropriation 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	27,193	100,550	53,253
Appropriation Lapsed Balances	$ 1,707,107	$ 1,633,750	$ 1,681,047

(Continued)

State of Illinois **Schedule 4**
Department of Employment Security

Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
For the Fiscal Years Ended June 30, 2017, 2016 and 2015

	Fiscal Year Ended June 30		
	2017	2016	2015
IMSA Income Fund:			
Appropriations (net of transfers)	$ 16,700	$ 16,700	$ 16,700
Expenditures:			
Unemployment compensation benefits to former State employees	-	-	-
Appropriation Lapsed Balances	$ 16,700	$ 16,700	$ 16,700
Total Trust Fund Unit			
Appropriations (net of transfers)	$ 5,751,000	$ 5,751,000	$ 27,651,000
Expenditures	4,027,193	4,100,550	22,582,789
Appropriation Lapsed Balances	$ 1,723,807	$ 1,650,450	$ 5,068,211
Grand Totals - All Divisions			
Appropriations (net of transfers)	$ 239,643,900	$ 322,953,400	$ 349,853,400
Expenditures	193,986,120	205,402,743	218,392,729
Appropriation Lapsed Balances	$ 45,657,780	$ 117,550,657	$ 131,460,671
Summary By Fund - Expenditures			
General Revenue Fund	$ -	$ -	$ 20,629,536
Title III Social Security and Employment Services Fund	188,968,783	200,244,407	194,980,895
Unemployment Compensation Special Administration Fund	1,017,337	1,158,336	882,298
Road Fund	4,000,000	4,000,000	1,900,000
IMSA Income Fund	-	-	-
Total Expenditures	$ 193,986,120	$ 205,402,743	$ 218,392,729

State of Illinois **Schedule 5**

Department of Employment Security

Comparative Schedule of Receipts, Disbursements and Fund Balance (Cash Basis)
Locally Held Funds for Special Programs
For the Fiscal Years Ended June 30, 2017 and 2016

	Fiscal Year Ended June 30, 2017			
	Cash Balance July 1, 2016	Cash Receipts	Cash Disbursements	Cash Balance June 30, 2017
Trade Readjustment Act	$ (63,167)	$ 16,487,209	$ 16,276,160	$ 147,882
Disaster Unemployment Assistance	-	-	-	-
Alternative Trade Adjustment Act	-	2,085,312	2,085,312	-
Total Special Program Fund	$ (63,167)	$ 18,572,521	$ 18,361,472	$ 147,882

	Fiscal Year Ended June 30, 2016			
	Cash Balance July 1, 2015	Cash Receipts	Cash Disbursements	Cash Balance June 30, 2016
Trade Readjustment Act	$ (57,664)	$ 7,212,854	$ 7,218,357	$ (63,167)
Disaster Unemployment Assistance	-	-	-	-
Alternative Trade Adjustment Act	(1,144)	536,185	535,041	-
Total Special Program Fund	$ (58,808)	$ 7,749,039	$ 7,753,398	$ (63,167)

Note: The negative cash balance is due to the timing of federal drawdown. The drawdowns were based on direct deposits and debit cards issued in Fiscal Year 2017 and Fiscal Year 2016.

Schedule of Changes in State Property
For the Fiscal Years Ended June 30, 2017 and 2016

	Fiscal Year Ended June 30, 2017				
	Balance July 1, 2016	Additions	Deletions	Net Transfers	Balance June 30, 2017
Equipment	$ 15,453,856	$ 376,294	$ (6,070,879)	$ (171,283)	$ 9,587,988

	Fiscal Year Ended June 30, 2016				
	Balance July 1, 2015	Additions	Deletions	Net Transfers	Balance June 30, 2016
Equipment	$ 15,254,742	$ 244,322	$ 686,619	$ (731,827)	$ 15,453,856

Note: Additions and deletions were reconciled to the C-15 Reports (Agency Report of State Property) submitted to the Office of the Comptroller (Comptroller) by the Department. The positive Fiscal Year 2016 deletion represents corrections of previously deleted items. This summary schedule was prepared using State property records required by the Illinois Administrative Code (Code). The capitalization policy in the Code is different than the capitalization policy established by the Comptroller for financial reporting in accordance with generally accepted accounting principles.

State of Illinois **Schedule 7**

Department of Employment Security

Comparative Schedule of Cash Receipts
For the Fiscal Years Ended June 30, 2017, 2016 and 2015

Descriptions of Receipts	Fiscal Year Ended June 30 2017	2016	2015
Title III Social Security and Employment Services Fund - 052			
U. S. Department of Labor	$ 177,636,735	$ 194,452,874	$ 188,089,448
Fund transfers - Unemployment Compensation Special Administration Fund	-	-	10,000,000
Miscellaneous	519,902	41,041	615,008
Health Care and Family Services	4,884	4,884	4,884
Other states	-	45,000	30,000
Fines, penalties or violations	8,696	10,683	10,226
Returned petty cash fund	-	-	1,150
One stop participants	137,174	158,848	140,390
Reimbursement/Jury duty and recoveries	2,691	5,811	8,026
Copy fees	2,590	3,505	3,803
Shared data access fees	65,200	61,458	45,700
Labor market information	1,525	2,400	5,158
Commerce and Economic Opportunity	31,170	1,198,793	496,327
Investment income repurchase agreements	235,847	55,907	3,201
Prior year refunds	36,233	53,507	11,392
Total Fund (052)	$ 178,682,647	$ 196,094,711	$ 199,464,713
Unemployment Compensation Special Administration Fund - 055			
Employer tax contribution penalties	$ 23,726,445	$ 12,418,272	$ 25,099,607
Judgement interest/UI claim	133,461	126,422	129,283
IPTIP UC special administration	31,857	2,488	1,270
PY Refund Fund 55	-	-	15,830
Total Fund (055)	$ 23,891,763	$ 12,547,182	$ 25,245,990

State of Illinois **Schedule 8**
Department of Employment Security

Reconciliation Schedule of Cash Receipts to
Deposits Remitted to the State Comptroller
For the Fiscal Years Ended June 30, 2017 and 2016

	2017	2016	2015
Title III Social Security and Employment Services Fund - 052			
Cash receipts per Department	$ 178,682,647	$ 196,094,711	$ 199,464,713
Less: Investment income	(235,847)	(55,907)	(3,201)
Deposits remitted to the State Comptroller	$ 178,446,800	$ 196,038,804	$ 199,461,512

Note: Deposits for the Unemployment Compensation Administration Fund - 055 are made directly to the State Treasurer's account and are not reported on the SB04, Revenue Status Report.

ANALYSIS OF OPERATIONS

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 *Office of the Director* includes Chief of Staff, Equal Employment Opportunity/Affirmative Action and Internal Audit. Other functions are carried out by the following:

Financial Operations, headed by the Chief Financial Officer (CFO), administers the employer payroll tax assessed for the purpose of funding UI benefit payments, is responsible for audit and collections activity related to the UI tax, the processing of employers' tax reports and remittances, and providing customer service to employers with respect to their accounts with the Department. In addition, the Accounting Service Division, under the CFO, maintains the Department's financial records and reports various financial information to internal and external users.

Legal Services acts as the Department's legal counsel and monitors legislation and its effect on the Department. It also administers a two-stage appeals process - resident in the Appeals and Board of Review divisions - through which claimants and employers can appeal the decisions that the Department makes regarding unemployment insurance (UI).

Administration, under the direction of the Chief of Staff, is responsible for procurement, the provision of space, equipment and supplies, human resource and labor management functions. It conducts quality assurance and compliance reviews of benefits and tax functions and is responsible for the Department's plans and program analyses. In addition, it oversees the collection and dissemination of economic and labor market information.

Service Delivery employs the majority of the Department's staff. It is responsible for operating a statewide system of call centers, processing centers, regional and local offices for the programmatic administration of the Unemployment Insurance, Employment Service, and related programs.

Information Services plans, develops, implements, and maintains the Department's electronic systems, including hardware and software resources and databases, required for the smooth operation of all programmatic and administrative functions.

Business Services conducts an active employer outreach program to gather job openings for the Department's labor exchange system. Business Services ensures that the labor exchange system functions properly programmatically and creates accurate reports.

Programs (Continued)

The Department operates three major programs: Unemployment Insurance, the Employment 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.

Employment Service

The Employment Service (ES) program is operated under the authority of the federal Wagner-Peyser Act, as amended by the Workforce Innovation Opportunity Act (WIOA), 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, increase awareness of resource providers, and expand employment opportunities. To accomplish this, the Department maintains close contacts with employers to identify job opportunities and to meet the employers' labor needs as soon as possible with qualified job applicants. This is achieved by matching workers' skills to employers' job requirements and referring applicants with the appropriate skills, experience and education or training 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 partially operated under the Wagner-Peyser Act which requires the Department to maintain a labor market program to monitor employment related conditions and trends, and through cooperative agreements with two U.S. Department of Labor (USDOL) agencies: the Bureau of Labor Statistics and the Employment and Training Administration. 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.

Federal program plans and reports are submitted to the regional office of the USDOL's Employment and Training Administration (ETA) or the 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 vehicle for requesting federal funds to administer the UI program for the coming FFY. This plan is made up of four parts: a narrative, corrective action plans, an integrity plan, and budget information. The narrative portion 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), and a discussion of program and program review deficiencies. The section on corrective action includes a plan for improvement for each area of the Department failing its respective federal performance measures; and the Integrity plan outlines strategies intended to improve UI program integrity in the next FFY(s). 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. The budget request is made annually, whereas the written part of the plan is now submitted every two years.

ETA requires states to submit quarterly status reports to monitor the SQSP's corrective action and integrity 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 with alternate plans and/or completion dates.

Funding for Employment Services is provided by the federal government through various grants and special Acts (i.e. Wagner-Peyser Act) appropriated by Congress via the Department of Labor. The Title III fund accounts for the grant money received from the government and the expenditures incurred to administer employment services and represents a significant portion of the Department's budget. Under the Workforce Innovation and Opportunity Act (WIOA), IDES develop its plans in conjunction with the Illinois Department of Commerce and Economic Opportunity, Illinois Community College Board, Department of Human Service and several other required program partners. In addition to the Departments' plans to deliver program services, the plan also includes the annual goals that each has negotiated with ETA Region V. The most recent plan was submitted in 2017. Each agency is responsible for submitting their own modifications to the State Plan, should their plans or programs change during the five-year period.

Plans (Continued)

The annual Migrant and Seasonal Farmworkers (MSFW) Plan, also known as the Agricultural Outreach Plan (AOP) is currently approved for PY 2016 through PY 2019. 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.

The Jobs for Veterans Act of 2002 requires states to submit to VETS five-year State Plans and annual Grant Modification Requests to support program administrators and the field staff (per approved VETS 501 Form) who provide direct labor exchange services to veterans. Field staff - Disabled Veterans Outreach Program (DVOP) specialists and Local Veterans Employment Representatives (LVER) - are assigned to Department offices throughout the State to ensure that veterans receive employment assistance and the priority of service in compliance with federal regulations. The State Plan includes a program plan and an annual budget plan and staffing directory. 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, discusses the Department's plan for serving special target groups (e.g., disabled veterans, special disabled veterans, homeless veterans, female veterans, veterans transitioning from the military) and for implementing performance incentive awards for quality employment, training and placement services, should the State decide to do so. It also includes the annual performance goals the Department has negotiated with the Illinois VETS Director and the VETS regional administrator. 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. Only the budget plan is required for subsequent annual modifications, but the Department typically updates its program plan as well.

The completed State Plan and annual modification requests are submitted to the VETS National Office via the Illinois VETS Director and the VETS Regional Office. In 2014, the Department submitted its most recent five-year State Plan which covers FFY 2015-2017. The current State Plan has been modified for FFY 2018. The annual modification includes data/revisions to the five-year plan, the budget plan and staffing directory. The incentive award program is included in the plan. As a condition for the receipt of grant funds, we must submit our annual State Plan grant modification that identifies all major changes to either the original State Plan or the most recent grant modification.

Analysis of Significant Variations in Expenditures
For the Fiscal Years Ended June 30, 2017, 2016 and 2015
(Unaudited)
(Amounts Expressed in Thousands)

Pages 51 and 52 present comparative balances of expenditures. For the individual nonshared governmental funds, these balances are based on the unaudited comptroller records. For the individual nonshared proprietary funds, these balances are based on the audited financial statements. The explanation for significant fluctuations (greater than or equal to 20% and $1,000) in expenditures is as follows:

INDIVIDUAL NONSHARED GOVERNMENTAL FUNDS

Title III Social Security and Employment Services Fund

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2017	2016	Amount	%
Interfund Transfers	$ -	$ 7,747	$ (7,747)	-100%

The decrease in Interfund Transfers was due to a transfer in Fiscal Year 2016 from the Title III Social Security and Employment Services Fund to the Unemployment Trust Fund of penalty and interest, which was a one-time credit adjustment to employer accounts to reverse penalties for monthly electronic wage reporting.

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2016	2015	Amount	%
Interfund Transfers	$ 7,747	$ -	$ 7,747	100%

The increase in Interfund Transfers was due to a transfer in Fiscal Year 2016 from the Title III Social Security and Employment Services Fund to the Unemployment Trust Fund of penalty and interest, which was a one-time credit adjustment to employer accounts to reverse penalties for monthly electronic wage reporting.

General Revenue Fund

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2016	2015	Amount	%
Unemployment compensation benefits to former State employees	$ -	$ 20,630	$ (20,630)	-100%

The decrease in expenditures for deposit into the Title III Social Security and Employment Services Fund was due to no appropriations in Fiscal Year 2016 to authorize expenditures for the year.

State of Illinois
Department of Employment Security

Analysis of Significant Variations in Expenditures (Continued)
For the Fiscal Years Ended June 30, 2017, 2016 and 2015
(Unaudited)
(Amounts Expressed in Thousands)

Road Fund

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2016	2015	Amount	%
Unemployment compensation benefits to Department of Transportation employees	$ 4,000	$ 1,900	$ 2,100	111%

The increase in unemployment compensation benefits to former State employees was due to an increase in the appropriation in Fiscal Year 2016 to cover the increased charges to the fund.

INDIVIDUAL NONSHARED PROPRIETARY FUNDS

Master Bond Fund

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2017	2016	Amount	%
Interest expense, nonoperating	$ 4,787	$ 7,206	$ (2,419)	-34%

The interest expense, nonoperating decreased each year as bonds payables decreases.

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2016	2015	Amount	%
Interest expense, nonoperating	$ 7,206	$ 3,132	$ 4,074	130%

Interest expense increased due to a decrease in unamortized bond premiums in Fiscal Year 2016.

State of Illinois
Department of Employment Security

Analysis of Significant Variations in Receipts
For the Fiscal Years Ended June 30, 2017, 2016 and 2015
(Unaudited)
(Amounts Expressed in Thousands)

Pages 53 and 54 present comparative balances of receipts. For the individual nonshared governmental funds, these balances are based on the unaudited financial statements. For the individual nonshared proprietary funds, these balances are based on the audited financial statements. The Department's explanations for significant fluctuations (greater than or equal 20 percent and $1,000) in receipts are as follows:

INDIVIDUAL NONSHARED GOVERNMENTAL FUNDS

Title III Social Security and Employment Services Fund

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2017	2016	Amount	%
Commerce and Economic Oppportunity	$ 31	$ 1,199	$ (1,168)	-97%

The decrease in funding from the Department of Commerce and Economic Opportunity (DCEO) was due to one of the DCEO grants ending in Fiscal Year 2016 and reimbursements of expenses incurred were received. In addition, some large expenses were reimbursed by a second grant in Fiscal Year 2016.

Unemployment Compensation Special Administration Fund

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2017	2016	Amount	%
Employer Tax Contribution Penalties	$ 23,726	$ 12,418	$ 11,308	91%

The increase in employment tax contribution penalties revenue was due to a one-time transfer of penalty and interest that was not a factor in Fiscal Year 2016.

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2016	2015	Amount	%
Employer Tax Contribution Penalties	$ 12,418	$ 25,100	$ (12,682)	-51%

In 2015, the Agency implemented the monthly requirement to submit electronically monthly wage reports for employers with 25 or more employees. There was legislation in 2016 that resulted in waivers of this penalty under specific conditions resulting in a decrease in penalty collections.

State of Illinois
Department of Employment Security

Analysis of Significant Variations in Receipts (Continued)
For the Fiscal Years Ended June 30, 2017, 2016 and 2015
(Unaudited)
(Amounts Expressed in Thousands)

INDIVIDUAL NONSHARED PROPRIETARY FUNDS

Unemployment Compensation Trust Fund

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2017	2016	Amount	%
Federal Government	$ 5,293	$ 866	$ 4,427	511%
Transfers In	1	6,746	(6,745)	-100%

The increase of Federal Government revenue is due to an increase in eligible benefits paid in Fiscal Year 2017.

The decrease in transfers-in is due to a transfer from the Title III Social Security and Employment Services Fund in Fiscal Year 2016 for reimbursement to the UI Trust Fund for credits due to employers to reverse penalties for Monthly Electronic Wage Reporting.

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2016	2015	Amount	%
Federal Government	$ 866	$ (1,061)	$ 1,927	-182%
Transfers In	6,746	-	6,746	100%

The increase of Federal Government revenue is because there was an increase in benefits paid in Fiscal Year 2016.

The increase in transfers-in is due to a transfer from the Title III Social Security and Employment Services Fund in Fiscal Year 2016 for reimbursement to the UI Trust Fund for credits due to employers to reverse penalties for Monthly Electronic Wage Reporting.

Master Bond Fund

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2017	2016	Amount	%
Other Revenues	$ 6,905	$ -	$ 6,905	100%

The increase in Other Revenues is due to gains associated with write-off of unamortized premiums with bond being fully redeemed in Fiscal Year 2017.

State of Illinois
Department of Employment Security

Analysis of Significant Lapse Period Spending
For the Fiscal Years Ended June 30, 2017 and 2016
(Unaudited)

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

Fiscal Year 2017

	Total Expenditures	Lapse Spending	Percentage
Road Fund - 011			
Trust Fund Unit	$ 4,000,000	$ 1,161,670	29 %

In Fiscal Year 2017 the Department made $1,161,670 in benefit payments during the lapse period due to full appropriations not being approved until the end of the fiscal year.

Fiscal Year 2016

	Total Expenditures	Lapse Spending	Percentage
Road Fund - 011			
Trust Fund Unit	$ 4,000,000	$ 4,000,000	100 %

In Fiscal Year 2016 the Department made $4,000,000 in benefit payments during the lapse period due to appropriations not being approved until the end of the fiscal year.

(Amounts Expressed in Thousands)

Pages 56 through 58 present comparative account balances. For the individual nonshared governmental funds, these balances are based on the unaudited financial statements. For the individual nonshared proprietary funds, these balances are based on the audited financial statements. The explanation for significant fluctuations (greater than or equal to 20% and $1,000) in account balances is as follows:

INDIVIDUAL NONSHARED GOVERNMENTAL FUNDS

Title III Social Security and Employment Services Fund

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2017	2016	Amount	%
Cash and cash equivalents	$ 52,861	$ 41,633	$ 11,228	27%
Intergovernmental receivables	22,712	12,272	10,440	85%
Fund balance, restricted	58,840	33,489	25,351	76%

Cash and cash equivalents increased due to an increase in transfers in.

The receivable from the federal government increased due to the federal draws being completed later than in the previous year.

The increase in the restricted fund balance is a result of increases in transfers and federal revenues.

	June 30		Increase (Decrease)	
Account Description	2016	2015	Amount	%
Intergovernmental receivables	$ 12,272	$ 20,690	$ (8,418)	-41%
Due from other State funds	6,134	9,382	(3,248)	-35%
Unavailable grant revenue	5,736	3,003	2,733	91%

Grant expenditures decreased mainly in the personal services category thereby decreasing the receivable from the federal government.

The decrease in the amount due from other State funds is the result of the decrease in mandatory transfers and the related receivable at year-end.

The variance is due to timing of the draws for lapse receipts from one year to another year.

State of Illinois
Department of Employment Security

Analysis of Significant Account Balances (Continued)
For the Fiscal Years Ended June 30, 2017, 2016 and 2015
(Unaudited)
(Amounts Expressed in Thousands)

INDIVIDUAL NONSHARED PROPRIETARY FUNDS

Unemployment Compensation Trust Fund

	June 30		Increase (Decrease)	
Account Description	2017	2016	Amount	%
Taxes receivable, net	$ 420,713	$ 561,840	$ (141,127)	-25%
Due from other fund	34,907	22,523	12,384	55%

The decrease in taxes receivable is due to a decrease in projected taxable receivables, as per the most current trust fund projection model.

The increase in due from other funds results from not having a General Revenue Fund appropriation (since there was no 2017 Illinois State budget) for reimbursement to the Unemployment Trust Fund.

	June 30		Increase (Decrease)	
Account Description	2016	2015	Amount	%
Locally held cash and cash equivalent	$ 54,583	$ 29,354	$ 25,229	86%
Receivables, net - intergovernmental	28,025	17,767	10,258	58%
Receivables, net - other	91,057	159,281	(68,224)	-43%
Due from other government - local	27,721	17,173	10,548	61%
Due from State funds	22,523	6,204	16,319	263%
Intergovernmental Payables	4,091	8,358	(4,267)	-51%

The increase in locally held cash and cash equivalents is due to the Agency not making the adjustment of cash to the 3-day average balance this year.

An increase in receivables, net – intergovernmental is the result of an increase in due from other State funds because of an increase in benefit payments and due from State and local government for State Fiscal Year 2016 (since there was no 2016 Illinois State budget).

The decrease in receivables, net – other is due to an increase in Benefit Payment Control collection efforts in 2015 that is now leveling off.

The increase in due from other government – local results from not having an appropriation (since there was no 2016 Illinois State budget) for reimbursement to the Unemployment Trust Fund.

The decrease in Intergovernmental Payables resulted from federal grant money received in Fiscal Year 2015 for the implementation of two short-time compensation programs. This money was not utilized so it was returned in its entirety in Fiscal Year 2016.

State of Illinois
Department of Employment Security

Analysis of Significant Account Balances (Continued)
For the Fiscal Years Ended June 30, 2017, 2016 and 2015
(Unaudited)
(Amounts Expressed in Thousands)

Master Bond Fund

	June 30		Increase (Decrease)	
Account Description	2017	2016	Amount	%
Revenue bonds payable, noncurrent	$ -	$ 185,635	$ (185,635)	-100%
Revenue bonds payable, long-term	-	194,845	(194,845)	-100%
Unamortized premiums on bonds sold				
Revenue bonds, current	-	10,413	(10,413)	-100%
Revenue bonds, long-term	-	4,363	(4,363)	-100%
Unrestricted net assets	-	(220,780)	220,780	-100%

Revenue bonds payable - current revenue bonds payable-long-term, unamortized bond premiums, current and unamortized bonds premium, long-term decreased to zero with the final redemption of bonds on June 15, 2017.

The increase in unrestricted net assets is due to a decrease in liabilities from the full redemption of the master bonds as of June 15, 2017. Prior year fund had a fund deficit shown as unrestricted. In the current year, fund balance is positive shown as restricted.

	June 30		Increase (Decrease)	
Account Description	2016	2015	Amount	%
Locally held cash and cash equivalents	$ 128,846	$ 27,099	$ 101,747	375%
Unamortized premium on bonds sold				
Revenue bonds, current	10,413	18,526	(8,113)	-44%
Revenue bonds payable, long-term	194,845	441,575	(246,730)	-56%
Unamortized premium on bonds sold				
Revenue bonds, long-term	4,363	18,077	(13,714)	-76%
Unrestricted net assets	(220,780)	(576,236)	355,456	-62%

Increase in cash is due to a decrease in bond redemption expense.

Unamortized bond premiums, current decrease each year as premiums are amortized.

Revenue bonds payable, long-term decrease each year as bonds are redeemed.

Unamortized bond premiums, long-term decrease each year as premiums are amortized.

Net assets increased as bonds are redeemed.

State of Illinois
Department of Employment Security

Analysis of Accounts Receivable
June 30, 2017 and 2016
(Unaudited)
(Amounts Expressed in Thousands)

For financial reporting purposes for fiscal years 2017 and 2016, the Department classified its accounts receivable in the following categories:

INDIVIDUAL NONSHARED GOVERNMENTAL FUNDS

Intergovernmental Receivables

Intergovernmental receivables represent reimbursements due from federal government to reimburse the Department's administrative expenditures. Intergovernmental receivables totaled $22,712 at June 30, 2017 and $12,272 at June 30, 2016.

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 aging records for the entire intergovernmental receivable balance. Therefore, an account receivable aging schedule for intergovernmental receivable has not been provided on the accompanying schedules.

NONSHARED PROPRIETARY FUND

Taxes Receivables

Taxes receivables represent unemployment taxes, known as contributions, owed by private, non-governmental employers to the Trust Fund. The Department records the receivable based on actual outstanding receivable plus estimate for the quarter ending June 30th based on the Budget's Trust Fund model including an allowance for uncollectible accounts. Taxes receivables, net of allowance for uncollectible accounts, totaled $609,929 at June 30, 2017 and $798,170 at June 30, 2016. Some of the methods used by the Department to collect these receivables include statements of account, telephone collections, determination and assessments, property liens, comptroller's offset, deferred payment agreements and bank levies.

See the following schedules for an aging of the taxes receivables balances.

Taxes Receivable at June 30, 2017

Taxes receivable	Penalties and interest	Total Taxes Receivable
$ 609,929	$ 113,595	$ 723,524
Less allowance for uncollectible accounts		(302,811)
		$ 420,713

Analysis of Accounts Receivable (Continued)
June 30, 2017 and 2016
(Unaudited)
(Amounts Expressed in Thousands)

NONSHARED PROPRIETARY FUND (CONTINUED)

Taxes Receivables (Continued)

Taxes Receivable at June 30, 2016

Taxes receivable		Penalties and interest		Total Taxes Receivable
$ 798,170	$	140,102	$	938,272
Less allowance for uncollectible accounts				(376,432)
			$	561,840

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, emergency unemployment, and extended benefits compensation. Intergovernmental receivables totaled $30,630 at June 30, 2017 and $28,025 at June 30, 2016. 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.

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, net of allowance for uncollectible accounts, totaled $741,764 at June 30, 2017 and $755,817 at June 30, 2016. Methods used to collect these receivables include recoupment from future benefits; use of the comptroller's offset system, referral to federal treasury offset program, statements of indebtedness, deferred payment agreements, and referral to the Illinois Attorney General.

Net Other Receivables Aging at June 30, 2017

2013 and Prior	2014	2015	2016	2017	Total Other Receivables
$ 450,680	$ 79,581	$ 78,766	$ 58,231	$ 74,506	$ 741,764
Less: allowance for uncollectible accounts					(664,610)
					$ 77,154

State of Illinois
Department of Employment Security

Analysis of Accounts Receivable (Continued)
June 30, 2017 and 2016
(Unaudited)
(Amounts Expressed in Thousands)

NONSHARED PROPRIETARY FUND (CONTINUED)

Other Receivables (Continued)

Net Other Receivables Aging at June 30, 2016

2012 and Prior	2013	2014	2015	2016	Total Other Receivables
$ 378,526	$ 92,667	$ 86,543	$ 88,529	$ 109,552	$ 755,817
Less allowance for uncollectible accounts					(664,760)
					$ 91,057

State of Illinois
Department of Employment Security

Budget Impasse Disclosure
June 30, 2017 and 2016
(Unaudited)

Payment of Prior Year Costs in Future Fiscal Years

Article 74 of Public Act 99-0524 authorized the Department to pay Fiscal Year 2016 costs using the Department's Fiscal Year 2017 appropriations for non-payroll expenditures. In addition, Article 998 of Public Act 100-0021 authorized the Department to pay its unpaid Fiscal Year 2016 and Fiscal Year 2017 costs using either the Department's Fiscal Year 2017 or Fiscal Year 2018 appropriations for non-payroll expenditures. The following chart shows the Department's plan to pay its prior costs using future appropriations:

		Fiscal Year 2016 Invoices			
		Paid from Fiscal Year 2016 Appropriations		Paid from Fiscal Year 2017 Appropriations	
Fund #	Fund Name	Number	Dollar Value	Number	Dollar Value
001	General Revenue Fund	-	$ -	1	$ 18,479,835

		Fiscal Year 2017 Invoices			
		Paid from Fiscal Year 2017 Appropriations		Paid from Fiscal Year 2018 Appropriations	
Fund #	Fund Name	Number	Dollar Value	Number	Dollar Value
001	General Revenue Fund	-	$ -	1	$ 2,520,165

Alternative Financing in Lieu of Appropriations and Programs to Address Untimely Payments to Vendors
June 30, 2017 and 2016
(Unaudited)

Transactions Involving the Illinois Finance Authority

The Department and its vendors did not participate in alternative financing in lieu of enacted appropriations involving the Illinois Finance Authority during Fiscal Year 2016 and Fiscal Year 2017.

Transactions Involving the Vendor Payment Program and Vendor Support Initiative Program

None of the Department's vendors participated in the Vendor Payment Program (VPP) or the Vendor Support Initiative Program (VSI) during Fiscal Year 2016 and Fiscal Year 2017.

Interest Costs on Fiscal Year 2017 Invoices
June 30, 2017 and 2016
(Unaudited)

Prompt Payment Interest Costs

The Department did not incur any prompt payment interest due to vendors under the State Prompt Payment Act (Act) (30 ILCS 540). The Department's vendors were paid from funds and accounts that are ineligible for prompt payment interest due to vendors under the Act.

State of Illinois
Department of Employment Security

Average Number of Employees
For the Fiscal Years Ended June 30, 2017, 2016 and 2015
(Unaudited)

The following table summarizes the average number of employees of the Department at June 30, 2017, 2016 and 2015.

Division	2017	2016	2015
Workforce Development	1,095	1,082	1,177
Total Employees	1,095	1,082	1,177

State of Illinois
Department of Employment Security

Annual Cost Statistics
For the Fiscal Years Ended June 30, 2017, 2016 and 2015
(Unaudited)

	Federal Fiscal Year Ended September 30,		
	2017	2016	2015
Average benefits paid per client	$ 3,496	$ 3,224	$ 3,024

State of Illinois
Department of Employment Security

Service Efforts and Accomplishments
For the Fiscal Years Ended June 30, 2017, 2016 and 2015
(Unaudited)
(Expressed In Thousands)

	Fiscal Year Ended June 30,		
	2017	2016	2015
Activities and Performance			
Unemployment Insurance [1]			
Initial claims	553.51	608.81	606.59
Job Placement [2]			
Entered employments	N/A	314.80	434.38
Job openings received	650.15	1,064.87	39.28

Notes:

(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.

N/A Not Available. Effective with the Workforce Innovation Opportunity Act (WOIA), the measurement period changed and December 2017 data was not available at time of report.

State of Illinois
Department of Employment Security

Unemployment Rates
For the Years Ended June 30, 2017, 2016 and 2015
(Unaudited)

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 years 2015 through 2017 as provided by the Bureau of Labor Statistics, are summarized below:

		Rate by Quarter			
		1st	2nd	3rd	4th
	2017				
	National	4.70 %	4.40 %	4.30 %	*
	State	5.40	4.70	4.90	*
	2016				
	National	4.90 %	4.90 %	4.90 %	4.70 %
	State	6.10	6.10	5.80	5.80
	2015				
	National	5.50 %	5.40 %	5.10 %	5.00 %
**	State	5.90	5.90	5.90	6.03

Notes: Rates are seasonally adjusted and subject to revision.

* Figures not available at time of report.

** Unemployment rates are seasonally adjusted and subject to revision