



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

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**DEPARTMENT OF EMPLOYMENT SECURITY**

**Financial Audit  
 For the Year Ended June 30, 2019**

**Release Date: March 3, 2020**

FINDINGS THIS AUDIT: 5	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	2	1	3	2018	19-02	19-04, 19-05	
Category 2:	0	2	2				
Category 3:	0	0	0				
<b>TOTAL</b>	<b>2</b>	<b>3</b>	<b>5</b>				
FINDINGS LAST AUDIT: 8							

**INTRODUCTION**

This digest covers the Department of Employment Security’s (Department) Financial Audit of the Unemployment Compensation Trust Fund for the year ended June 30, 2019. The Department’s Compliance Examination covering the two years ended June 30, 2019 will be issued at a later date.

**SYNOPSIS**

- **(19-01)** The Department did not have sufficient internal control over the estimation of the allowance for doubtful accounts recorded in its financial statements.
- **(19-02)** The Department did not have sufficient internal control over the determination of refunds payable.
- **(19-03)** The Department did not have adequate controls over the penalty and interest receivable balance.
- **(19-04)** The Department conducted write offs prior to obtaining the required Attorney General approval.
- **(19-05)** The Department did not ensure adequate security over the enterprise-wide tax system (GenTax).

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

**ILLINOIS DEPARTMENT OF EMPLOYMENT SECURITY  
FINANCIAL AUDIT  
For the Year Ended June 30, 2019**

<b>STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION</b>		
<b>Unemployment Compensation Trust Fund (in thousands)</b>	<b>FY 2019</b>	<b>FY 2018</b>
<b>Operating Revenues</b>		
Unemployment taxes.....	\$ 1,767,046	\$ 1,900,277
Federal government.....	7,385	6,901
Total Operating Revenues.....	<u>1,774,431</u>	<u>1,907,178</u>
<b>Operating Expenses</b>		
Benefit payments and refunds.....	1,656,403	1,727,817
Total Operating Expenses.....	<u>1,656,403</u>	<u>1,727,817</u>
<b>Operating Income.....</b>	118,028	179,361
<b>Nonoperating revenues (expenses).....</b>		
Interest/investment income/other.....	45,785	36,956
<b>Income Before Transfers.....</b>	163,813	216,317
Transfers In/(Out).....	(15,910)	(23,259)
<b>Change in Net Position.....</b>	147,903	193,058
Net Position, July 1.....	2,319,419	2,126,361
<b>Net Position, June 30.....</b>	<u>\$ 2,467,322</u>	<u>\$ 2,319,419</u>
<b>STATEMENT OF NET POSITION</b>		
<b>Unemployment Compensation Trust Fund (in thousands)</b>	<b>2019</b>	<b>2018</b>
<b>Assets:</b>		
Cash and cash equivalents.....	\$ 14,850	\$ 20,872
Cash equivalents held by federal government.....	2,118,168	1,939,194
Receivables, Net:		
Taxes.....	339,761	324,851
Intergovernmental.....	14,845	26,190
Other.....	94,211	111,586
Due from other Departments, State Funds or component units.....	4,846	26,547
Total Assets.....	<u>\$ 2,586,681</u>	<u>\$ 2,449,240</u>
<b>Liabilities:</b>		
Benefit payments payable.....	\$ 115,182	\$ 124,127
Intergovernmental payables.....	3,081	3,394
Due to other Departments and State Funds.....	1,096	2,300
Total Liabilities.....	<u>119,359</u>	<u>129,821</u>
<b>Net Position:</b>		
Restricted for payment of benefits.....	2,467,322	2,319,419
Unrestricted.....	-	-
<b>Total Net Position.....</b>	<u>\$ 2,467,322</u>	<u>\$ 2,319,419</u>
<b>AGENCY DIRECTOR</b>		
During Audit Period: Jeffrey Mays (through 2/1/19); Thomas Chan, Acting (effective 3/1/19)		
Currently: Thomas Chan, Acting		

**FINDINGS, CONCLUSIONS, AND**  
**RECOMMENDATIONS**

**INADEQUATE CONTROLS OVER RECEIVABLE ALLOWANCE**

The Department did not have sufficient internal control over the estimation of the allowance for doubtful accounts recorded in its financial statements.

**\$99 million adjustment made to reduce allowance for doubtful accounts**

During our testing of accounts receivable and the allowance for doubtful accounts, we noted the allowance for the penalties and interest portion of the receivable was greater than the related receivable balance. We determined the overstatement of the allowance was caused by clerical errors in the calculation along with assumptions used in the calculation that were not reflective of the current economy. The Department ultimately revised and updated its methodology to determine a more accurate allowance which resulted in an adjustment to reduce the allowance by approximately \$99 million. (Finding 1, page 18).

We recommended the Department implement controls to more closely review the allowance calculation, including all significant assumptions used in the calculation

**Department accepted the finding**

The Department accepted the finding and stated it will re-examine its assumptions, estimates, and process to calculate a reasonable allowance for bad debts for financial reporting purposes.

**INACCURATE REFUNDS PAYABLE**

**\$18.172 million adjustment made to refunds payable**

The Department did not have sufficient internal control over the determination of refunds payable. The refunds payable account contained amounts that were already paid resulting in the Department's draft financial statements being misstated. As a result, refunds payable was adjusted by \$18.172 million.

**Department included amounts in refunds payable which were previously paid to employers**

During testing, we determined the Department's refunds payable account contained refunds for which the Department had already paid the employers. The Department included these amounts in the refunds payable account erroneously due to the employer not cashing the refund. (Finding 2, page 19)

We recommended the Department implement controls to ensure that uncashed checks are not included in refunds payable.

**Department accepted the finding**

The Department accepted the finding and stated it will continue to work on moving the remaining uncashed refunds back to the employer accounts for completion before Fiscal Year 2020 year end and to implement controls to ensure that

uncashed checks are not included in refunds payable in the future.

### **INADEQUATE CONTROLS OVER PENALTY AND INTEREST RECEIVABLES**

**\$17.333 million adjustment made to reduce interest and penalty receivable**

The Department did not have adequate controls over the penalty and interest receivable balance, which caused an overstatement in the Department's draft financial statements of \$17.333 million.

During testing, we noted the query that was run to record the estimated fourth quarter penalty and interest amount was extracting incorrect data and included additional interest that was not part of the quarter. (Finding 3, page 20)

We recommended the Department implement controls to ensure the reports used to prepare estimates are accurate and are properly reviewed prior to recording the related entries.

**Department accepted the finding**

The Department accepted the finding and stated it will implement controls to ensure reports are reviewed for accuracy, provide additional training in GAAP preparation, and continue to request the filling of vacancies.

### **INADEQUATE CONTROLS OVER WRITE OFFS**

**Department wrote off \$14,936,755 without obtaining Attorney General approval**

The Department conducted write offs prior to obtaining the required Attorney General approval.

During the audit period, the Department wrote off \$14,936,755 prior to receiving approval from the Attorney General to do so. An adjustment was made to reverse this write off as the approval was not obtained until after year end. (Finding 4, page 21)

We recommended the Department obtain Attorney General approval prior to conducting any write offs which require such approval.

**Department accepted the finding**

The Department accepted the finding and stated it will only write off uncollectible taxes receivable with the Attorney General's approval.

### **INADEQUATE CONTROLS OVER GENTAX ACCESS**

**Department did not revoke GenTax access for 3 terminated employees**

The Department did not ensure adequate security over the enterprise-wide tax system (GenTax).

During our review of GenTax security, we noted for the 18 terminated employees:

- 3 (17%) individuals continued to have access to GenTax after their termination from the Department.

- 5 (28%) terminated individuals did not have their GenTax access timely de-activated. Their access was terminated 11 to 22 days after their termination.

**Department did not conduct reviews of GenTax access**

Furthermore, the Department's GenTax Security Procedures did not require the Department to conduct a review of GenTax access; thus no such review was completed during the audit period. (Finding 5, page 22)

We recommended the Department implement controls over GenTax security, including those over terminated employees. We also recommended the Department periodically conduct a review of all users and their associated access rights.

**Department accepted the finding**

The Department accepted the finding and stated it is in the process of developing a security case to better track, control and monitor GenTax access and termination of access, and the Department will be scheduling periodic review of all users and their associated access rights.

**AUDITOR'S OPINION**

The auditors stated the financial statements of the Unemployment Compensation Trust Fund of the Department as of and for the year ended June 30, 2019 are fairly stated in all material respects.

This financial audit was conducted by RSM US LLP.

**SIGNED ORIGINAL ON FILE**

JANE CLARK  
Division Director

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

**SIGNED ORIGINAL ON FILE**

FRANK J. MAUTINO  
Auditor General

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