

State of Illinois
Department of Employment Security

Individual Nonshared Governmental Funds
Individual Nonshared Proprietary Funds
Financial Statements
For the Year Ended June 30, 2011
Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

State of Illinois
Department of Employment Security

Financial Audits
For the Year 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
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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
Chicago, IL 60603-2802

850 East Madison Street
Springfield, IL 62702-5603

**STATE OF ILLINOIS
DEPARTMENT OF EMPLOYMENT SECURITY**

Individual Nonshared Governmental Funds

Financial Statements

For the Year Ended June 30, 2011

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

**State of Illinois
Department of Employment Security**

**Financial Statements
For the Year Ended June 30, 2011**

FINANCIAL STATEMENT REPORT SUMMARY

The audits of the accompanying individual nonshared governmental funds financial statements of the State of Illinois, Department of Employment Security (Department) were performed by E. C. Ortiz & Co., LLP.

Based on their audits, the auditors expressed unqualified opinions on the Department's individual nonshared governmental funds financial statements.

EXIT CONFERENCE

The Department waived having an exit conference per correspondence dated January 17, 2012.



INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying 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, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the financial statements present only the Individual Nonshared Governmental Funds and do not purport to, and do not, present fairly the financial position of the Department as of June 30, 2011, and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Individual Nonshared Governmental Funds of the Department, as of June 30, 2011, and the changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Department adopted the reporting and disclosure requirement of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, during the year ended June 30, 2011. The Statement changed the classifications of the governmental fund balances and clarified the definitions of existing fund types. The adoption of this statement had no effect on any of the Department's Individual Nonshared Governmental Funds' assets or liabilities nor was there any effect to the amount of any of the Department's Individual Nonshared Governmental Funds balances as of and for the year ended June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 2, 2012 on our consideration of the Department's internal control over financial reporting of the Individual Nonshared Governmental Funds and on our tests of the Department's compliance with certain provisions of laws, regulations, contracts and, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Department has not presented a management's discussion and analysis for the Individual Nonshared Governmental Funds that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The Combining Operating Fund Schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Combining Operating Fund Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, 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.

C. C. G. & Co. LLP
Chicago, Illinois
February 2, 2012

State of Illinois
Department of Employment Security

Individual Nonshared Governmental Funds
Balance Sheets
June 30, 2011
(Amounts in \$000's)

	Operating Fund	Special Programs Fund
Assets		
Cash and cash equivalents	\$ 10,335	\$ -
Intergovernmental receivables	26,067	392
Due from other State funds	1,703	-
Inventories	1,141	-
Total assets	<u>\$ 39,246</u>	<u>\$ 392</u>
Liabilities and Fund Balances		
Liabilities		
Accounts payable and accrued liabilities	\$ 8,546	\$ 386
Intergovernmental payables	352	6
Due to other State funds	36,814	-
Due to component units	1,365	-
Deferred revenues	3,091	-
Total liabilities	<u>50,168</u>	<u>392</u>
Fund Balances (Deficit)		
Nonspendable	1,141	-
Restricted	8,242	-
Unassigned	(20,305)	-
Total fund balances (deficit)	<u>(10,922)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 39,246</u>	<u>\$ 392</u>

See Notes to Financial Statements.

State of Illinois
Department of Employment Security

Individual Nonshared Governmental Funds
Statements of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2011
(Amounts in \$000's)

	Operating Fund	Special Programs Fund
Revenues		
Federal government	\$ 227,854	\$ 11,548
Other revenues	752	-
Licenses and fees	6	-
Interest and investment income	8	-
Total revenues	<u>228,620</u>	<u>11,548</u>
Expenditures		
Employment and economic development	264,913	11,548
Capital outlays	2,729	-
Total expenditures	<u>267,642</u>	<u>11,548</u>
Deficiency of revenues over expenditures	<u>(39,022)</u>	<u>-</u>
Other financing sources		
Transfers in	13,294	-
Net changes in fund balances	<u>(25,728)</u>	<u>-</u>
Fund balances, July 1, 2010	<u>14,806</u>	<u>-</u>
Fund balances, June 30, 2011	<u><u>\$ (10,922)</u></u>	<u><u>\$ -</u></u>

See Notes to Financial Statements.

**State of Illinois
Department of Employment Security**

**Individual Nonshared Governmental Funds
Notes to Financial Statements
June 30, 2011
(Amounts in \$000's)**

1. Description of Funds

The State of Illinois, Department of Employment Security (the Department) administers the nonshared governmental funds described below. A nonshared fund is a fund in which a single State agency is responsible for administering substantially all financial transactions of the fund. The nonshared funds administered by the Department are summarized below.

- (a) The following funds have been combined for financial reporting purposes as Operating Fund. Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Type Definitions* (Statement). This Statement indicates that a fund that has a significant amount in revenue from transfers in should not be reported as its own special revenue fund. As Unemployment Compensation Special Administration Fund does not have a “specific revenue source,” it was not shown as an independent special revenue fund.

(i) Title III Social Security and Employment Services Fund

The Department is organized to administer grant and program activities under various federal mandates, statutes and regulations. This fund accounts for all general disbursements for the everyday operation of the Department.

(ii) Unemployment Compensation Special Administration Fund

This fund accounts for collections of interest and penalties from employers and judgment interest from claimants. Funds are used as provided by law as necessary for the proper administration of the Unemployment Insurance Act or transferred to the Unemployment Compensation Trust Fund.

(b) Special Programs Fund

This fund accounts for paying unemployment benefits under the Trade Readjustment Act program (TRA), Alternative Trade Adjustment Assistance (ATAA), and Disaster Unemployment Assistance (DUA).

2. Summary of Significant Accounting Policies

The financial statements of the individual nonshared governmental funds administered by the Department have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the GASB. To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

(a) Reporting Entity

As defined by GAAP, the financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable.

State of Illinois
Department of Employment Security

Individual Nonshared Governmental Funds
Notes to Financial Statements
June 30, 2011
(Amounts in \$000's)

2. Summary of Significant Accounting Policies, continued

(a) Reporting Entity, continued

Financial Accountability is defined as:

- (i) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide financial benefit to or impose a financial burden on the primary government; or
- (ii) Fiscal dependency on the primary government.

Based upon the required criteria, none of the individual nonshared governmental funds have component units, nor is either one a component unit of any other entity. However, because the individual nonshared governmental funds are not legally separate from the State of Illinois, they are included in the financial statements of the State as governmental funds. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1871.

The financial statements present only the Operating Fund and Special Program Fund administered by the Department and do not purport to, and do not, present fairly the financial position of the Department as of June 30, 2011, and changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

(b) Basis of Presentation

In government, the basic accounting and reporting entity is a fund. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. A balance sheet and statement of revenues, expenditures, and changes in fund balance have been presented for each individual nonshared governmental fund administered by the Department.

Each of the individual nonshared governmental funds is a special revenue fund. Transactions related to resources obtained from specific revenue sources (other than for expendable trusts) that are legally restricted for specified purposes are accounted for in special revenue funds. Special revenue funds are not shared with other State agencies. The Department administers grant and program activities under various federal mandates, statutes and regulations. The major federally funded administrative activities conducted by the Department are accounted for in the Title III Social Security and Employment Service Fund presented as part of Operating Fund.

**State of Illinois
Department of Employment Security**

**Individual Nonshared Governmental Funds
Notes to Financial Statements
June 30, 2011
(Amounts in \$000's)**

2. Summary of Significant Accounting Policies, continued

(b) Basis of Presentation, continued

The Unemployment Compensation Special Administration Fund, presented as part of the Operating Fund, accounts for collections of interest and penalties from employers and judgment interest from claimants, and funds are used as provided by law as necessary for the administration of the Unemployment Insurance Act. The Special Programs Fund accounts for paying unemployment benefits under various federal programs.

All Special Revenue Funds are held in the State Treasury, except for the Special Programs Fund, which is held locally. The funds are appropriated by the General Assembly, except for certain expenditures of the Unemployment Compensation Special Administration Fund, which are excluded from appropriation by the Illinois Unemployment Insurance Act, and the unemployment benefits paid from the Special Programs Fund.

(c) Basis of Accounting

The individual nonshared governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

Revenues are recognized as soon as they are both measurable and available. Nonexchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants from the federal and other state governments. Revenue from grants, entitlements, and similar items is recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met and the resources are available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt obligations, claims and judgments, and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures. Proceeds of long-term debt obligations and acquisitions under capital leases are reported as other financing sources.

Significant revenue sources of the individual nonshared governmental funds which are susceptible to accrual include grants from the federal government. All other revenue sources including fees, interest, and investment income are considered to be measurable and available only when cash is received.

Grants receipts earned but not drawn or received by the Department within sixty days after June 30, 2011 are reported under liabilities as deferred revenue.

**State of Illinois
Department of Employment Security**

**Individual Nonshared Governmental Funds
Notes to Financial Statements
June 30, 2011
(Amounts in \$000's)**

2. Summary of Significant Accounting Policies, continued

(d) Cash and Cash Equivalents

Cash and cash equivalents consist principally of deposits held in the State Treasury. Cash and cash equivalents also include cash on hand, cash in banks for locally held funds, and pooled investments funds held by other governmental agencies with a maturity of three months or less.

(e) Inventories

Inventories, consisting primarily of printed forms and supplies, are valued at cost. Inventories for each fund are recorded as expenditures when consumed rather than when purchased.

(f) Interfund Transactions

The individual governmental nonshared funds have the following types of interfund transactions with other funds of the State:

Services provided and used

Sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund balance sheets or fund statements of net assets.

Reimbursements

Repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Operating transfers

Flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as other financing uses in the funds making the transfers and as other financing sources in the funds receiving transfers.

(g) Compensated Absences

A liability for unpaid, accumulated vacation and sick leave balances for the Department employees is reported in the nonshared funds only if they have matured, for example, as a result of employee resignations and retirements. There was no liability for compensated absences recorded as of June 30, 2011.

**State of Illinois
Department of Employment Security**

**Individual Nonshared Governmental Funds
Notes to Financial Statements
June 30, 2011
(Amounts in \$000's)**

2. Summary of Significant Accounting Policies, continued

(h) Fund Balances

The Governmental Accounting Standards Board has issued Statement No. 54, *Fund Balance Reporting and Governmental Type Definitions* (Statement). This Statement establishes fund balance classifications that comprise hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This Statement also clarified the definitions of the governmental fund types. This Statement is effective for periods beginning after June 15, 2010. The Department implemented this Statement for the year ended June 30, 2011.

Fund balances are classified in the following categories:

Nonspendable

This consists of amounts that cannot be spent because they are either (a) not in spendable form or (b) legally required to be maintained intact. The Title III Social Security and Employment Services Fund comprised nonspendable fund balance as of June 30, 2011.

Restricted

This consists of amounts that are restricted to specific purposes, that is, when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. The Unemployment Compensation Special Administration Fund comprised restricted fund balance as of June 30, 2011.

Committed

This consists of amounts constrained by limitations that the Department imposes upon itself through resolutions. The commitment amount will be binding unless removed or amended in the same manner. There were no committed fund balances as of June 30, 2011.

Assigned

This consists of net amounts that are constrained by the Department's intent to be used for specific purposes, but are neither restricted or committed. There were not assigned fund balances as of June 30, 2011.

Unassigned

This consists of amounts that are available financial resources and are not designated for a specific purpose. The Title III Social Security and Employment Services Fund have a negative residual balance and comprised the unassigned fund balance as of June 30, 2011.

When both restricted and unrestricted resources are available for use, generally it is the Department's policy to use restricted resources first, then unrestricted resources when they are needed. Unrestricted resources which are committed are generally used before assigned resources, and assigned resources are generally used before unassigned resources.

**State of Illinois
Department of Employment Security**

**Individual Nonshared Governmental Funds
Notes to Financial Statements
June 30, 2011
(Amounts in \$000's)**

2. Summary of Significant Accounting Policies, continued

(i) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

3. Deposits

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. The Department independently manages cash and cash equivalents maintained outside the State Treasury.

Deposits in the Operating Fund represents cash on hand amounting to \$4 and deposits in the custody of the State Treasurer (or in transit) amounting to \$10,331 as of June 30, 2011.

Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Department does not own individual securities. Details on the nature of these investments are available within the State of Illinois' Comprehensive Annual Financial Report.

4. Intergovernmental Receivables/Payables

Intergovernmental receivables represent reimbursements due from the Federal government for administrative expenses incurred under the Operating Fund for \$26,067 as of June 30, 2011. On the Special Program Fund, intergovernmental receivable is due from the Federal government for reimbursement of unemployment benefits paid under the Trade Readjustment Act program (TRA), Alternative Adjustment Assistance (ATAA), and Disaster Unemployment Assistance (DUA) totaling \$392 as of June 30, 2011.

Intergovernmental payables represent withholding federal taxes on payroll under the Operating Fund of \$352, and withholding federal taxes on unemployment benefits under paid under the Special Programs Fund of \$6 as of June 30, 2011.

**State of Illinois
Department of Employment Security**

**Individual Nonshared Governmental Funds
Notes to Financial Statements
June 30, 2011
(Amounts in \$000's)**

4. Interfund Balances and Activities

(a) Balances Due to/from Other Funds

The following balances at June 30, 2011 represent amounts due from other Department and State of Illinois funds.

Fund	Amount	Description/Purpose
Operating Fund	\$ 1,496	Due from Unemployment Compensation Trust Fund representing transfers of penalties and interest
	154	Due from Department of Commerce and Economic Opportunity for WIA grant
	40	Due from Illinois Community College Board for the support of the Career Information System
	6	Due from Unemployment Compensation Trust Fund for the unexpended balance of Special Administrative Transfer for UI expenses
	5	Due from Department of Public Aid for weekly statistical services and monthly intercept of UI benefits
	2	Due from Unemployment Compensation Trust Fund representing discretionary transfers of NSF fees
	<u>\$ 1,703</u>	

State of Illinois
Department of Employment Security

Individual Nonshared Governmental Funds
Notes to Financial Statements
June 30, 2011
(Amounts in \$000's)

4. Interfund Balances and Activities, continued

(a) Balances Due to/from Other Funds, continued

The following balances at June 30, 2011 represent amounts due to other Department and State of Illinois funds.

Fund	Amount	Description/Purpose
Operating Fund	\$ 36,742	Due to other State funds for payment of services
	72	Due to Unemployment Compensation Trust Fund for reimbursement of unemployment benefits paid to former employees of the Department
	<u>\$ 36,814</u>	

Due to component units of the State of Illinois of \$1,365 are for payments of services.

(b) Transfers to/from Other Funds

Interfund transfers in for the year ended June 30, 2011, were as follows:

Fund	Amount	Description/Purpose
Operating Fund	\$ 11	Discretionary transfer of NSF fees from Unemployment Compensation Trust Fund
	13,283	Discretionary transfer of penalties and interest from Unemployment Compensation Trust Fund
	<u>\$ 13,294</u>	

State of Illinois
Department of Employment Security

Individual Nonshared Governmental Funds
Notes to Financial Statements
June 30, 2011
(Amounts in \$000's)

5. Pension Plan

Substantially all of the Department's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2011 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2011. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois 62794-9255.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute, and the authority under which those obligations are established.

The Department pays employer retirement contributions in the individual nonshared governmental funds based upon an actuarially determined percentage of their payrolls. For fiscal year 2011, the employer contribution rate was 30.253%.

6. Post-employment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5.

State of Illinois
Department of Employment Security

Individual Nonshared Governmental Funds
Notes to Financial Statements
June 30, 2011
(Amounts in \$000's)

6. Post-employment Benefits , continued

The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents, nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Avenue, Springfield, Illinois 62763-3838.

7. Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; workers compensation and natural disasters. The State retains the risk of loss (i.e., self insured) for these risks. There has been no reduction in insurance coverage from coverage in the prior year. Settlement amounts have not exceeded coverage for the current or prior two fiscal years. The Department's risk management activities for workers compensation are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the General Fund of the State. The claims are not considered to be liabilities of the Department and accordingly, have not been reported in the Department's financial statements for the year ended June 30, 2011.

**State of Illinois
Department of Employment Security**

**Individual Nonshared Governmental Funds
Notes to Financial Statements
June 30, 2011
(Amounts in \$000's)**

8. Commitments and Contingencies

(a) Federal Funding

The Department receives federal grants, which are subject to review and audit by federal grantor agencies. Certain costs could be questioned as not being an eligible expenditure under the terms of the grants. As of June 30, 2011, there were no material questioned costs that have not been resolved with the federal awarding agencies. However, questioned costs could still be identified during audits to be conducted in the future. Management of the Department believes there will be no material adjustments to the federal grants and, accordingly, has not recorded a provision for possible repayment.

(b) Litigation

The Department is routinely involved in a number of legal proceedings and claims that cover a wide range of matters. In the opinion of management, the outcome of these matters is not expected to have any material adverse effect on the financial position or results of operations of the Department.

9. American Recovery and Reinvestment Act (ARRA)

The American Recovery and Reinvestment Act was enacted on February 17, 2009. Under this ARRA, the Department is accountable in the implementation and submission of all required federal reports for the following programs.

(a) Temporary Federal Additional Compensation Program (FAC)

The FAC program provides a twenty-five dollar weekly supplement to the unemployment compensation paid to eligible claimants. Any associated administrative expenses are 100% federally funded. The Department did not incur any administrative costs for the current year ended, June 30, 2011. The FAC program was terminated as of December 11, 2010 where new benefit claims initiated after this date are no longer eligible for this program.

(b) Emergency Unemployment Compensation (EUC 08)

Although EUC 08 was initiated prior to the enactment of ARRA in July 2008, ARRA extended and expanded the program. Associated administrative costs are federally funded. Department incurred \$18,040 in administrative costs for the current fiscal year ended June 30, 2011.

(c) Special Administrative Transfer for UI

This is a special transfer of \$21,511 in February 2009 to the Department's Unemployment Trust Fund (UTF) from the federal government to be used for administrative expenses, including the improvement of UI operations. As of June 30, 2011, amount expended totals \$21,505.

**State of Illinois
Department of Employment Security**

**Individual Nonshared Governmental Funds
Notes to Financial Statements
June 30, 2011
(Amounts in \$000's)**

9. American Recovery and Reinvestment Act (ARRA), continued

(d) Wagner-Peyser Act and Re-employment Services

This ARRA is a stimulus allotment for the Workforce Investment Act which includes the Wagner-Peyser Act and Re-employment Services. This program is intended to preserve and create jobs, to meet the needs of workers and employers, to implement effective One-Stop service delivery strategies, and for the re-employment of UI claimants. The Department started implementation of this program in July 2009. As of June 30, 2011, amount expended totals \$16,084.

SUPPLEMENTARY INFORMATION

State of Illinois
Department of Employment Security

Nonshared Governmental Funds
Operating Fund
Combining Balance Sheets
June 30, 2011
(Amounts in \$000's)

	Title III Social Security and Employment Services Fund	Unemployment Compensation Special Administration Fund	Eliminations	Total
Assets				
Cash and cash equivalents	\$ 3,454	\$ 6,881	\$ -	\$ 10,335
Intergovernmental receivables	26,067	-	-	26,067
Due from other State funds	207	1,496	-	1,703
Inventories	1,141	-	-	1,141
Total assets	<u>\$ 30,869</u>	<u>\$ 8,377</u>	<u>\$ -</u>	<u>\$ 39,246</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable and accrued liabilities	\$ 8,411	\$ 135	\$ -	\$ 8,546
Intergovernmental payables	352	-	-	352
Due to other State funds	36,814	-	-	36,814
Due to component units	1,365	-	-	1,365
Deferred revenues	3,091	-	-	3,091
Total liabilities	<u>50,033</u>	<u>135</u>	<u>-</u>	<u>50,168</u>
Fund Balances (Deficit)				
Nonspendable	1,141	-	-	1,141
Restricted	-	8,242	-	8,242
Unassigned	(20,305)	-	-	(20,305)
Total fund balances (deficit)	<u>(19,164)</u>	<u>8,242</u>	<u>-</u>	<u>(10,922)</u>
Total liabilities and fund balances	<u>\$ 30,869</u>	<u>\$ 8,377</u>	<u>\$ -</u>	<u>\$ 39,246</u>

State of Illinois
Department of Employment Security

Nonshared Governmental Funds

Operating Fund

Combining Statements of Revenues, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2011

(Amounts in \$000's)

	Title III Social Security and Employment Services Fund	Unemployment Compensation Special Administration Fund	Eliminations	Total
Revenues				
Federal government	\$ 227,854	\$ -	\$ -	\$ 227,854
Other revenues	752	-	-	752
Licenses and fees	6	-	-	6
Interest and investment income	5	3	-	8
Total revenues	<u>228,617</u>	<u>3</u>	<u>-</u>	<u>228,620</u>
Expenditures				
Employment and economic development	262,843	2,070	-	264,913
Capital outlays	2,729	-	-	2,729
Total expenditures	<u>265,572</u>	<u>2,070</u>	<u>-</u>	<u>267,642</u>
Deficiency of revenues over expenditures	<u>(36,955)</u>	<u>(2,067)</u>	<u>-</u>	<u>(39,022)</u>
Other financing sources (uses)				
Transfers in	12,011	13,283	(12,000)	13,294
Transfers out	-	(12,000)	12,000	-
Total other financing sources (uses)	<u>12,011</u>	<u>1,283</u>	<u>-</u>	<u>13,294</u>
Net changes in fund balances	(24,944)	(784)	-	(25,728)
Fund balances, July 1, 2010	<u>5,780</u>	<u>9,026</u>	<u>-</u>	<u>14,806</u>
Fund balances, June 30, 2011	<u>\$ (19,164)</u>	<u>\$ 8,242</u>	<u>\$ -</u>	<u>\$ (10,922)</u>



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.

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.

C. C. G. & C. LLP
Chicago, Illinois
February 2, 2012

**STATE OF ILLINOIS
DEPARTMENT OF EMPLOYMENT SECURITY**

Individual Nonshared Proprietary Funds

Financial Statements

For the Year Ended June 30, 2011

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

**State of Illinois
Department of Employment Security**

**Financial Statements
For the Year Ended June 30, 2011**

FINANCIAL STATEMENT REPORT SUMMARY

The audit of the accompanying individual nonshared proprietary funds financial statements of the State of Illinois, Department of Employment Security (Department) was performed by E. C. Ortiz & Co., LLP.

Based on their audit, the auditors expressed unqualified opinions on the Department's individual nonshared proprietary funds financial statements.

SUMMARY OF FINDINGS

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 42 - 44, as findings 11-1 and 11-2.

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.



INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Unemployment Compensation Trust Fund 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, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the financial statements present only the Individual Nonshared Proprietary Funds and do not purport to, and do not, present fairly the financial position of the Department as of June 30, 2011, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Individual Nonshared Proprietary Funds of the Department, as of June 30, 2011, and the changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11, the Department's Unemployment Compensation Trust Fund, from which funds are drawn to pay unemployment benefits to claimants, was depleted due to extended high unemployment rates during the course of the current recession and tax revenues that have not matched the increased level of payments. Absent a robust economic recovery and/or legislative changes to the system, the Department projects that borrowing for the State will continue through at least 2012.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 2, 2012 on our consideration of the Department's internal control over financial reporting of the Individual Nonshared Proprietary Funds and on our tests of the Department's compliance with certain provisions of laws, regulations, contracts and, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Department has not presented a management's discussion and analysis for the Individual Nonshared Proprietary Funds that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, 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.

Chicago, Illinois
February 2, 2012

E. C. G. & Co. LLP

State of Illinois
Department of Employment Security

Individual Nonshared Proprietary Funds
Statements of Net Assets (Deficit)
June 30, 2011
(Amounts in \$000's)

	Unemployment Compensation Trust Fund	Title XII Interest Fund
Current Assets		
Cash and cash equivalents	\$ 106,434	\$ 90,005
Deposits held by federal government	6	-
Receivables, net		
Taxes	626,853	-
Intergovernmental	72,748	-
Other	192,783	-
Due from State funds	60,971	-
Due from component units	279	-
	<u>1,060,074</u>	<u>90,005</u>
Current Liabilities		
Benefit payments payable	102,832	-
Intergovernmental payables	4,976	-
Due to other State funds	1,532	-
Due to federal government	2,138,064	50,485
	<u>2,247,404</u>	<u>50,485</u>
Net Assets (Deficit)		
Restricted	-	39,520
Unrestricted	(1,187,330)	-
	<u>\$ (1,187,330)</u>	<u>\$ 39,520</u>

See Notes to Financial Statements.

State of Illinois
Department of Employment Security

Individual Nonshared Proprietary Funds
Statements of Revenues, Expenses, and Changes in Net Assets (Deficit)
Year Ended June 30, 2011
(Amounts in \$000's)

	Unemployment Compensation Trust Fund	Title XII Interest Fund
Operating revenues		
Contributions - unemployment taxes	\$ 2,626,928	\$ 90,000
Federal government	3,756,303	-
Total operating revenues	<u>6,383,231</u>	<u>90,000</u>
Operating expenses		
Benefit payments and refunds	6,424,471	-
Interest expense	-	50,485
Total operating expenses	<u>6,424,471</u>	<u>50,485</u>
Operating income (loss)	<u>(41,240)</u>	<u>39,515</u>
Nonoperating revenues		
Interest and investment income	-	5
Total nonoperating revenues	<u>-</u>	<u>5</u>
Income (loss) before transfers	(41,240)	39,520
Transfers out	<u>(13,294)</u>	<u>-</u>
Change in net assets (deficit)	(54,534)	39,520
Net assets (deficit), July 1, 2010	<u>(1,132,796)</u>	<u>-</u>
Net assets (deficit), June 30, 2011	<u><u>\$ (1,187,330)</u></u>	<u><u>\$ 39,520</u></u>

See Notes to Financial Statements.

State of Illinois
Department of Employment Security

Individual Nonshared Proprietary Funds
Statements of Cash Flows
Year Ended June 30, 2011
(Amounts in \$000's)

	Unemployment Compensation Trust Fund	Title XII Interest Fund
Cash flows from operating activities		
Contributions - unemployment taxes received	\$ 2,385,448	\$ 90,000
Federal grants received	3,809,127	-
Unemployment benefits paid	(6,522,663)	-
Net cash provided by (used in) operating activities	(328,088)	90,000
Cash flows from noncapital financing activities		
Proceeds from loans	1,209,304	-
Loan repayments	(1,310,822)	-
Transfers out	(18,471)	-
Net cash used in noncapital financing activities	(119,989)	-
Cash flows from investing activities		
Interest and investment income	-	5
Net cash provided by investing activities	-	5
Net increase (decrease) in cash and cash equivalents	(448,077)	90,005
Cash and cash equivalents, July 1, 2010	554,517	-
Cash and cash equivalents, June 30, 2011	\$ 106,440	\$ 90,005
<i>Reconciliation of cash and cash equivalents to the Statements of Net Assets (Deficit)</i>		
Total cash and cash equivalents		
per Statements of Net Assets (Deficit)	\$ 106,434	\$ 90,005
Add: Deposits held by federal government	6	-
Cash and cash equivalents, June 30, 2011	\$ 106,440	\$ 90,005

State of Illinois
Department of Employment Security

Individual Nonshared Proprietary Funds
Statements of Cash Flows - Continued
Year Ended June 30, 2011
(Amounts in \$000's)

	Unemployment Compensation Trust Fund	Title XII Interest Fund
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (41,240)	\$ 39,515
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Provision for uncollectible accounts	145,231	-
Changes in assets and liabilities:		
Receivables	(383,853)	-
Intergovernmental receivables	60,951	-
Due from State funds	(26,548)	-
Due from component units	129	-
Benefit payments payable	(80,610)	-
Intergovernmental payables	(2,176)	-
Due to other State funds	28	-
Due to federal government	-	50,485
Net cash provided by (used in) operating activities	<u>\$ (328,088)</u>	<u>\$ 90,000</u>

See Notes to Financial Statements.

State of Illinois
Department of Employment Security

Individual Nonshared Proprietary Funds
Notes to Financial Statements
June 30, 2011
(Amounts in \$000's)

1. Description of Funds

The State of Illinois, Department of Employment Security (the Department) administers the nonshared proprietary funds as described below. A nonshared fund is a fund in which a single State agency is responsible for administering substantially all financial transactions of the fund.

(a) Unemployment Compensation Trust Fund

The Unemployment Compensation Trust Fund accounts for assets held by the Department in a trustee capacity, for which the principal and income may be expended in the course of the fund's designated operations. The fund, a locally held fund, receives employer contributions and disburses money in the form of unemployment benefits paid to eligible claimants. This fund also receives federal funding to pay eligible claimants for any federally mandated benefit programs. The Unemployment Compensation Trust Fund is not appropriated by the General Assembly and is intended to be self-supporting.

(b) Title XII Interest Fund

The Title XII Interest Fund was established in May 2011 under Section 2108 of the Illinois Unemployment Insurance (UI) Act. This fund is not appropriated by the General Assembly and is expended upon the direction of the Director of the Department, as ex officio custodian of the fund. The Title XII Interest Fund, a locally held fund, accounts for the collections of "a one-time" surcharge from employers pursuant to Section 1506.5 of the Illinois UI Act, and can be disbursed upon direction of the Director, only for the payment of interest on loans from the federal government or to transfer any unneeded balance to the Unemployment Compensation Trust Fund.

2. Summary of Significant Accounting Policies

The financial statements of the individual nonshared proprietary funds have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

(a) Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Funds
Notes to Financial Statements
June 30, 2011
(Amounts in \$000's)**

2. Summary of Significant Accounting Policies, continued

(a) Reporting Entity, continued

- (i) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide financial benefit to or impose a financial burden on the primary government; or
- (ii) Fiscal dependency on the primary government.

Based upon the required criteria, none of the individual nonshared proprietary funds have component units, nor is component unit of any other entity. However, because the individual nonshared proprietary funds are not legally separate from the State of Illinois, it is included in the financial statements of the State as proprietary funds. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois 62704-1871.

The financial statements present only the Unemployment Compensation Trust Fund and Title XII Interest Fund administered by the Department and do not purport to, and do not, present fairly the financial position of the Department as of June 30, 2011, and changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

(b) Basis of Presentation

In government, the basic accounting and reporting entity is a fund. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. A statement of net assets (deficit), statement of revenues, expenses, and changes in net assets (deficit), and statement of cash flows have been presented for the individual nonshared proprietary fund administered by the Department.

The individual nonshared proprietary fund is an enterprise fund. Enterprise funds are used to report any activity for which a fee is charged to external users for goods and services. Activities are required to be reported as enterprise funds if any one of the following criteria is met when applied in the context of the activity's principal revenue sources: the activity is financed with debt that is secured solely by a pledge of net revenues from fees and charges of the activity, laws and regulations require that the activity's costs of providing service, including capital costs, be recovered with fees and charges, rather than taxes or similar revenues, or the pricing policy of the activity establishes fees and charges designed to recover its costs, including capital costs.

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Funds
Notes to Financial Statements
June 30, 2011
(Amounts in \$000's)**

2. Summary of Significant Accounting Policies, continued

(b) Basis of Presentation, continued

The Department administers the unemployment insurance program under various federal and state statutes and regulations. The Unemployment Trust Fund was established under Title IX of the Social Security Act to provide partial protection to workers against the loss of wages when they are out of work due to no fault of their own. To fund this program, the Department receives monies from employers to maintain the fund used to pay benefits to the unemployed workers who meet the eligibility requirements of the law.

These funds are held by the United States Treasury in an unemployment trust fund and are restricted to the payment of unemployment benefits. Unemployment benefits drawn from the fund are awarded to qualified former employees of covered Illinois employers. Employers required to contribute to the unemployment trust fund do so based on employees' wages and past experience level of unemployment caused by the employing unit. The overall rate used to determine contributions for the Illinois Unemployment Insurance Trust Fund is designed to recover the payment of unemployment benefits plus maintain a reasonable balance to protect the solvency of the fund if unemployment rates rise significantly.

Operating revenues, such as collections of unemployment tax contributions, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment earnings, result from nonexchange transactions or ancillary activities.

Interest expense arising from loans to federal government was classified as operating expense by the Department management. The Department management classifies expenses based on the purpose of the fund to which it was created.

(c) Basis of Accounting

The individual nonshared proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting.

Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include federal funding for federally mandated benefit programs. On an accrual basis, revenues from employer contributions are recognized in the fiscal year in which the underlying exchange transaction occurs. Revenues from grants, entitlements, and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Funds
Notes to Financial Statements
June 30, 2011
(Amounts in \$000's)**

2. Summary of Significant Accounting Policies, continued

(c) Basis of Accounting, continued

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the individual nonshared proprietary funds financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The State also has the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance for the individual nonshared proprietary funds administered by the Department.

(d) Cash and Cash Equivalents

Cash and cash equivalents consist principally of cash in banks for locally held funds, U.S. government securities, and pooled investment funds held by other governmental agencies with a maturity of three months or less.

Cash and cash equivalents of \$90,005 in the Title XII Interest Fund are restricted for the purposes described in Note 1.

(e) Interfund Transactions

The individual nonshared proprietary funds have the following types of interfund transactions with other funds of the State:

Reimbursements

Repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Transfers

Flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported after nonoperating revenues and expenses.

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Funds
Notes to Financial Statements
June 30, 2011
(Amounts in \$000's)**

2. Summary of Significant Accounting Policies, continued

(f) Net Assets (Deficit)

Net assets (deficit) consist of the following:

Restricted net assets consist of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. For the current fiscal year ended, the Title XII Interest Fund is reporting restricted net assets of \$39,520.

Unrestricted net assets consists of net assets that do not meet the criteria of the preceding category. For the current fiscal year, the Unemployment Compensation Trust Fund is reporting unrestricted net deficit of \$1,187,330. This is due to the depletion of the fund in previous years, combined with the current year's excess of benefit payments over contributions from employers.

When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed.

(g) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Deposits

Cash and cash equivalents as of June 30, 2011 have a carrying amount in the accompanying financial statements of \$196,439.

At June 30, 2011, cash on deposit for the Unemployment Compensation Trust Fund (UTF) for locally held funds has a carrying amount of \$799 and the bank balance was \$3,395. The bank balance of \$3,395 was fully insured by the Federal Depository Insurance Corporation (FDIC). Deposits in Illinois Funds and in the custody of the State Treasurer for the UTF and Title XII Interest Fund totaled \$193,975 and have a carrying amount of \$195,640 at June 30, 2011.

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. The Department independently manages cash and cash equivalents maintained outside the State Treasury. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1871.

State of Illinois
Department of Employment Security

Individual Nonshared Proprietary Funds
Notes to Financial Statements
June 30, 2011
(Amounts in \$000's)

3. Deposits, continued

Funds deposited in Illinois Funds and held by the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of Illinois Compiled Statute (15 ILCS 520/11). These deposits have not been categorized as to credit risk because the Department does not own individual securities. Detail on the nature of these investments is available within the State of Illinois' Comprehensive Annual Financial Report.

Illinois Funds is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in Illinois Funds are valued at Illinois Fund's share price, which is the price the investment could be sold for.

Deposits held by federal government totaled \$6 at June 30, 2011. These deposits are pooled and invested with other States' funds and have not been categorized as to credit risk because the Department does not own individual securities.

4. Taxes Receivable

Taxes receivable represent unemployment taxes, known as contributions, owed by private and non-governmental employers. The allowance for uncollectible taxes has been based on historical collection experience which, per statute, is typically on a 4 year collection cycle. Balances as of June 30, 2011, under UTF, are as follows:

Unemployment taxes	\$ 700,521
Interest and penalties receivable on taxes	<u>64,336</u>
Total taxes receivable	764,857
Less allowance for uncollectible taxes	<u>(138,004)</u>
Taxes receivable, net	<u><u>\$ 626,853</u></u>

5. Intergovernmental Receivables

Intergovernmental receivables of \$72,748 under UTF represent reimbursements due from other State and local governments for unemployment benefits paid to those governments' ex-employees.

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Funds
Notes to Financial Statements
June 30, 2011
(Amounts in \$000's)**

6. Other Receivables

Other receivables represent amounts due from claimants who received benefits, which exceeded the allowable amounts. The allowance for uncollectible accounts has been based on historical collection experience which, per statute, is typically on a 4 year collection cycle. Balances as of June 30, 2011, under UTF, are as follows:

Other receivables	\$ 605,768
Less allowance for uncollectible accounts	<u>(412,985)</u>
Other receivables, net	<u>\$ 192,783</u>

7. Interfund Balances and Activities

(a) Balances Due to/from Other Funds

The following balances at June 30, 2011 represent amounts due from other Department and State of Illinois funds.

<u>Fund</u>	<u>Amount</u>	<u>Description/Purpose</u>
Unemployment Compensation Trust Fund	\$ 60,899	Due from General Revenue Fund for reimbursement of unemployment benefits paid to employees of other State agencies
	72	Due from Operating Fund reimbursement of unemployment benefits to former employees of the Department
	<u>\$ 60,971</u>	

Due from component units of the State of Illinois of \$279 under UTF represents reimbursement of unemployment benefits paid to employees of State universities.

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Funds
Notes to Financial Statements
June 30, 2011
(Amounts in \$000's)**

7. Interfund Balances and Activities, continued

(a) Balances Due to/from Other Funds, continued

The following balances at June 30, 2011 represent amounts due to other Department and State of Illinois funds.

Fund	Amount	Description/Purpose
Unemployment Compensation Trust Fund	\$ 1,496	Due to Operating Fund for discretionary transfers of penalties and interests
	28	Due to Illinois Math and Science Academy for overpayment of reimbursable unemployment
	6	Due to Operating Fund for the unexpended balance of Special Administrative Transfer for UI expenses
	2	Due to Special Administrative Fund for discretionary transfers of NSF fees
	<u>\$ 1,532</u>	

(b) Transfers to/from Other Funds

Interfund transfers out for the year ended June 30, 2011, were as follows:

Fund	Amount	Description/Purpose
Unemployment Compensation Trust Fund	\$ 13,283	Discretionary transfers of penalties and interests to Operating Fund
	11	Discretionary transfers of NSF fees to Operating Fund
	<u>\$ 13,294</u>	

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Funds
Notes to Financial Statements
June 30, 2011
(Amounts in \$000's)**

8. Intergovernmental Payables

Intergovernmental payables of \$4,976 under UTF represent interstate combined wage claim benefits payable.

9. Contingencies

While the Department is involved in various claims and legal actions arising in the ordinary course of business, it is the opinion of management that the ultimate disposition of these matters will not have a material effect on the individual nonshared proprietary funds financial statements.

10. American Recovery and Reinvestment Act (ARRA)

The American Recovery and Reinvestment Act was enacted on February 17, 2009. Under this ARRA, the Department is accountable in the implementation and submission of all required federal reports for the following programs.

(a) Temporary Federal Additional Compensation Program (FAC)

FAC program provides a twenty-five dollar weekly supplement to the unemployment compensation of eligible claimants. This program is 100% funded by the federal government. For the fiscal year ended June 30, 2011, FAC paid a total amount of \$197,890 to claimants. The FAC program was terminated as of December 11, 2010 where new benefit claims initiated after this date are no longer eligible for this program.

(b) Emergency Unemployment Compensation (EUC 08)

EUC 08 is payable to eligible claimants who have exhausted their regular unemployment compensation. This ARRA program is funded with federal general revenues. For the fiscal year ended June 30, 2011, the EUC 08 program (ARRA) paid a total amount of \$1,932,253 to claimants.

(c) Extended Benefits (EB)

EB is a long-outstanding program that triggers on when certain economic conditions are met and provides additional weeks of benefits to claimants who exhaust their benefits under other unemployment programs. Although EB triggered on in Illinois during fiscal year 2009 under previously existing federal and state law, ARRA made this traditionally 50% federally funded program into a virtually 100% federally funded program. For the fiscal year ended June 30, 2011, the EB program paid a total of \$623,465 to claimants.

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Funds
Notes to Financial Statements
June 30, 2011
(Amounts in \$000's)**

11. Loans payable to the Federal Government

Due to federal government balance, represents the amount of repayable advances from the federal government to Illinois' account within the federal Unemployment Trust Fund, pursuant to the provisions of Title XII of the federal code. The Illinois Unemployment Compensation Trust Fund, from which funds are drawn to pay unemployment benefits to claimants, was depleted in July 2009 due to extended high unemployment rates during the course of the recent national recession and tax revenues that have not yet matched the increased level of unemployment benefit payments. This led the Department to borrow from the federal government to fulfill its mandate to pay benefits as required by law. On July 14, 2009, the Department started taking advances from the federal government. As of June 30, 2011, loan and accrued interest were as follows:

SFY2010 loan advances	\$ 2,239,582
SFY2011 loan advances	1,209,304
SFY2011 repayments on loan advances	<u>(1,310,822)</u>
Loan balance, net	2,138,064
Accrued interest as of June 30, 2011	<u>50,485</u>
	<u><u>\$ 2,188,549</u></u>

Absent a robust economic recovery and/or legislative changes to the system, the Department projects that borrowing for the State will continue through at least 2012.

Under current federal law, these loans were interest free through the end of calendar year 2010, and interest started accruing beginning January 1, 2011. Interest is due and payable to the federal government each September 30th and may not be paid from the State's unemployment fund or from federal funds. The interest rate charged for a given calendar year is the earnings yield on the Unemployment Trust Fund for the quarter ending December 31 of the previous calendar year, which is approximately 4.09%.

12. Subsequent Events

- a. On September 29, 2011, the Department paid the U.S. Department of the Treasury interest of \$71,423 on loans payable to the Federal government.
- b. Public Act 97-0621 was enacted on November 18, 2011 and included an expansion and extension of existing bonding authority to maintain the Department's option to refinance federal advances to minimize interest costs and limit federal penalty taxes.



**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.

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. O'Neil
Chicago, Illinois
February 2, 2012

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**State of Illinois
Department of Employment Security**

**Schedule of Findings
For the Two Years Ended June 30, 2011**

**Current Findings – *Government Auditing Standards*
For the Two Years Ended June 30, 2011**

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.

**State of Illinois
Department of Employment Security**

**Schedule of Findings
For the Two Years Ended June 30, 2011**

**Current Findings – Government Auditing Standards
For the Two Years Ended June 30, 2011**

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.