State of Illinois
Department of Employment Security

Compliance Examination
For the Two Years Ended June 30, 2011
Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

State of Illinois
Department of Employment Security

Compliance Examination
For the Two Years Ended June 30, 2011

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State of Illinois
Department of Employment Security

Agency Officials
June 30, 2011

Director	
June 6, 2011 to present	Mr. Jay Rowell
Acting, May 7, 2011 to June 5, 2011	Ms. Theresa Larkin
Previous to May 7, 2011	Ms. Maureen T. O'Donnell
Executive Deputy Director, Administration (formerly Chief of Staff)	
September 19, 2011 to present	Ms. Barbara Piwowarski
May 8, 2011 to September 18, 2011	Vacant
Previous to May 7, 2011	Ms. Theresa Larkin
Executive Deputy Director, Programs	Mr. Andrew Fox
Executive Deputy Director for Service Delivery	
December 7, 2010 to present	Mr. Amit Singla
June 1, 2010 to December 6, 2010	Ms. Linda Baker Rosenberg
Director of Field Operations (formerly Workforce Development)	
August 29, 2011 to present	Mr. Julian Federle
June 1, 2010 to August 28, 2011	Vacant
January 16, 2010 to May 31, 2010	Ms. Linda Baker Rosenberg
January 2, 2010 to January 15, 2011	Vacant
Previous to January 1, 2010	Ms. Virginia Long
Deputy Director, Information Services	
August 17, 2011 to present	Ms. Monica Carranza
January 14, 2011 to August 16, 2011	Vacant
Previous to January 13, 2011	Mr. Antonio Daniels
Chief Financial Officer	Mr. Jon Gingrich
Chief Information Services Officer	Mr. Thomas Revane
Chief Internal Auditor	
August 1, 2010 to present	Mr. Marcus A. Dodd
Equal Employment Opportunity Officer	Mr. Carlos Charneco
General Counsel	Mr. Joseph P. Mueller
Manager, Accounting Services Division	Mr. L. Briant Coombs
Manager, Economic Information and Analysis Division	Ms. Evelina Tainer Loescher, PhD
Manager, Employment Services Division	
Employment Services and Events	Ms. Kisha Hart, PhD
Employer and Community Outreach	Mr. Bennett Krause
Manager, General Services Division	Mr. John Rogers
Manager, Revenue Division	Ms. Lois Cuevas
Manager, Unemployment Insurance Division	
January 1, 2011 to present	Mr. Frank DeMore
Previous to January 1, 2011	Ms. Carolyn Vanek

The Department's Administrative offices are located at:

33 South State Street	850 East Madison Street
Chicago, IL 60603-2802	Springfield, IL 62702-5603

ILLINOIS DEPARTMENT OF EMPLOYMENT SECURITY

Pat Quinn
Governor

Jay Rowell
Director

February 2, 2012

E.C. Ortiz & Co., LLP
333 S. Des Plaines Street, Suite 2-N
Chicago, Illinois 60661

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 Agency. 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 Agency's compliance with the following assertions during the two-year period ended June 30, 2011. Based on this evaluation and to the best of our knowledge and belief, we assert that during the years ended June 30, 2010 and June 30, 2011, the Agency has materially complied with the assertions below, except as disclosed to the auditors during the engagement.

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

Yours very truly,

Illinois Department of Employment Security

Jay Rowell, Director

Jon C. Gingrich, Chief Financial Officer

Joseph P. Mueller, Legal Counsel

33 South State Street | Chicago, Illinois 60603-2802 | www.ides.state.il.us

State of Illinois
Department of Employment Security

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.

ACCOUNTANTS' REPORTS

The Independent Accountants' 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 Compliance Report	Prior Compliance Report
Findings	7	7
Repeated findings	4	2
Prior recommendations implemented or not repeated	3	1

Details of findings are presented in the separately tabbed report section of this report.

SCHEDULE OF FINDINGS

FINDINGS (*GOVERNMENT AUDITING STANDARDS*)

Item No.	Description	Finding Type
11-1	Inadequate Controls Over Computer Security	Significant Deficiency
11-2	Inaccurate Balance of Allowance for Uncollectible Accounts for Other Receivables	Significant Deficiency

FINDINGS (STATE COMPLIANCE)

Item No.	Description	Finding Type
11-3	Noncompliance with Unemployment Insurance Act	Noncompliance/Significant Deficiency
11-4	Performance Evaluation Not Completed Timely	Noncompliance/Significant Deficiency
11-5	Interagency Agreements Not Executed in a Timely Manner	Noncompliance/Significant Deficiency
11-6	Untimely Issuance of Eligibility Determination	Noncompliance/Significant Deficiency
11-7	Failure to Verify Social Security Numbers	Noncompliance/Significant Deficiency

SCHEDULE OF FINDINGS, Continued

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

Item No.	Description	Finding Type
11-1	Inadequate Controls Over Computer Security	Significant Deficiency
11-2	Inaccurate Balance of Allowance for Uncollectible Accounts for Other Receivables	Significant Deficiency

PRIOR FINDINGS NOT REPEATED

Item No.	Description
A	Unsupported Claims on Dependent Children
B	Inaccurate Balance of Cash and Cash Equivalents and Benefit Payments Payable
C	Untimely Preparation and Review of Monthly Reconciliation Reports

EXIT CONFERENCE

The Department waived having an exit conference per correspondence dated January 17, 2012. The responses to the recommendations were provided by Kathy Harlan in a letter dated February 2, 2012.

E.C. ORTIZ & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT ACCOUNTANTS' REPORT ON STATE COMPLIANCE, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

Honorable William G. Holland
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, 2011. 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.

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We conducted our examination 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; and, accordingly, included examining, on a test basis, evidence about the Department's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides 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, 2011. 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 11-1 to 11-7.

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 as a basis for designing our examination procedures 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 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 an entity's 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 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we considered to be significant deficiencies as described in the accompanying schedule of findings as items 11-1 to 11-7. A *significant deficiency in an entity's 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.

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 findings identified in our examination are described in the accompanying schedule of findings. We did not examine Department's responses and, accordingly, we express no opinion on the responses.

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 as listed in the table of contents as Supplementary Information for State Compliance Purposes is 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 2011 and 2010 Supplementary Information for State Compliance Purposes, except for Annual Cost Statistics, Service Efforts and Accomplishments and Unemployment Rates on which we did not perform any procedures. However, we do not express an opinion on the supplementary information.

We have not applied procedures to the 2009 Supplementary Information for State Compliance Purposes, and accordingly, we do not express an opinion thereon.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, agency management, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

E. C. Ortiz & Co. LLP

Chicago, Illinois
February 2, 2012

E.C. ORTIZ & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' 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 William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the Operating Fund and Special Programs Fund (Individual Nonshared Governmental Funds) of the State of Illinois, Department of Employment Security (Department), as of and for the year ended June 30, 2011, and have issued our report thereon dated February 2, 2012. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

Management of the Department is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Department's internal control over financial reporting of the Individual Nonshared Governmental Funds as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting of the Individual Nonshared Governmental Funds that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

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

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 anyone other than these specified parties.

E. C. Ortiz & Co. LLP

Chicago, Illinois
February 2, 2012

E.C. ORTIZ & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' 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 William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements the Unemployment Compensation Trust and Title XII Interest Fund (Individual Nonshared Proprietary Funds) of the State of Illinois, Department of Employment Security (Department), as of and for the year ended June 30, 2011, and have issued our report thereon dated February 2, 2012. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

Management of the Department is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Department's internal control over financial reporting of the Individual Nonshared Proprietary Funds as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting of the Individual Nonshared Proprietary Funds that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in Finding 11-1 and 11-2 in the accompanying Schedule of Findings that we consider to be a significant deficiency in internal control over financial reporting. 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.

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Compliance and Other Matters

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

The Department's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the Department's responses and, accordingly, we express no opinion on them.

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 anyone other than these specified parties.

E. C. Ortiz & Co., LLP

Chicago, Illinois
February 2, 2012

11-1 Inadequate Controls Over Computer Security

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

The Information Services Division (ISD) is responsible for the development and maintenance of the Department's information systems and for preserving the integrity and security of information warehoused within those systems. The Department processed approximately $2.6 billion in employer unemployment tax revenue contributions and $6.4 billion of unemployment benefit payments in fiscal year 2011.

A Super ID is a user ID that gives the user full access to all files, programs, tables and databases in all environments (Development, Test and Production). The Department had issued five Super IDs. Four Super IDs were assigned to the Applications Manager who supports the Human Resources, Finance, and Revenue systems, and one Super ID was assigned to the Applications Manager who supports the Benefits system. The ISD managers allow their programmers to use the Super IDs by sharing the password.

We noted that the ISD programmers were sharing and using Super IDs almost daily, on a non-emergency basis in the Production environment for resolving transactional or application-related problems that occurred during the regular day or at night's batch processing. Since the Super IDs were shared, the individual accountability over its use was limited. In addition, the use of Super ID to resolve transactional or application-related problems bypassed normal application specific controls and audit trails.

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

According to the Department, production control staff were not always available to follow the normal process for fixing errors that occurred when converting transactions from the Benefit Information System (BIS) to the Benefit Charging System (BCS). The Department found it more efficient and expeditious for the programming staff to use system utilities to correct the data so the BCS could correctly process the transactions. There was still a large volume of BIS data that needed to be cleaned up in July and August of 2010 prior to the conversion to IBIS.

The use of the Super IDs increases the risk of unauthorized access to systems and data which could jeopardize the integrity of the Department's resources. Programming staff should generally be limited to accessing only the information specifically required to complete their assigned system development projects. Furthermore, Department policy stated that the use of the Super ID should be limited to the resolution of production problems when the Production Control Unit staff is either not scheduled or unavailable. (Finding Code No. 11-1, 10-1, 09-2, 08-2)

Recommendation

We recommend the Department:

- Allocate the resources necessary to correct day-to-day transactional and applications related information systems problems without compromising the security of those systems by over utilizing Super ID access rights.
- Restrict the use of the Super ID to emergency cases only, as required by Department policy.
- Implement additional compensating controls until the current practices are terminated. Additional compensating may include:

    - Revising the approval process to include approvals by non-IS business application owner/manager to ensure proper separation of duties.
    - Providing a more meaningful transaction log that shows the nature of changes made in using the Super ID. Review and approval of the transaction logs should be performed, documented and retained.

Department Response

We accept the recommendation. Since July of 2011, after the time of these findings, the Department has worked to reduce our reliance on Super IDs. We have restricted the use of these IDs to emergency cases, which occur outside of regular business hours. Additionally, in August of 2010, we launched our new Unemployment Insurance system, IBIS. All of the data from our old system, BIS, was converted at that time and we are currently working on a plan to decommission the BIS application. Therefore, issues surrounding the use of Super IDs to correct BIS data are no longer relevant.

Our goal is to eliminate the use of Super IDs completely by increasing the skill level of Department employees working in Information Services Bureau's (ISB) Support Services. We will work with our ISB staff to ensure Super ID forms provide a more meaningful description showing the nature of the changes made using the Super ID, including the actual transaction codes that were executed, or the tables or files that were accessed. All of this documentation will continue to be reviewed on a weekly basis and retained by ISB's Support Services manager.

Finally, in order to ensure we keep a better audit trail of Super ID usage, we will implement a new policy that only night shift Computer Room supervisors have access to Super ID passwords. Staff needing to use a Super ID will need to call the Computer Room supervisor for the password before making any modifications. All calls to the Computer Room are currently logged and retained.

11-2 Inaccurate Balance of Allowance for Uncollectible Accounts for Other Receivables

The Department of Employment Security (Department) understated its allowance for uncollectible accounts for other receivables by $9.5 million.

The Department established an allowance for uncollectible accounts for other receivables based on 4-year historical cycle. Other receivables represent benefit overpayments.

As of June 30, 2011, the Department had Other Receivables of $606 million and the allowance for other receivables at year-end was $413 million. During the audit, we noted that the Department identified on November 2010 uncollectible accounts of approximately $30 million for write-off. An allowance for uncollectible accounts percentage of approximately 68.18% based on historical cycle was applied instead of setting-up the allowance for the whole $30 million, resulting in an adjustment of $9.5 million. This amount was not material to the financial statements for the year and no adjustment was made to the financial statements.

According to accounting principles generally accepted in the United States of America (GAAP), the allowance for uncollectible accounts should represent management's best estimate of the amount of receivable that will not be collected. The allowance for uncollectible accounts is a significant estimate that requires a proper analysis and evaluation of balances. 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. Department Procedures Manual No. 5825 allows for procedures for certifying and writing off benefit overpayments.

Department officials stated that the transition to the new benefit system, IBIS, impacted the process for calculating the allowance and led to this understatement.

Failure to allow for the full balance of the uncollectible accounts for other receivables may result in financial misstatement. In addition, untimely writing-off of the uncollectible accounts results in noncompliance with Department procedures. (Finding Code No. 11-2)

Recommendation

We recommend the Department review its uncollectible accounts in compliance with its procedures and reevaluate the allowance for uncollectible accounts for other receivables for reasonableness.

Department Response

We accept the recommendation. An adequate allowance for uncollectible accounts for other receivables has been recorded and the uncollectible accounts noted will be reviewed for write-off.

11-3 Noncompliance with Unemployment Insurance Act

The Department did not comply with the Unemployment Insurance Act.

During our testing, we noted the following:

- The Department has identified Earnfare Program in its website with a brief description of the program and provides a hyperlink to the Department of Human Services' website which provides more details. However, the Department did not promote the Earnfare Program to employers and recruit public and private employers to participate.
- The Department did not establish Local Employment Assistance Fund.
- The Department adopted rules to clarify and provide guidance regarding eligibility and fraud. The Department solicited input from the business and labor communities in developing the new rules, which were ultimately agreed to by business and labor. The amended Administrative Rules became effective on June 16, 2010, within 150 days from filing a "Notice of Emergency Amendment" on January 19, 2010. However, the Department still has not complied with the mandate to have promulgated these rules within 90 days after the effective date of the mandate, which is June 30, 2009.

Unemployment Insurance Act (820 ILCS 405/1704.1) (Act) states that the Department shall cooperate with the Department of Human Services to advertise and promote the Earnfare Program to all employers, recruit public and private employers to participate in the Earnfare Program, refer recruited employers to the Department of Human Services for contract negotiations, and notify the Department of Human Services of available job listings as they occur.

The Act (820 ILCS 405/2105) states that there is to be created the Local Employment Assistance Fund to be held by the Director.

The Act (820 ILCS 405/601(c)) states that within 90 days of the effective date of the amendatory Act of the 96th General Assembly, the Department shall promulgate rules, pursuant to the Illinois Administrative Procedure Act and consistent with Section 903(f)(3)(B) of the Social Security Act, to clarify and provide guidance regarding eligibility and the prevention of fraud.

Regarding the Earnfare Program, Department officials stated that the State of Illinois has substantially reduced the Earnfare Program funding to a maximum of 250 slots/positions comprising 31 vendors located only in Chicago who have regular Earnfare contracts with IDHS Human Capital Development's Employment and Training Program.

The Department does not receive funding for the Local Employment Assistance Fund.

P.A. 96-30 (820 ILCS 405/601(C) required amendments to Parts 2835 and 2840 of the Department's rules, and the Department opted to pursue the amendments as a single package. While the changes to Part 2835 were relatively straightforward, the amendments to Part 2840 required codification of judicial and administrative precedent regarding the potentially sensitive issue of when an individual is disqualified from receiving unemployment benefits for voluntarily leaving work. Prior to adopting the rulemaking, the Department sought input from a variety of interested parties, including the major business and labor organizations in the State. Addressing all the parties' concerns involved exchanges of several series of drafts and, according to Department officials, prevented the Department from meeting the statutory deadline.

The Department's non-promotion of the Earnfare Program, non-establishment of the Local Employment Assistance Fund, and untimely promulgation of rules regarding eligibility and fraud result in noncompliance with the Act. (Finding Code No. 11-3)

Recommendation

We recommend the Department continue with its corrective actions in promoting the Earnfare Program and establish Local Employment Assistance Fund, or seek legislative remedy. We recommend the Department adopt rules within the timeframe set by statute.

Department Response

We accept the recommendation. In response to the Earnfare Program, the Department will work with the Department of Human Services (DHS) to have DHS clients enroll into the Department's labor exchange systems which will ensure notification of employment opportunities and workshops to increase their employability. In the future, the agency will work to ensure that any legislation establishing a deadline for the adoption of rulemaking allows sufficient time for the collaborative process by which Department adopts rulemaking and that the deadline is met.

11-4 Performance Evaluation Not Completed Timely

The Department did not complete performance evaluations timely.

During our examination of 172 personnel files, we noted 56 employees (33%) whose performance evaluations were completed untimely. The evaluations were completed from 1 to 336 late.

In addition, we noted 5 employees that did not have current performance evaluations on file.

80 Illinois Administrative Code 302.260 requires that "Performance records shall constitute any material in an employee's personnel file which, in the judgment of the Director, is relevant to determining the appropriateness of proposed or recommended personnel transactions."

80 Illinois Administrative Code 302.270 requires that "For any employee serving a six month probationary period, the agency shall prepare and submit to the Department two such evaluations, one at the end of the third month of the employee's probationary period and another 15 days before the conclusion thereof. For an employee serving a four-month probationary period, the agency shall prepare and submit to the Department an evaluation form three and one half months after the commencement of the probationary period. For a certified employee, each agency shall prepare such evaluation not less than annually".

Department officials stated that the issue was aggravated during this audit period because of the unusually high increase in the unemployment rate. Field staff (which make up 89% of the sample examined) were stretched to their limits as the Illinois Unemployment rate reached its peak of 11.2% in January 2010.

Failure to observe the required process in completing performance evaluations resulted in noncompliance with Illinois Administrative Code. (Finding Code No. 11-4, 09-7, 07-3, 05-5, 03-2)

Recommendation

We recommend the Department ensure the timely completion and submission of employee performance evaluations and assign responsibility for its monitoring for compliance with the applicable law.

Department Response

We accept the recommendation. The Department is committed to addressing and eliminating this finding. Steps taken since June 30, 2011, include rolling out performance evaluation training for supervisors statewide and enhancing the reminder notices to highlight days past due.

11-5 Interagency Agreements Not Executed in a Timely Manner

The Department did not execute its intergovernmental agreements with other State agencies in a timely manner.

During our detailed review of 17 interagency agreements, we noted that 15 of the intergovernmental agreements (88%) had contract terms prior to the completion of an executed agreement. The agreements were signed between 32 and 214 days late.

Good business practices require that a properly signed two party agreement be executed prior to commencement of services for both contracts and interagency agreements.

Department officials stated that the Intergovernmental Agreements for Utilization of Leased Space (IGAs) are based upon Cost Allocation Plans that are developed each year as a requirement under the Workforce Investment Act (Act). The Act requires that Memorandum of Understanding (MOUs) be drawn up among partner agencies. The Cost Allocation Plans are included in the MOUs and form the basis for the rental amounts in the IGAs. The MOU approval process is subject to the approval of the local Workforce Investment Boards and can cause delays in signing the IGAs.

Failure to execute contracts or interagency agreements in a timely manner could compromise the Department's oversight and public accountability. Significant work could be performed and costs incurred before the public is made aware of the specifics of the contract and may also expose the State to potential liability. (Finding Code No. 11-5, 09-4, 07-2, 05-8)

Recommendation

We recommend the Department improve its process for timely executing intergovernmental agreements.

Department Response

We accept the recommendation. The Department is continuing to improve the approval process by beginning the MOU approvals earlier in the year and meeting regularly to speed up the approval process. As a result, nine of the agreements cited in the finding were executed timely in FY12.

11-6 Untimely Issuance of Eligibility Determination

The Department did not issue eligibility determinations within the prescribed timeframe.

During the fiscal year, we noted the Department did not meet the acceptable coverage of at least 80% for timely non-monetary determinations for three of four quarters.

20 Code of Federal Regulation Part 640.3 requires that a State law include provisions for such methods of administration as will reasonably insure the full payment of unemployment benefits for eligible claimants 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 that an increased workload due to the prolonged recession has had a significant impact on timeliness.

Failure to issue eligibility determinations within prescribed timeframes could result in improper payment or withholding of unemployment compensation. (Finding Code No. 11-6, 09-6)

Recommendation

We recommend the Department implement procedures to ensure all eligibility determinations are made within the prescribed timeframes.

Department Response

We accept the recommendation. Through load-balancing and revised operations procedures, the determination completion timeframe has significantly improved, with the last two quarters exceeding the ETA requirement.

11-7 Failure to Verify Social Security Numbers

The Department did not verify social security numbers of new claimants.

The Department requires that a claimant provide the local office with a valid Social Security card or other evidence of his Social Security number (SSN) and any other form of positive identification such as a driver's license, state photo ID card, or payroll check. During the year, the Department made benefit payments of approximately $2.9 million to claimants with SSNs reported as potentially invalid by the Social Security Administration (SSA).

Department Procedures Manual 5085.10 states that an identity verification investigation is conducted on all new claims to determine if the SSN provided by the claimant is a valid SSN issued by the SSA.

Department officials stated that when the new Unemployment Insurance Benefit Payment System was implemented on August 30, 2010, the online verification interface with the SSA Unemployment Insurance Query (UIQ) was not implemented.

The Department's failure to verify social security numbers resulted in noncompliance with its own procedures. (Finding Code No. 11-7)

Recommendation

We recommend the Department verify new claimants' social security numbers.

Department Response

We accept the recommendation. The process to verify new claimants' social security numbers for our Unemployment Insurance system, IBIS, was reinstituted on May 24, 2011. This verification is conducted through a batch process running nightly to check social security information against the Social Security Administration's (SSA) database. We receive notification within 24-hours of claimants whose social security information does not match SSA records.

Additionally, on February 2, 2012, the Department submitted a Security Design Plan to the SSA, which is the first step in enabling Department to verify social security information in real-time. This will bring the Department in full compliance with Department Procedures Manual 5085.10.

Prior Material Finding Not Repeated
For the Two Years Ended June 30, 2011

A. Unsupported Claims on Dependent Children

The Department did not obtain required information from claimants regarding dependent children.

In fiscal year 2009, we noted that the Unemployment Insurance Application (page 2) did not provide space for information on the claimant's dependent children's name and birth dates. (Finding Code No. 09-5)

Status: Implemented

During the current engagement, the Department revised the unemployment insurance application form.

B. Inaccurate Balance of Cash and Cash Equivalents and Benefit Payments Payable

The Department understated its cash and cash equivalents by $43 million. The related benefit payments payable was also understated by the same account.

In fiscal year 2009, we noted that the Department recorded a transfer of funds for benefit payment when the actual transfer was not made until July 1, 2009. This resulted to a corresponding understatement in the Department's benefit payments payable by the same amount.

Status: Implemented

This was cleared during the financial audit in fiscal year 2010. The Department recorded the transfer of funds in the proper period.

C. Untimely Preparation and Review of Monthly Reconciliation Reports

The Department did not timely prepare and review the monthly reconciliation reports. In addition, reconciling items were not adequately supported and adjusted in the books timely.

In fiscal year 2009, we noted that the Department's monthly reconciliation reports were not prepared timely and not adequately supported and adjusted in the books timely

Status: Implemented

This was cleared during the financial audit in fiscal year 2010. The Department corrected and adjusted the reconciling items and prepared the bank reconciliation reports timely.

State of Illinois
Department of Employment Security

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 Expenditures of Federal Awards
  - Notes to Schedules of Expenditures of Federal Awards
  - Schedule of Appropriations, Expenditures, and Lapsed Balances
  - Notes to Schedules of Appropriations, Expenditures, and Lapsed Balances
  - Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances
  - Schedule of Changes in State Property
  - Comparative Schedule of Cash Receipts
  - Reconciliation Schedules of Cash Receipts to Deposits Remitted to the State Comptroller
  - Analysis of Significant Variations in Expenditures
  - Analysis of Significant Variations in Receipts
  - Analysis of Significant Lapse Period Spending
  - Analysis of Significant Account Balances
  - Analysis of Accounts Receivable
  - Cash Basis Schedules – Locally Held Special Programs Fund

- Analysis of Operations:
  - Agency Functions and Planning Program
  - Average Number of Employees
  - Annual Cost Statistics (Not Examined)
  - Emergency Purchases
  - Service Efforts and Accomplishments (Not Examined)
  - Unemployment Rates (Not Examined)

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states the auditors have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General, except for information on the Annual Cost Statistics, Service Efforts and Accomplishments, and Unemployment Rates on which they did not perform any procedures. However, the accountants do not express an opinion on the supplementary information.

State of Illinois
Department of Employment Security

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011
(Expressed in Thousands)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U. S. Department of Labor Programs:		
Unemployment Insurance, Trust		
Unemployment Insurance	17.225	$ 2,712,690
Temporary Extended Unemployment Compensation,	17.225	(941)
Extended Benefits	17.225	623,465
Emergency Unemployment Compensation (FUTA)	17.225	(2,692)
ARRA Emergency Unemployment Compensation (GRF)	17.225	1,934,945
ARRA Emergency Unemployment Compensation (NGRF)	17.225	1,006,084
ARRA Federal Additional Unemployment Compensation	17.225	197,890
Unemployment Insurance, Administrative		
Unemployment Insurance	17.225	154,089
Emergency Unemployment Compensation	17.225	18,040
Federal Employment Compensation Act (FECA):		
Unemployment Compensation for Ex-Military Employees (UCX)	17.225	32,258
Unemployment Compensation for Ex-Federal Employees (UCFE)	17.225	24,141
Trade Readjustment Act (TRA)		
Trade Adjustment Activities (TAA)	17.225	10,846
Alternative Trade Adjustment Act (ATAA)	17.225	928
Disaster Unemployment Act		
Disaster Unemployment Benefits	17.225	32
Disaster Unemployment Administrative	17.225	1
Total Unemployment Insurance		6,711,776
Workforce Investment Act (WIA)		
Adult Program	17.258	86
Youth Program	17.259	94
Dislocated Workers	17.260	117
Total Workforce Investment Act (WIA)		297

See Notes to Schedule of Expenditures of Federal Awards.

State of Illinois
Department of Employment Security

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011
(Expressed in Thousands)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Labor Programs, continued:		
Employment Services		
Wagner Peyser	17.207	$ 31,496
ARRA - Wagner Peyser	17.207	10,412
Total Employment Services		41,908
Veterans Programs		
Disabled Veterans Outreach Program (DVOP)	17.801	3,992
Local Veteran Employment Representative (LVER)	17.804	2,507
Total Veterans Program		6,499
Bureau of Labor Statistics	17.002	2,873
Work Opportunities Tax Credit	17.271	852
Temporary Labor Certifications for Foreign Workers	17.273	290
Total U.S. Department of Labor		6,764,495
Total Expenditures of Federal Awards		$ 6,764,495

See Notes to Schedule of Expenditures of Federal Awards.

State of Illinois
Department of Employment Security

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010
(Expressed in Thousands)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U. S. Department of Labor Programs:		
Unemployment Insurance, Trust		
Unemployment Insurance	17.225	$ 3,613,715
Temporary Extended Unemployment Compensation	17.225	(1,197)
Extended Benefits	17.225	629,989
Emergency Unemployment Compensation (FUTA)	17.225	43,335
ARRA Emergency Unemployment Compensation (GRF)	17.225	2,778,820
ARRA Emergency Unemployment Compensation (NGRF)	17.225	648,462
ARRA Federal Additional Unemployment Compensation	17.225	599,738
Unemployment Insurance, Administrative		
Unemployment insurance	17.225	170,938
Emergency Unemployment Compensation	17.225	20,278
Federal Employment Compensation Act (FECA)		
Unemployment Compensation for Ex-Military Employees (UCX)	17.225	34,349
Unemployment Compensation for Ex-Federal Employees (UCFE)	17.225	13,893
Trade Readjustment Act (TRA)		
Trade Adjustment Activities (TAA)	17.225	1,896
Alternative Trade Adjustment Act (ATAA)	17.225	708
Disaster Unemployment Act		
Disaster Unemployment Benefits	17.225	26
Disaster Unemployment Administrative	17.225	5
Total Unemployment Insurance		8,554,955
Workforce Investment Act (WIA)		
Adult Program	17.258	64
Youth Program	17.259	70
Dislocated Workers	17.260	93
Total Workforce Investment Act (WIA)		227

See Notes to Schedule of Expenditures of Federal Awards.

State of Illinois
Department of Employment Security

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010
(Expressed in Thousands)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Labor Programs, continued:		
Employment Services		
Wagner Peyser	17.207	$ 26,752
ARRA - Wagner Peyser	17.207	5,672
Total Employment Services		32,424
Veterans Programs		
Disabled Veterans Outreach Program (DVOP)	17.801	3,053
Local Veteran Employment Representative (LVER)	17.804	2,455
Total Veterans Program		5,508
Bureau of Labor Statistics	17.002	3,019
Work Opportunities Tax Credit	17.271	594
Temporary Labor Certifications for Foreign Workers	17.273	403
Total U.S. Department of Labor		8,597,130
U.S. Department of Education		
Voc. Ed-Perkins Title IIA Leadership	84.048A	20
Total U.S. Department of Education		20
Total Expenditures of Federal Awards		$ 8,597,150

See Notes to Schedule of Expenditures of Federal Awards.

Notes to Schedules of Expenditures of Federal Awards

Organization and Grant Administration

The State of Illinois, Department of Employment Security (Department) is a part of the executive branch of government of the State of Illinois.

The Department has been designated as the primary recipient for the federal programs for which it receives federal awards. The major responsibilities of the Department as a primary recipient are to ensure that all planning, public participation, reporting and auditing requirements associated with the federal awards programs are met and that all available federal awards are received and expended in accordance with the requirements of the related grant or contract.

The schedules of expenditures of federal awards present activities of all federal financial assistance programs of the Department.

Significant Accounting Policies

Reporting Entity

The schedule of expenditures of federal awards presents all programs in which expenditures were made and/or claimed by the Department. The Department is an integral part of the State of Illinois, the reporting entity.

Basis of Accounting

The schedules of expenditures of federal awards are presented on the modified accrual basis of accounting with the exception of Unemployment Insurance Trust Accounts and Federal Employment Compensation Act (FECA) accounts, which are reported on a full accrual.

Relationships to Federal Financial Reports

Amounts reported in the schedules of expenditures of federal awards reconcile with amounts reported in the related federal financial reports.

State of Illinois
Department of Employment Security

Schedule of Appropriations, Expenditures, and Lapsed Balances

Appropriations for Fiscal Year 2011
Sixteen Months Ended October 31, 2011

	Final Appropriations (Note 1)	Expenditures through June 30	Lapse Period Expenditures 07/01/11 - 10/31/11	Total Expenditures	Lapsed Balances
TITLE III SOCIAL SECURITY AND EMPLOYMENT SERVICES FUND - 052					
Central Administration	$ 14,077,500	$ 12,294,346	$ 590,250	$ 12,884,596	1,192,904
Finance and Administration	106,395,700	60,623,922	11,365,579	71,989,501	34,406,199
Workforce Development	189,317,400	146,437,818	10,920,745	157,358,563	31,958,837
Trust Fund Unit	1,734,300	122,818	72,105	194,923	1,539,377
Federal Stimulus-ARRA	16,200,000	11,032,145	1,404,029	12,436,174	3,763,826
Total	327,724,900	230,511,049	24,352,708	254,863,757	72,861,143
UNEMPLOYMENT COMPENSATION SPECIAL ADMINISTRATION FUND - 055					
Workforce Development	14,100,000	13,433,937	88,297	13,522,234	577,766
GENERAL REVENUE FUND - 001					
Trust Fund Unit	68,907,700	52,856,290	8,043,071	60,899,361	8,008,339
ROAD FUND - 011					
Trust Fund Unit	1,900,000	1,900,000	-	1,900,000	-
NON-DEPARTMENT FUND					
IMSA Income Fund - 768	16,700	16,700	-	16,700	-
Total Appropriated	$ 412,649,300	$ 298,717,976	$ 32,484,076	$ 331,202,052	81,447,248
NON-APPROPRIATED					
Unemployment Compensation Special Administration Fund - 055		500,739	47,439	548,178	
Total Non-Appropriated		500,739	47,439	548,178	
Grand Total - ALL FUNDS		$ 299,218,715	$ 32,531,515	$ 331,750,230	

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

State of Illinois
Department of Employment Security

Schedule of Appropriations, Expenditures, and Lapsed Balances

Appropriations for Fiscal Year 2010
Eighteen Months Ended December 31, 2010

	Final Appropriations (Note 2)	Expenditures through June 30	Lapse Period Expenditures 7/1/10-12/31/10	Total Expenditures	Lapsed Balances
TITLE III SOCIAL SECURITY AND EMPLOYMENT SERVICES FUND - 052					
Central Administration	$ 13,469,400	$ 11,552,719	$ 632,851	$ 12,185,570	1,283,830
Finance and Administration	101,506,000	73,174,348	14,540,576	87,714,924	13,791,076
Workforce Development	181,891,600	144,873,067	12,007,082	156,880,149	25,011,451
Trust Fund Unit	1,734,300	82,363	16,643	99,006	1,635,294
Federal Stimulus-ARRA	30,500,000	15,234,756	194,843	15,429,599	15,070,401
Total	329,101,300	244,917,253	27,391,995	272,309,248	56,792,052
UNEMPLOYMENT COMPENSATION SPECIAL ADMINISTRATION FUND - 055					
Workforce Development	14,100,000	13,502,252	48,025	13,550,277	549,723
GENERAL REVENUE FUND - 001					
Trust Fund Unit	6,907,700	5,260,854	1,646,846	6,907,700	-
ROAD FUND - 011					
Trust Fund Unit	1,900,000	-	1,900,000	1,900,000	-
NON-DEPARTMENT FUND					
IMSA Income Fund - 768	16,700	16,700	-	16,700	-
Total Appropriated	$ 352,025,700	$ 263,697,059	$ 30,986,866	$ 294,683,925	57,341,775
NON-APPROPRIATED					
Unemployment Compensation Special Administration Fund - 055		3,561,560	39,991	3,601,551	
Total Non-Appropriated		3,561,560	39,991	3,601,551	
Grand Total - ALL FUNDS		$ 267,258,619	$ 31,026,857	$ 298,285,476	

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

Notes to Schedules of Appropriations, Expenditures, and Lapsed Balances

Appropriation Authorization, Fiscal Year 2011

Appropriation amounts were authorized by Public Act 096-0956, as approved by the Governor on July 1, 2010, pursuant to Article IV, Section 9(d) of the Illinois Constitution of 1970. Pursuant to Section 13.2 of the State Finance Act, the sum of transfers among line item appropriations shall not exceed 2% of the aggregate appropriation. Based on the Office of the Comptrollers records, the Department's transfer totaling $825,000 did not exceed this ceiling.

Appropriation Authorization, Fiscal Year 2010

Appropriation amounts were authorized by Public Act 096-0042, as approved by the Governor on July 15, 2009 and Public Act 096-0890 approved on April 26, 2010, pursuant to Article IV, Section 9(d) of the Illinois Constitution of 1970. Pursuant to Section 13.2 of the State Finance Act, the sum of transfers among line item appropriations shall not exceed 2% of the aggregate appropriation. Based on the Office of the Comptrollers records, the Department's transfer totaling $1.8 million did not exceed this ceiling.

Basis of Accounting

Data contained in these schedules have been taken directly from the records of the State Comptroller.

The Comptroller's Statewide Accounting Management System (SAMS) controls expenditures by line item as established in approved appropriation bills. Budgets are essentially on the cash basis, modified for expenditures during the lapse period.

Non-Department Funds

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.

Notes to Schedules of Appropriations, Expenditures, and Lapsed Balances, continued

<u>Directors and Board of Review Salaries Paid from Title III Social Security and Employment Services Fund</u>

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
2011			
Appropriation	$ 142,200	$ 75,000	$ 217,200
Expenditures	142,200	75,000	217,200
Lapse	$ -	$ -	$ -
2010			
Appropriation	$ 142,305	$ 75,000	$ 217,305
Expenditures	142,305	75,000	217,305
Lapse	$ -	$ -	$ -
2009			
Appropriation	$ 142,339	$ 75,000	$ 217,339
Expenditures	142,339	75,000	217,339
Lapse	$ -	$ -	$ -

State of Illinois
Department of Employment Security

Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances
For the Years Ended June 30, 2011, 2010 and 2009

	Year ended June 30		
	2011	2010	2009
	PA096-0956	PA096-0042 & PA096-890	PA095-0731
CENTRAL ADMINISTRATION			
Title III Social Security and Employment Services Fund:			
Appropriations (net of transfers)	$ 14,077,500	$ 13,469,400	$ 11,796,400
Expenditures:			
Personal services	8,145,466	7,784,704	6,936,695
Contribution to State Employee's Retirement System	2,280,534	2,209,344	1,454,943
Contribution to Social Security	599,323	569,600	504,990
Contributions to group insurance	1,485,307	1,309,646	1,271,368
Contractual services	253,327	176,916	265,265
Travel	40,918	55,193	52,716
Telecommunications services	79,721	80,167	77,973
Total Expenditures	12,884,596	12,185,570	10,563,950
Lapsed Balances	$ 1,192,904	$ 1,283,830	$ 1,232,450
FINANCE AND ADMINISTRATION			
Title III Social Security and Employment Services Fund:			
Appropriations (net of transfers)	$ 106,395,700	$ 101,506,000	$ 89,529,600
Expenditures:			
Personal services	19,024,288	18,315,798	17,585,052
Contribution to State Employee's Retirement System	5,327,873	5,198,469	3,700,725
Contribution to Social Security	1,393,686	1,342,117	1,295,262
Contribution to group insurance	3,751,528	3,478,300	3,480,711
Contractual services	37,845,769	53,606,579	48,547,357
Travel	58,889	87,746	61,897
Commodities	615,887	969,242	1,093,022
Printing	1,715,911	2,090,780	1,859,536
Equipment	90,928	115,801	75,318
Telecommunications services	2,061,628	2,288,088	1,646,901
Operation of automotive equipment	92,373	80,695	59,536
America's Labor Market Information System	10,741	141,309	148,520
Total Expenditures	71,989,501	87,714,924	79,553,837
Lapsed Balances	$ 34,406,199	$ 13,791,076	$ 9,975,763

State of Illinois
Department of Employment Security

Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances, Continued
For the Years Ended June 30, 2011, 2010 and 2009

	Year ended June 30		
	2011	2010	2009
	PA096-0956	PA096-0042 & PA096-890	PA095-0731
WORKFORCE DEVELOPMENT			
Title III Social Security and Employment Services Fund:			
Appropriations (net of transfers)	$ 189,317,400	$ 181,891,600	$ 156,785,900
Expenditures:			
Personal services	90,849,646	89,631,202	78,475,551
Contribution to State Employee's Retirement System	25,440,226	25,442,834	16,515,954
Contribution to Social Security	6,679,663	6,583,521	5,777,041
Contributions to group insurance	19,632,889	18,041,497	16,601,866
Contractual services	718,371	2,473,820	836,877
Travel	520,429	530,638	616,804
Telecommunications services	5,243,307	5,671,845	4,521,364
Employment Security Automation	1,061,435	2,713,508	343,840
Benefit information System	7,198,562	5,673,299	7,199,468
Awards and Grants	6,821	4,505	2,876
Tort Claims	6,659	113,480	-
Refunds	555	-	-
Total Expenditures	157,358,563	156,880,149	130,891,641
Lapsed Balances	$ 31,958,837	$ 25,011,451	$ 25,894,259
Unemployment Compensation Special Administration Fund:			
Appropriations (net of transfers)	$ 14,100,000	$ 14,100,000	$ 14,100,000
Expenditures:			
Legal assistance required by law	1,522,234	1,550,277	1,471,658
For deposit into Title III Social Security and Employment Services Fund	12,000,000	12,000,000	12,000,000
Total Expenditures	13,522,234	13,550,277	13,471,658
Lapsed Balances	$ 577,766	$ 549,723	$ 628,342
TOTAL WORKFORCE DEVELOPMENT			
Appropriations (net of transfers)	$ 203,417,400	$ 195,991,600	$ 170,885,900
Expenditures	170,880,797	170,430,426	144,363,299
Lapsed Balances	$ 32,536,603	$ 25,561,174	$ 26,522,601

State of Illinois
Department of Employment Security

Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances, Continued
For the Years Ended June 30, 2011, 2010 and 2009

	Year ended June 30		
	2011	2010	2009
	PA096-0956	PA096-0042 & PA096-890	PA095-0731
TRUST FUND UNIT			
General Revenue Fund:			
Appropriations (net of transfers)	$ 68,907,700	$ 6,907,700	$ 14,242,700
Expenditures:			
Unemployment Compensation benefits former State employees	-	6,907,700	14,242,700
Governors discretionary appropriation	53,991,661	-	-
Operational expenses	6,907,700	-	-
Total Expenditures	60,899,361	6,907,700	14,242,700
Lapsed Balances	$ 8,008,339	$ -	$ -
Road Fund:			
Appropriations (net of transfers)	$ 1,900,000	$ 1,900,000	$ 1,900,000
Expenditures:			
Unemployment Compensation benefits to DOT employees	1,900,000	1,900,000	1,900,000
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	194,923	99,006	41,004
Lapsed Balances	$ 1,539,377	$ 1,635,294	$ 1,693,296
IMSA Income Fund:			
Appropriations (net of transfers)	$ 16,700	$ 16,700	$ 16,700
Expenditures:			
Unemployment Compensation benefits to former State employees	16,700	16,700	2,082
Lapsed Balances	$ -	$ -	$ 14,618

State of Illinois
Department of Employment Security

Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances, Continued
For the Years Ended June 30, 2011, 2010 and 2009

	Year ended June 30		
	2011	2010	2009
	PA096-0956	PA096-0042 & PA096-890	PA095-0731
TOTAL TRUST FUND UNIT			
Appropriations (net of transfers)	$ 72,558,700	$ 10,558,700	$ 17,893,700
Expenditures	63,010,984	8,923,406	16,185,786
Lapsed Balances	$ 9,547,716	$ 1,635,294	$ 1,707,914
FEDERAL STIMULUS - ARRA			
Appropriations (net of transfers)	$ 16,200,000	$ 30,500,000	$ 4,953,000
Expenditures:			
Pursuant to applicable-ARRA	3,522,173	13,729,082	-
Administrative expenses-ARRA	8,914,001	1,700,517	-
Total Expenditures	12,436,174	15,429,599	-
Lapsed Balances	$ 3,763,826	$ 15,070,401	$ 4,953,000
GRAND TOTALS - ALL DIVISIONS			
Appropriations (net of transfers)	$ 412,649,300	$ 352,025,700	$ 295,058,600
Expenditures	331,202,052	294,683,925	250,666,872
Lapsed Balances	$ 81,447,248	$ 57,341,775	$ 44,391,728
SUMMARY BY FUND - Expenditures			
General Revenue Fund	$ 60,899,361	$ 6,907,700	$ 14,242,700
Title III Social Security and Employment Services Fund	254,863,757	272,309,248	221,050,432
Unemployment Compensation Special Administration Fund	13,522,234	13,550,277	13,471,658
Road Fund	1,900,000	1,900,000	1,900,000
IMSA Income Fund	16,700	16,700	2,082
Total Expenditures	$ 331,202,052	$ 294,683,925	$ 250,666,872

State of Illinois
Department of Employment Security

Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances - All Funds
For the Year Ended June 30, 2011, 2010 and 2009

	Year ended June 30		
	2011	2010	2009
	PA096-0956	PA096-0046 & PA096-890	PA095-0731
Appropriations (net of transfers)	$ 412,649,300	$ 352,025,700	$ 295,058,600
Expenditures			
Personal services	118,019,400	115,731,704	102,997,298
Contribution to State Employee's Retirement System	33,048,633	32,850,647	21,671,622
Contribution to Social Security	8,672,672	8,495,238	7,577,293
Contributions to group insurance	24,869,724	22,829,443	21,353,945
Contractual services	38,817,467	56,257,315	49,649,499
Travel	620,236	673,577	731,417
Commodities	615,887	969,242	1,093,022
Printing	1,715,911	2,090,780	1,859,536
Equipment	90,928	115,801	75,318
Telecommunications services	7,384,656	8,040,100	6,246,238
Legal assistance required by law	1,522,234	1,550,277	1,471,658
For deposit into Title III Social Security and Employment Services Fund	12,000,000	12,000,000	12,000,000
Unemployment Compensation benefits to former State employees	63,010,984	8,923,406	16,185,786
America's Labor Market Information System	10,741	141,309	148,520
Employment security automation	1,061,435	2,713,508	343,840
Benefit information system redefinition	7,198,562	5,673,299	7,199,468
Operation of automotive equipment	92,373	80,695	59,536
Awards and grants	6,821	4,505	2,876
Tort claims	6,659	113,480	-
Refunds	555	-	-
Pursuant to applicable-ARRA	3,522,173	13,729,082	-
Administrative expenses-ARRA	8,914,001	1,700,517	-
Total Expenditures	331,202,052	294,683,925	250,666,872
Lapsed Balances	$ 81,447,248	$ 57,341,775	$ 44,391,728

Schedule of Changes in State Property
For the Two Years Ended June 30, 2011

	Year Ended June 30, 2011				
	Balance July 1, 2010	Additions	Deletions	Net Transfers	Balance June 30, 2011
Equipment	$ 22,752,336	$ 101,546	$ 16,399	$ (1,199,380)	$ 21,638,103

	Year Ended June 30, 2010				
	Balance July 1, 2009	Additions	Deletions	Net Transfers	Balance June 30, 2010
Equipment	$ 23,913,391	$ 622,057	$ 53,303	$ (1,729,809)	$ 22,752,336

Note: Additions and deletions were reconciled to property reports submitted to the Office of the Comptroller by the Department.

State of Illinois
Department of Employment Security

Comparative Schedule of Cash Receipts
For the Years Ended June 30, 2011, 2010 and 2009

Descriptions of Receipts	Year ended June 30 2011	2010	2009
TITLE III SOCIAL SECURITY AND EMPLOYMENT SERVICES FUND - 052			
U. S. Department of Labor	$ 220,827,374	$ 233,905,419	$ 185,136,068
U. S. Department of Education Federal Stimulus Package	14,401,368	19,999,300	3,187,913
Fund Transfers - Unemployment Compensation Special Administration Fund	12,000,000	12,000,000	12,000,000
Miscellaneous	18,919	3,059	740,836
Illinois State Board of Education	-	-	173,631
Health Care and Family Services	4,884	4,884	4,884
Other States	217,000	-	90,000
Fines, Penalties or Violations	10,956	13,476	17,898
User Fees	-	55	300
Returned Petty Cash Fund	100	-	300
Subscriptions and Publications	1,620	1,510	720
One Stop Participants	503,776	543,081	586,488
Reimbursement/Jury Duty & Recoveries	3,116	3,775	2,692
General Revenue Fund	-	40,000	40,000
Copy Fees	5,899	5,172	4,285
Shared Data Access Fees	1,665	2,220	2,220
Labor Market Information	4,160	6,197	16,375
Commerce & Economic Opportunity	389,213	175,027	244,110
Investment Income Repurchase Agreements	6,232	9,924	172,151
Prior Year Refunds and Voids	17,180	10,246	6,467
Total Fund (052)	$ 248,413,462	$ 266,723,345	$ 202,427,338
UNEMPLOYMENT COMPENSATION SPECIAL ADMINISTRATION FUND - 055			
Payroll Tax Penalties	$ 13,500,414	$ 9,280,735	$ 13,841,336
Unemployment Insurance	1,189,381	1,224,406	1,717,981
Judgement Interest/UI Claim	135,871	162,084	158,675
IPTIP UC Special Administration	4,343	8,436	84,651
Total Fund (055)	$ 14,830,009	$ 10,675,661	$ 15,802,643

State of Illinois
Department of Employment Security

Reconciliation Schedule of Cash Receipts to Deposits
Remitted to the State Comptroller
For the Two Years Ended June 30, 2011

	2011	2010
Title III Social Security and Employment Services Fund - 052		
Cash receipts per Department	$ 248,413,462	$ 266,723,345
Add: Deposits in transit at beginning of fiscal year	-	-
Less: Deposits in transit at end of fiscal year	-	-
Less: Investment income	(6,232)	(9,924)
Deposits remitted to the State Comptroller	$ 248,407,230	$ 266,713,421

	2011	2010
Unemployment Compensation Administration Fund - 055		
Cash receipts per Department	$ 14,830,009	$ 10,675,661
Add: Deposits in transit at beginning of fiscal year	-	-
Less: Deposits in transit at end of fiscal year	-	-
Less: Investment income	-	-
Deposits remitted to the State Comptroller	$ 14,830,009	$ 10,675,661

Note: To avoid deposits in transits, monies are requested from the Federal government a week before the end of the period.

State of Illinois
Department of Employment Security

Analysis of Significant Variations in Expenditures
(Expressed in Thousands)

The variations presented below were obtained from amounts presented in the Schedules of Appropriations, Expenditures and Lapsed Balances, except for the Unemployment Compensation Trust Fund information, which was obtained from the Individual Nonshared Proprietary Fund Financial Statements.

Variations totaling over $1,000 and 15% were considered significant.

Title III Social Security and Employment Services Fund - 052

	2010	2009	Increase (Decrease) Amount	Increase (Decrease) %
Expenditures	$ 272,309	$ 221,050	$ 51,259	23%

The increase in expenditures was primarily due to the increase in employee payroll, group insurance and retirement, statistical services, postage, and auditing and management services.

Unemployment Compensation Special Administration Fund - 055

	2011	2010	Increase (Decrease) Amount	Increase (Decrease) %
Expenditures	$ 14,070	$ 17,152	$ (3,082)	-18%

The decrease in expenditures was primarily due to the mandatory transfer of Trade Readjustment Act program settlement that was completed in fiscal year 2010.

Special Programs Fund - 1136

	2011	2010	Increase (Decrease) Amount	Increase (Decrease) %
Employment and economic development	$ 11,548	$ 3,098	$ 8,450	273%

The increase in employment and economic development expenditures was due to the winding down of various UI Federal government extension programs as such claims were started to be applied to Trade Readjustment Act program.

	2010	2009	Increase (Decrease) Amount	Increase (Decrease) %
Employment and economic development	$ 3,098	$ 5,659	$ (2,561)	-45%

The decrease in employment and economic development expenditures was due to various UI Federal government extension programs that were implemented. These UI federal government extension programs were applied first before claims were paid under Trade Readjustment Act program.

State of Illinois
Department of Employment Security

Analysis of Significant Variations in Expenditures, Continued
(Expressed in Thousands)

Unemployment Compensation Trust Fund - 1138

	2011	2010	Increase (Decrease) Amount	%
Benefit payments and refunds	$ 6,424,471	$ 8,259,960	$ (1,835,489)	-22%

The decrease in federal grants received was due to the winding down of various Federal programs. Most claimants were no longer eligible on various Federal programs in fiscal year 2011.

	2010	2009	Increase (Decrease) Amount	%
Benefit payments and refunds	$ 8,259,960	$ 5,086,053	$ 3,173,907	62%

The increase in federal grants received was due to the continued high unemployment and eligibilities under various Federal programs, resulting in increase in claims paid and increase in draw of funds from Federal government.

Title XII Interest Fund - 1402

	2011	2010	Increase (Decrease) Amount	%
Interest expense	$ 50,485	$ -	$ 50,485	100%

The increase in interest expense was due to the interest charged by the Federal government on unpaid advances/loans starting January 1, 2011.

Analysis of Significant Variations in Expenditures, Continued
(Expressed in Thousands)

General Revenue Fund - 01 (Not Examined)

					Increase (Decrease)		
		2011		2010		Amount	%
Expenditures	$	60,899	$	6,908	$	53,991	782%

The increase in expenditures was due to the increase in claims paid to former State employees and payment of $26 million of fiscal year 2010 expenditures.

					Increase (Decrease)		
		2010		2009		Amount	%
Expenditures	$	6,908	$	14,243	$	(7,335)	-51%

Although UI claims paid to former State employees increase from 2009 to 2010, there was not enough appropriated amount in fiscal year 2010 as such $26 million was paid using future appropriations.

Analysis of Significant Variations in Receipts
(Expressed in Thousands)

The variations presented below were obtained from amounts presented in the Comparative Schedules of Cash Receipts for fiscal years 2011, 2010 and 2009, except for the Unemployment Compensation Trust Fund information, which was obtained from the Individual Nonshared Proprietary Fund Financial Statements.

Variations totaling over $1,000 and 15% were considered significant.

Unemployment Compensation Special Administration Fund - 055

	2011	2010	Increase (Decrease) Amount	%
Revenues	$ 14,830	$ 10,675	$ 4,155	39%

The increase in revenue was due to the increase in payroll tax penalties collection.

	2010	2009	Increase (Decrease) Amount	%
Revenues	$ 10,675	$ 15,803	$ (5,128)	-32%

The decrease in revenue was due to the decrease in payroll tax penalties collection.

Unemployment Compensation Trust Fund - 1138

	2011	2010	Increase (Decrease) Amount	%
Contributions	$ 2,626,928	$ 1,849,486	$ 777,442	42%

The increase in contributions was due to increase in employer contribution rate from 7.25% in 2010 to 8.04% in 2011.

	2010	2009	Increase (Decrease) Amount	%
Contributions	$ 1,849,486	$ 1,600,817	$ 248,669	16%

The increase in contributions was due to increase in employer contribution rate from 6.8% in 2009 to 7.25% in 2010.

Analysis of Significant Variations in Receipts, Continued
(Expressed in Thousands)

Unemployment Compensation Trust Fund - 1138, continued

	2011	2010	Increase (Decrease) Amount	Increase (Decrease) %
Federal grants received	$ 3,756,303	$ 4,685,503	$ (929,200)	-20%

The decrease in federal grants received was due to the winding down of various Federal programs. Most claimants were no longer eligible on various Federal programs in fiscal year 2011.

	2010	2009	Increase (Decrease) Amount	Increase (Decrease) %
Federal grants received	$ 4,685,503	$ 1,644,757	$ 3,040,746	185%

The increase in federal grants received was due to the continued high unemployment and eligibilities under various Federal programs, resulting in increase in claims paid and increase in draw of funds from Federal government.

Special Programs Fund - 1136

	2011	2010	Increase (Decrease) Amount	Increase (Decrease) %
Revenues	$ 11,548	$ 3,098	$ 8,450	273%

The increase in revenues was due to the winding down of various UI Federal government extension programs as such claims were started to be applied to Trade Readjustment Act program.

	2010	2009	Increase (Decrease) Amount	Increase (Decrease) %
Revenues	$ 3,098	$ 5,659	$ (2,561)	-45%

The decrease in revenues was due to various UI Federal government extension programs that were implemented. These UI federal government extension programs were applied first before claims were paid under Trade Readjustment Act program.

Title XII Interest Fund - 1402

	2011	2010	Increase (Decrease) Amount	Increase (Decrease) %
Revenues	$ 90,000	$ -	$ 90,000	100%

This fund was established in May 2011 for payment of the interest on loans from federal government due in September 2011.

Analysis of Significant Lapse Period Spending
For the Years Ended June 30, 2011 and 2010

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

<u>July 1, 2011 to October 31, 2011</u>

In fiscal year 2011, there was no significant lapse period spending for all funds.

<u>July 1, 2010 to December 31, 2010</u>

General Revenue Fund

In fiscal year 2010, $6.9 million benefit was paid to former State employees and of this amount $1.6 million was paid during lapse period.

Analysis of Significant Account Balances

Variations totaling over $1,000,000 and 15% were considered significant.

A. Nonshared Governmental Funds

Title III Social Security and Employment Services Fund - 52

The $2 million (84%) increase in "Cash and cash equivalents" account from fiscal year 2010 to 2011 was due to timing of funding drawn from the Federal government.

The $2 million (48%) decrease in "Cash and cash equivalents" account from fiscal year 2009 to 2010 was due to delay by Federal government in issuing of obligation authority to the Department resulting in delays in draws of funding.

The $4 million (94%) decrease in "Due from other State funds" account from fiscal year 2010 to 2011 was due to the depletion of the balance of monies for the Stimulus Reed Act program deposited in fiscal year 2009 by the Federal government in the UI Trust Fund to support the administrative expenditures of the Department.

The $15 million (80%) decrease in "Due from other State funds" account from fiscal year 2009 to 2010 was due to the withdrawal of monies for the Stimulus Reed Act program deposited in fiscal year 2009 by the Federal government in the UI Trust Fund to support the administrative expenditures of the Department.

The $19 million (104%) increase in "Due to other State funds" account from 2010 to 2011 was due to the delay in payment of billings from Central Management Services for various consolidated expenses such as facilities expenses and statistical services. In fiscal year 2011, seven months of expenditures were paid during the lapse period while in fiscal 2010, four months of expenditures were paid during the lapse period.

The $5 million (38%) increase in "Due to other State funds" account from 2009 to 2010 was due to the delay in payment of billings from Central Management Services for various consolidated expenses. In fiscal year 2010, four months of expenditures were paid during the lapse period while in fiscal year 2009, two months of expenditures were paid during the lapse period.

The $1 million (100%) increase in "Due to component units" account from 2010 to 2011 was due to late payment of vouchers on consultancy services provided to the Department.

The $3 million (100%) increase in "Deferred revenues" account from 2010 to 2011 was due to the grants receipts earned but not drawn or received within sixty days after fiscal yearend.

Analysis of Significant Account Balances, Continued

A. Nonshared Governmental Funds, Continued

Unemployment Compensation Special Administration Fund - 055

The $7 million (52%) decrease in "Cash and cash equivalents" account from fiscal year 2009 to 2010 was due to the decrease in penalty and interest on unemployment insurance taxes transferred from Unemployment Compensation Trust Fund for the first three quarters in fiscal year 2009 as compared to fiscal year 2010.

The $2 million (51%) decrease in "Due from other State funds" account from 2010 to 2011 was due to change in timing of transfer of funds from quarterly last year to monthly this year resulting to a lower month-end balance.

B. Nonshared Proprietary Funds

Unemployment Compensation Trust Fund - 1138

The $24 million (26%) increase in "Cash and cash equivalents" account from 2009 to 2010 was due to increase in unemployment insurance claims which resulted in an increase in the level of cash held at the bank which is at least three days of benefit payments per CMIA regulation.

The $437 million (100%) decrease in "Deposits held by the federal government" account from 2010 to 2011 was due to change in US Treasury ruling requiring the withdrawal of any balance from the State's treasury UI account to be used up first before availing or obtaining loan/advances from the federal government. Also, if there were remaining balance, these were withdrawn by the US Treasury for the repayment of loan/advances.

The $254 million (139%) increase in "Deposits held by the federal government" account from 2009 to 2010 was due to the additional funding given by the Federal government, the distribution of Reed Act benefit for modernization of UI for $200 million and the increase in employer contribution rate.

The $225 million (56%) increase in "Receivables - Taxes" account in 2011 from 2010 was primarily due to late payment of unemployment insurance taxes due from employer coupled with the increase in employer contribution rate from 7.25% to 8.04%

The $61 million (46%) decrease in "Receivables - Intergovernmental" account from 2010 to 2011 was due to the winding down of Federal programs and most claimants were no longer eligible on various Federal programs and combined wage claims due from other states were promptly paid monthly.

The $26 million (24%) increase in "Receivables - Intergovernmental" account from 2009 to 2010 was due increase in claims on various Federal programs.

The $69 million (63%) increase in "Receivable - Others" account from 2009 to 2010 was due to increase in overpaid claims as a result of the continuous increase in unemployment.

Analysis of Significant Account Balances, Continued

B. Nonshared Proprietary Funds, Continued

Unemployment Compensation Trust Fund - 1138, Continued

The $27 million (77%) increase in "Due from other State funds" account from 2010 to 2011 was due to increasing number of other State agencies that were not paying their unemployment insurance taxes billings timely.

The $22 million (186%) increase in "Due from other State funds" account from 2009 to 2010 was due to increasing number of other State agencies that were not paying their unemployment insurance taxes billings timely.

The $81 million (44%) decrease in "Benefit payments payable" account from 2010 to 2011 was due to the winding down of various Federal programs resulting to lesser accrual for benefit claims at end of the fiscal year.

The $44 million (19%) decrease in "Benefit payments payable" account from 2009 to 2010 was due to the implementation of debit card and direct deposit system of payment to claimants resulting to prompt processing of benefit payment by the Department.

The $2 million (30%) decrease in "Intergovernmental payable" account from 2010 to 2011 was due to prompt payment of the Department's combined wage claims due to other States.

The $4 million (38%) decrease in "Intergovernmental payable" account from 2009 to 2010 was due to prompt payment of the Department's combined wage claims due to other States.

The $5 million (77%) decrease in "Due to other State funds" account from 2010 to 2011 was due to change in timing transfer of funds from quarterly last year to monthly this year resulting to a lower month-end balance.

The $13 million (67%) decrease in "Due to other State funds" account from 2009 to 2010 was due to the transfer of monies for the Stimulus Reed Act program deposited in fiscal year 2009 by the Federal government in the Unemployment Insurance Trust Fund to support the administrative expenditures of the Department.

The $2.2 billion (100%) increase in "Due to federal government" account from 2009 to 2010 was due to advances/loan obtained to support the increasing claims for unemployment insurance.

Title XII Interest Fund - 1402

The $90 million (100%) increase in "Cash and cash equivalents" is due the establishment of this fund in May 2011 under section 2108 of the Illinois Unemployment Insurance Act.

The $50 million (100%) increase in "Due to federal government" is due the accrued interest related to the outstanding advances from January 1, 2011 to June 30, 2011 payable on September 30, 2011.

State of Illinois
Department of Employment Security

Analysis of Accounts Receivable
(Expressed in Thousands)

For financial reporting purposes for fiscal years 2011 and 2010, the Department classified its accounts receivable in the following categories:

A. Nonshared Governmental Funds

Intergovernmental Receivables

Intergovernmental receivables represent reimbursements due from federal government to reimburse the Department's administrative expenditures. Intergovernmental receivables totaled $26,459 at June 30, 2011 and $27,468 at June 30, 2010.

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

B. 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 based on Budget's Trust Fund Model and an allowance for uncollectible accounts is recorded. Taxes receivables, net of allowance for uncollectible accounts, totaled $626,853 at June 30, 2011 and $402,356 at June 30, 2010. Some of the methods used by the Department to collect these receivables include statements of account, telephone collections, determination and assessments, property liens, outside collection agencies, comptroller's offset, deferred payment agreements and bank levies.

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 $72,748 at June 30, 2011 and $133,699 at June 30, 2010. 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.

Analysis of Accounts Receivable, Continued
(Expressed in Thousands)

B. Nonshared Proprietary Fund, continued

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 $192,783 at June 30, 2011 and $178,658 at June 30, 2010. Methods used to collect these receivables include recoupment from future benefits, use of the comptroller's offset system, statements of indebtedness, deferred payment agreements, and referral to the Illinois Attorney General.

Analysis of Accounts Receivable, Continued
(Relates to Proprietary Fund Only)
(Expressed in Thousands)

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

Taxes Receivables at June 30, 2011

	Receivable for the quarter ended June 30, 2011	Receivable from prior quarters	Total Taxes Receivables
	$ 546,953	$ 217,904	$ 764,857
Less allowance for uncollectible accounts			(138,004)
			$ 626,853

Other Receivables at June 30, 2011

	2007 and Prior	2008	2009	2010	2011	Total Other Receivables
	$ 100,212	$ 25,432	$ 50,036	$ 141,111	$ 288,977	$ 605,768
Less allowance for uncollectible accounts						(412,985)
						$ 192,783

State of Illinois
Department of Employment Security

Analysis of Accounts Receivable, Continued
(Relates to Proprietary Fund Only)
(Expressed in Thousands)

Taxes Receivables at June 30, 2010		
Receivable for the quarter ended June 30, 2010	Receivable from prior quarters	Total Taxes Receivable
$ 340,349	$ 178,052	$ 518,401
Less allowance for uncollectible accounts		(116,045)
		$ 402,356

Other Receivables at June 30, 2010					
2006 and Prior	2007	2008	2009	2010	Total Other Receivables
$ 93,866	$ 30,847	$ 31,650	$ 62,270	$ 249,738	$ 468,371
Less allowance for uncollectible accounts					(289,713)
					$ 178,658

State of Illinois
Department of Employment Security

Cash Basis Schedules
Locally Held Special Programs Fund
For the Years Ended June 30, 2011 and 2010

	June 30, 2011			
	Cash Balance July 1, 2010	Cash Receipts	Cash Disbursements	Cash Balance June 30, 2011
Trade Readjustment Act	$ (42,064)	$ 10,811,462	$ 10,845,953	$ (76,555)
Disaster Unemployment Assistance	-	32,374	32,374	-
Alternative Trade Adjustment Act	(1,404)	927,583	927,683	(1,504)
Total Special Program Fund	$ (43,468)	$ 11,771,419	$ 11,806,010	$ (78,059)

	June 30, 2010			
	Cash Balance July 1, 2009	Cash Receipts	Cash Disbursements	Cash Balance June 30, 2010
Trade Readjustment Act	$ (4,650)	$ 1,858,302	$ 1,895,716	$ (42,064)
Disaster Unemployment Assistance	-	25,890	25,890	-
Alternative Trade Adjustment Act	(2,415)	708,841	707,830	(1,404)
Total Special Program Fund	$ (7,065)	$ 2,593,033	$ 2,629,436	$ (43,468)

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 SFY 2011 and SFY 2010.

State of Illinois
Department of Employment Security

Agency Functions and Planning Program

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 *Offices of the Director* include the Chief Financial Officer, Legal Counsel/Federal Administration, EEO/Affirmative Action, and Information Services. Other functions are carried out by the following two Bureaus:

> *Administration* maintains the Department's Policies and Procedures Manual online. It is responsible for the provision of space, equipment and supplies. It conducts quality assurance and compliance reviews and is responsible for the Department's plans and program analyses. The Bureau provides services for human resources, labor management relations, and workforce development.
>
> *Program Support Operations* employs the majority of the Department's staff. It is responsible for operating a statewide system of regional and local offices for the programmatic oversight for the Unemployment Insurance, Employment Services and related programs. The Bureau administers the employer payroll tax assessed for purposes of funding UI benefit payments. It is responsible for audit and collections activity related to the UI tax, the processing of reports and remittances, and providing customer service to employers with respect to their account with the Department. The Bureau also provides strategic planning for the Department and economic information and analysis for all interested parties.

The Department operates three major programs: Unemployment Insurance, Job Service, and Labor Market Information.

<u>Unemployment Insurance</u>

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.

<u>Employment Service</u>

The Employment Services (ES) program is operated under the authority of the federal Wagner-Peyser Act, as amended by the Job Training Partnership Act of 1983, 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. The Department maintains close contacts with employers to locate job opportunities and to meet those labor needs as soon as possible with qualified job applicants. This is accomplished by matching workers' skills to employers' job orders and referring qualified applicants 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.

Agency Functions and Planning Program, Continued

Programs, Continued

Labor Market Information

The Labor Market Information (LMI) program is also operated under the Wagner-Peyser Act and requires the Department maintain a labor market program to monitor employment-related conditions and trends. 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 and to satisfy a requirement of the State budget process.

Federal program plans and reports are submitted to the regional office of the U. S. Department of Labor's Employment and Training Administration (ETA) or 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 annual vehicle for requesting federal funds to administer the Unemployment Insurance program for the coming FFY. The narrative portion of the SQSP 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 integrity initiative; corrective action plans to meet federal performance standards that were not met for a given time period; and a discussion of any program and program review deficiencies with plans to address them. 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.

ETA requires states to submit quarterly status reports to monitor the SQSP’s corrective action 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.

The Jobs for Veterans Act of 2002 requires states to submit to VETS 5-year State Grant Applications and annual Grant Modification Requests to support field staff who provide direct labor exchange services to veterans and a small number of program administrators. 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 mandated by federal regulations. In 2009, the Department submitted its most recent five-year Grant Application which covers FFY 2010-2014. The grant application has been modified twice for FFY 2011 and FFY 2012.

Agency Functions and Planning Program, Continued

Plans, Continued

A State Grant Application and subsequent annual grant modification requests include a program plan (or modification) and an annual budget plan. 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 and the role of DVOPs and LVERs in that effort; and discusses the Department's plan for serving special target groups e.g., disabled veterans, special disabled veterans, homeless veterans, veterans transitioning from the military, etc.; and for implementing performance incentive awards for quality employment, training and placement services. 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. The completed Grant Application and modification requests are submitted to the VETS National Office via the Illinois VETS Director and the VETS Regional Office.

In addition to the above, states may submit proposals for special initiatives to target needs not covered by existing funding. If approved by the VETS National Office, states may receive funding in addition to their allocations to cover associated expenditures. The Departments' initiative provides employment services to homeless veterans and other special populations, such as the disabled and the formerly incarcerated, in the Chicago metropolitan area.

Federal Wagner-Peyser funding represents another significant portion of the Department's budget. With the passage of the Workforce Investment Act (WIA) of 1998, the annual Wagner-Peyser planning process for basic labor exchange and labor market information services was incorporated into Illinois' comprehensive five-year strategic plan which treats the many aspects of workforce development. The Department and the Department of Commerce and Economic Opportunity prepare the plan jointly. Illinois' initial strategic plan expired in 2005 and, pending WIA's reauthorization, was replaced by two two-year interim plans. For the past several years, the U.S. Department of Labor's Employment and Training Administration has given states the option of submitting annual plan modifications and/or new annual performance goals or of maintaining the status quo while Congress continues to debate reauthorization

Once a stand-alone plan, the annual Migrant and Seasonal Farmworkers (MSFW) Plan, also known as the Agricultural Services Plan, is now part of the Foreign Labor Certification Plan that includes H2A-related activities. Basically, 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.

Agency Functions and Planning Program, Continued

Plans, Continued

In addition to the plans required for federal funding, the Department is mandated by the Illinois Welfare and Rehabilitation Services Planning Act (20 ILCS 10/1 et. seq.) to submit its Human Services Plan to the General Assembly every two years. The plan contains a comprehensive narrative of products and services the Department provides through the programs it administers, associated workload and budget for several past, the current, and the coming State Fiscal Years, and descriptions of how the Department provides for the best possible use of available resources and delivers its services in coordination with other state agencies. In addition to submitting the plan to the General Assembly, the Department distributes copies to the Governor's Office and to the general public upon request.

State of Illinois
Department of Employment Security

Average Number of Employees
(Not Examined)

The following table summarizes the average number of employees of the Department categorized by divisional code at June 30, 2011, 2010 and 2009.

	2011	2010	2009
Central Administration	135	146	130
Finance and Administration	267	261	263
Workforce Development	1,486	1,524	1,360
Total Employees	1,888	1,931	1,753

State of Illinois
Department of Employment Security

Annual Cost Statistics
(Not Examined)

	2011	2010
Average Benefit Paid Per Claimant	$ 3,789	$ 3,210
Average Administrative Cost Per Claimant	$ 206	$ 176

Note: Amounts were based on Federal fiscal year.

State of Illinois
Department of Employment Security

Emergency Purchases
For the Two Years Ended June 30, 2011

In fiscal year 2011, the Department had no emergency purchases.

In fiscal year 2010, the Department had two emergency purchases to (a) One South State LLC for the upgrade of the Department's infrastructure to a fiber based solution amounting to $95,837, and (b) Direct Response Resource for the production and mailing of important notice to claimants that must be delivered immediately amounting to $42,577.

State of Illinois
Department of Employment Security

Service Efforts and Accomplishments
(Expressed In Thousands)
(Not Examined)

	For the Years Ended June 30,		
	2011	2010	2009
Activities and Performance			
Unemployment Insurance [(1)]			
Initial claims	806.65	999.32	1,154.46
Job Placement [(2)]			
Entered employments	225.20	204.19	149.30
Job openings received	50.51	40.07	36.60

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.

State of Illinois
Department of Employment Security

Unemployment Rates
(Not Examined)

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 2009 through 2011 as provided by the Bureau of Labor Statistics, are summarized below:

	Rate by Quarter			
	1st	2nd	3rd	4th
2011				
National	8.90 %	9.10 %	9.10 %	*
State	8.90	8.90	9.80	*
2010				
National	9.70	9.60	9.60	9.60 %
State	11.10	10.50	9.90	9.40
2009				
National	8.20	9.30	9.70	10.00
State	8.60	9.90	10.60	11.00

Notes: (a) *Figures not available at time of report.
(b) These rates are seasonally adjusted and subject to revision.