



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF EMPLOYMENT SECURITY

**Financial Audit
 For the Year Ended June 30, 2022**

Release Date: July 6, 2023

FINDINGS THIS AUDIT: 5				AGING SCHEDULE OF REPEATED FINDINGS			
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	<u>Repeated Since</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>
Category 1:	1	3	4	2021	22-2		
Category 2:	1	0	1	2020	22-1, 22-4		
Category 3:	0	0	0				
TOTAL	2	3	5				
FINDINGS LAST AUDIT: 3							

DISCLAIMER

The Department has not maintained certain accounting records and supporting documents for the Trust Fund relating to transactions with its beneficiaries, nor is the Trust Funds' internal control adequate to provide safeguards over the Trust Fund assets and to assure the proper recording of transactions. As such, we were unable to satisfy ourselves by performing other auditing procedures concerning both the opening net position at July 1, 2021, as well as the activity for the year ended June 30, 2022. Since opening balances enter in the determination of revenues, expenses, and cash flows, we were unable to determine whether any adjustments might have been necessary in respect of the changes in net position for the year reported in the statement of revenues, expenses, and changes in net position and the cash flows reported in the cash flow statement. Because of the significance of the matter described, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statements of revenues, expenses and changes in net position and cash flows for the year ended June 30, 2022. Accordingly, **we do not express an opinion on the Statements of Revenues, Expenses and Changes in Net Position and Cash Flows.**

SYNOPSIS

- **(22-2)** The Department of Employment Security (Department) failed to maintain accurate and complete Pandemic Unemployment Assistance (PUA) claimant data.
- **(22-3)** The Department did not maintain appropriate controls over financial reporting.

Category 1:	Findings that are material weaknesses in internal control and/or a qualification on compliance with State laws and regulations (material noncompliance).
Category 2:	Findings that are significant deficiencies in internal control and noncompliance with State laws and regulations.
Category 3:	Findings that have no internal control issues but are in noncompliance with State laws and regulations.

**DEPARTMENT OF EMPLOYMENT SECURITY
FINANCIAL AUDIT
For the Year Ended June 30, 2022**

STATEMENT OF NET POSITION	
Unemployment Compensation Trust Fund (in thousands)	June 30, 2022
ASSETS	
Cash and cash equivalents.....	\$ 1,008,103
Receivables, net:	
Taxes.....	377,546
Intergovernmental - Other Unemployment Insurance and related programs.....	527,584
Intergovernmental - Pandemic Unemployment Assistance (PUA) - unaudited.....	3,230
Intergovernmental - Federal Pandemic Unemployment Compensation (FPUC) associated with PUA - unaudited.....	1,518
Due from Other Government - Local.....	37,325
Other Receivable - Unemployment Insurance and related programs.....	180,272
Other Receivable - PUA - unaudited.....	2,219
Other Receivable - FPUC associated with PUA - unaudited.....	64,119
Other Receivable - Lost Wage Assistance (LWA) associated with PUA - unaudited.....	1,461
Due from other Department and State funds.....	6,911
Due from component units of the State.....	87
Total assets.....	<u>\$ 2,210,375</u>
LIABILITIES	
Accounts Payable and Accrued Liabilities.....	\$ 96,160
Benefit Accrual - Other Unemployment Insurance and related programs.....	10,394
Benefits Accrual - PUA - unaudited.....	1,330
Benefits Accrual - FPUC associated with PUA - unaudited.....	1,517
Pending Refunds on OP Waivers.....	1,022
Due to Other Government - Federal:	
Due to Federal Government - Reimb. Recalc.....	14,212
Benefits Payable - PUA - unaudited.....	167,868
Benefits Payable - FPUC associated with PUA - unaudited.....	151,514
Contingency/LWA associated with PUA - unaudited.....	68,972
Due to Other Government - Local.....	(708)
Due to other Department and State funds.....	1,261
Short-Term Notes Payable.....	1,812,645
Total liabilities.....	<u>2,326,187</u>
NET POSITION (DEFICIT)	
Restricted for payment of benefits.....	(115,812)
Unrestricted.....	-
Total Net Position (Deficit).....	<u>\$ (115,812)</u>
AGENCY DIRECTOR	
During Audit Period: Kristin Richards (thru 1/16/23)	
Currently: Ray Marchiori, Acting (effective 1/17/23)	

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

FAILURE TO MAINTAIN ACCURATE AND COMPLETE PANDEMIC UNEMPLOYMENT ASSISTANCE CLAIMANT DATA

The Department of Employment Security (Department) failed to maintain accurate and complete Pandemic Unemployment Assistance (PUA) claimant data.

On March 27, 2020, the President of the United States signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act which provided states the ability to provide unemployment insurance to individuals affected by the pandemic, including those who would not normally be eligible for unemployment. Based on the Department's records, as of June 30, 2022, 11,213 claimants received payments totaling \$3,026,210,633.

In order to determine if claimants were eligible for benefits, we requested claimant data. Although the claimant data was provided, the data required considerable manipulation in order to make the data auditable and organized. Therefore, we were unable to determine if the data was complete and accurate. As a result, we were unable to conduct detailed testing to determine whether the claimants were entitled to benefits. (Finding 2, page 24)

We recommended the Department implement controls to ensure the claimants' data is complete and accurate.

The Department accepted our recommendation.

Completeness and accuracy of PUA claimant data could not be determined

Department accepted recommendation

LACK OF INTERNAL CONTROLS OVER FINANCIAL ACCOUNTING AND REPORTING

The Department did not maintain appropriate controls over financial reporting.

During the audit, several adjustments were posted to correct errors identified by the auditors. A few of the adjustments we noted during our testing follow:

- Receivables due from the federal government relating to the waiver of the first waiting week for new claimants was improperly recorded and a large portion was found to relate to prior periods, resulting in a restatement of opening net position. The impact of this error is receivables being overstated by \$12,547,000, revenue being overstated by \$506,163,000, and opening net position being understated by \$493,616,000. Management elected to record the adjusting entry for this error.

Receivables due from the federal government were improperly recorded

Receivables for overpayments still in adjudication and appeals were improperly recorded

- Receivables for overpayments that are still in the adjudication and appeals processes were improperly recorded, as the Department does not have a claim to the monies until the adjudication and appeals processes are complete. The impact of this error is receivables being overstated by \$393,731,000, allowance for uncollectible accounts being overstated by \$378,582,000, revenue being overstated by \$369,507,000, and expenses being overstated by \$354,358,000. Management elected to record the adjusting entry for this error.
- Allowance for uncollectible accounts relating to overpayment receivables were not appropriately evaluated and recorded based on historical and subsequent collection data. The impact of this error was expenses and allowance for uncollectible accounts being understated by \$201,497,000. Management elected to record the adjusting entry for this error. (Finding 3, pages 25-26)

Department accepted recommendations

We recommended the Department implement controls to ensure receivables and the related activity are recorded in the correct period and that allowance estimates are appropriate and based on all available data. In addition, we recommended cash reconciliations be prepared timely and include appropriate reconciling items such as outstanding and voided checks. Finally, we recommended the Department strengthen its internal review processes over financial statement entries to prevent errors.

The Department accepted our recommendations.

OTHER FINDINGS

The remaining findings pertain to failure to implement general information technology controls over the Pandemic Unemployment Assistance System, failure to perform timely cash reconciliations, and inadequate controls over GenTax access. We will review the Department's progress towards the implementation of our recommendations in our next financial audit.

AUDITOR'S OPINIONS

The auditors qualified their opinion on the statement of net position of the Unemployment Compensation Trust Fund. Further, the auditors did not express an opinion on the statements of revenues, expenses, and changes in net position and the cash flows of the Unemployment Compensation Trust Fund. Except for these matters, the auditors stated the statement of net position of the Unemployment Compensation Trust Fund of the Department as of and for the year ended June 30, 2022, is fairly stated in all material respects.

This financial audit was conducted by RSM US LLP.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

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

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

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