

McGladrey & Pullen

Certified Public Accountants

State of Illinois Department of Employment Security

Compliance Examination
For the Two Years Ended June 30, 2005
Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

State of Illinois
Department of Employment Security

Compliance Examination
For the Two Years Ended June 30, 2005

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State of Illinois
Department of Employment Security

Compliance Examination
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Financial Statement Report

The financial statements for the individual nonshared governmental funds and the individual nonshared proprietary fund of the State of Illinois, Department of Unemployment Security as of and for the year ended June 30, 2005, are published in a separate document and are incorporated herein by reference.

State of Illinois
Department of Employment Security

Agency Officials

June 30, 2005

Director	Ms. Brenda A. Russell
Deputy Director, Administration (Known as Chief of Staff, Previous to June 1, 2004)	Ms. Grace Chan McKibben
Chief Operating Officer Previous to March 30, 2004	Mr. James W. Marron
Deputy Director, Operations (Known as Chief Operating Officer, Previous to June 1, 2004) June 1, 2004 to Present	Mr. Don Davis
Chief Financial Officer	Mr. Jon Gingrich
Chief Information Services Officer	Mr. Thomas Revane
Manager, Revenue Division Acting Deputy Director of Revenue, Previous to June 1, 2004 June 1, 2004 to Present	Mr. Santiago Diaz Ms. Lois Cuevas
Deputy Director, Field Operations Previous to June 1, 2004 June 1, 2004 to Present	Mr. Roderick Nunn Ms. Marsha Ross-Jackson
Inspector General Previous to October 1, 2003	Mr. Wess L. Butler
General Counsel	Mr. Joseph P. Mueller
Manager, Accounting Services Division	Mr. L. Briant Coombs
Deputy Director, Workforce and Career Information (Economic Information and Analysis)	Mr. Henry L. Jackson
Manager, General Services Division Previous to June 1, 2004 June 1, 2004 to Present	Mr. Nathan Tindall Mr. John Rogers
Manager, Human Resources Previous to January 23, 2004 January 23, 2004 to Present (Acting, Previous to October 8, 2004)	Mr. Timothy Walker Ms. Elizabeth Nicholson

State of Illinois
Department of Employment Security

Agency Officials – Continued

June 30, 2005

Manager, Unemployment Insurance Division
(Acting, Previous to November 1, 2004)

Ms. Carolyn Vanek

Manager, Employment Services Division
Previous to June 1, 2004
June 1, 2004 to October 15, 2004
Acting, October 16, 2004 to Present

Mr. James Mulcahey
Mr. Roderick Nunn
Mr. Less Boucher

Deputy Director, Strategic Planning
Previous to December 11, 2004
Acting, April 1, 2005 to Present

Ms. Laura Miller Craig
Ms. Georgina Heard-LaBonne

Equal Opportunity Officer
Previous to December 1, 2004
December 1, 2004 to present (Interim, Previous to
September 1, 2005)

Ms. Hattie Askew
Mr. Carlos Charneco

The Department's administrative offices are located at:

33 South State Street
Chicago, IL 60603-2802
(312) 793-5700

850 East Madison Street
Springfield, IL 62702-5603
(217) 785-5069



December 2, 2005

McGladrey & Pullen, LLP
Certified Public Accountants
20 N. Martingale Road, Suite 500
Schaumburg, Illinois 60173

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Department. We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements, except as disclosed to the auditors during the engagement. We have performed an evaluation of the Department's compliance with the following assertions during the two-year period ended June 30, 2005. Based on this evaluation, we assert that during the years ended June 30, 2004 and June 30, 2005, the Department has materially complied with the assertions below.

- A. The Department has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Department has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Department has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the Department are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. The money or negotiable securities or similar assets handled by the Department on behalf of the State or held in trust by the Department have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

Illinois Department of Employment Security

Brenda A. Russell, Director

Jon C. Gingrich, Chief Financial Officer

Joseph P. Mueller, Legal Counsel

State of Illinois
Department of Employment Security

Compliance Report

Summary

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

Auditors' Reports

The Independent Accountant's Report on State Compliance, on Internal Control Over Compliance and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

Summary of Findings

<u>Number of</u>	<u>This Report</u>	<u>Prior Report</u>
Findings	8	3
Repeated findings	1	-
Prior recommendations implemented or not repeated	2	1

Details of findings are presented in a separately tabbed report section.

Schedule of Findings

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
Current Findings (State Compliance)		
05-1	10	Local Office Controls Need Improvement
05-2	13	Inadequate Follow-up of Unmatched Social Security Numbers
05-3	15	Weaknesses in Control Procedures Relating to Social Security Number Verification
05-4	17	Inadequate Procedures for Multiple Unemployment Benefit Checks Delivered to the Same Address
05-5	18	Inadequate Control Over Personnel Forms and Records
05-6	20	Inappropriate Travel Reimbursements
05-7	21	Failure to Review Computerized Information Systems of Third Party Bank Trustees
05-8	22	Untimely Approval of Contracts
Prior Findings Not Repeated (State Compliance)		
05-9	23	Late Deposit of Receipts
05-10	23	Insufficient Documentation of Review and Contract Monitoring of Subrecipients

State of Illinois
Department of Employment Security

Compliance Report

Summary

Exit Conference

The findings and recommendations appearing in this report were discussed with Agency personnel at an exit conference on April 12, 2006. Attending were:

Department of Employment Security

Brenda A. Russell, Director
Jon Gingrich, Chief Financial Officer
Briant Coombs, Manager Accounting Services Division
Kathy Harlan, Accounting Services Division – Audit Liaison
Barry Isaacson, Administrative Services Manager
Elizabeth Nicholson, Deputy Director, Administration
Carolyn Vanek, Manager Unemployment Insurance Division
Virginia Long, Deputy Director – Field Operations

Office of Management and Budget

Carol Kraus, Manager

Office of the Auditor General

Jon Fox, Audit Manager

McGladrey & Pullen, LLP

Joseph Evans, Partner
Walter Olson, Director
Heather Morandi, Supervisor

Responses to the recommendations were provided by Jon C. Gingrich, Chief Financial Officer, in a letter dated April 25, 2006.

McGladrey & Pullen

Certified Public Accountants

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

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois, Illinois Department of Employment Security's (Department) compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the years ended June 30, 2005 and 2004. The management of the Department is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Department's compliance based on our examination.

- A. The Department has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Department has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Department has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the Department are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Department on behalf of the State or held in trust by the Department have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Department's compliance with specified requirements.

In our opinion, the Department complied, in all material respects, with the aforementioned requirements during the years ended June 30, 2005 and 2004. However, the results of our procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State findings and questioned costs as finding 05-5, 05-6, and 05-8. As required by the Audit Guide, immaterial findings relating to instances of noncompliance excluded from this report have been reported in a separate letter to your office.

Internal Control

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations. In planning and performing our examination, we considered the Department's internal control over compliance with the aforementioned requirements in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General.

Our consideration of internal control over compliance with the aforementioned requirements would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to one or more of the aforementioned requirements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance that we consider to be material weaknesses. However, the results of our procedures disclosed other matters involving internal control which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State findings and questioned costs as finding 05-1, 05-2, 05-3, 05-4, 05-5, 05-6, 05-7 and 05-8. As required by the Audit Guide, immaterial findings relating to internal control deficiencies excluded from this report have been reported in a separate letter to your office.

Supplementary Information for State Compliance Purposes

Our examination was conducted for the purpose of forming an opinion on compliance with the requirements listed in the first paragraph of this report. The accompanying supplementary information as listed in the table of contents as Supplementary Information for State Compliance Purposes is presented for purposes of additional analysis. We have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the 2005, 2004 and 2003 Supplementary Information for State Compliance Purposes, except for information on the Annual Cost Statistics and Service Efforts and Accomplishments on which we did not perform any procedures. However, we do not express an opinion on the supplementary information.

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
November 4, 2005

McGladrey & Pullen

Certified Public Accountants

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 Individual Nonshared Governmental Funds and the Individual Nonshared Proprietary Fund of the State of Illinois, Department of Employment Security (Department), as of and for the year ended June 30, 2005, and have issued our report thereon dated November 4, 2005. 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

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses.

However, we noted certain deficiencies in the design or operation of internal control over financial reporting which do not meet the criteria for reporting herein and which are reported as State compliance findings in the schedule of findings. We also noted certain immaterial instances of internal control deficiencies, which we have reported to management of the State of Illinois, Department of Employment Security in a separate letter dated November 4, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed test 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*.

However, we noted certain matters which are reported as State compliance findings in the schedule of findings. We also noted certain other matters which we have reported to management of the State of Illinois, Department of Employment Security in a separate letter dated November 4, 2005.

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
November 4, 2005

State of Illinois
Department of Employment Security

Compliance Report

Current Findings – State Compliance
For the Two Years Ended June 30, 2005

05-1 Local Office Controls Need Improvement

The Department does not have consistent policies and procedures for local branch offices and needs to improve controls over the unemployment insurance claim intake process and other administrative matters.

The Department processed over 440,000 new unemployment insurance claims totaling \$1.9 billion in fiscal year 2005 and operated 54 branch offices, 6 regional offices and 12 training centers at the end of fiscal year 2005. The claims intake process includes important control procedures related to the unemployment benefit payment process. During our local office visits, we noted several areas that need improvement within the Department's procedures at branch locations. Claimants applying for unemployment compensation benefits need to be entered into the system. In our audit process, we visited 12 different branch locations and noted procedures varied considerably among locations.

We noted current policies and procedures are not consistent among branch offices. We noted the following areas related to the claims intake process that are not consistent and that need improvement:

- The Department's current policy does not require that copies of claimant identification be kept. At some branch locations, identification cards presented by claimants were copied and kept, and other locations did not keep copies because it was not required.
- One branch location adopted a "drop off process" which was not a policy approved by the central office. This policy allowed for the claimant to simply drop off the application without a face-to-face meeting. At this location, outside phones were used for any questions the claimants may have. At this location, the Department did not review claim applications with claimants when they were submitted. Claimants were directed to submit their completed applications and there was no discussion of claimant's rights, privileges, the adjudication process, employment training services or the Tele-Serve certification process. Occasionally claimants were asked to provide additional information at a subsequent date. Claimants were not always required to provide proof of identification when submitting subsequent application information. This location uses default preferences when claimants do not specify dependency or tax withholding preferences on their applications.
- We observed that supervisors do not generally review claims files but rely on other control procedures such as daily edit reports to monitor the claims process.
- There is no mechanism to ensure customers are served in the order they arrive and no mechanism to ensure that claims administrators are assigned at random.
- Employment training services are not always reviewed with the claimants during the claims filing process.

The following additional deficiencies were noted relating to other administrative matters:

- Department employees at the local offices made multiple directory-assisted calls.
- The Field Office Supervisor is performing both the ordering and receiving functions.

State of Illinois
Department of Employment Security

Compliance Report

Current Findings – State Compliance (Continued)
For the Two Years Ended June 30, 2005

05-1 Local Office Controls Need Improvement (Continued)

- Staff members submit their travel vouchers to the Regional Office without obtaining supervisory approval.

Good internal controls dictate that the local offices follow a consistent set of procedures throughout all branch locations and have adequate supervision to ensure compliance with Department procedures over the claims intake process and over managing branch administrative expenditures.

Department management believed the controls and systems in place that were designed to identify potentially fraudulent claims were sufficient and that claim activity was adequately monitored at the local office level. To monitor administrative expenditures, the department relied on existing controls (review of telephone bills and commodities ordered reports by branch manager and restricting system access to select individuals authorized to order commodities and review of travel vouchers by accounts payable staff prior to payment processing).

Lack of adequate supervisory review and consistent procedures over the benefit claims process at branch offices increase the risk of invalid or fraudulent benefit claims payments. Lack of adequate supervisory review and segregation of duties at branch offices increases the risk of unauthorized or invalid administrative expenditures. (Finding Code No. 05-1)

Recommendation

We recommend the Department develop uniform claims intake procedures for all branch locations.

Following is a summary of our specific recommendations as they relate to each point in the finding:

- Copies of identification, work history and other support provided by claimants at intake should be kept and placed in a file or scanned for future review. The Department should standardize the identification documents so that adequate follow-up can be done at a later date.
- The "drop off process" should be discontinued. Claimants should be required to provide proof of identification, which should include a photo identification card, at the time of application. When claimants do not properly complete an application, the Department should discontinue use of default preferences for dependency and tax withholding preferences. By performing face-to-face meetings with claimants, the Department would ensure the application was properly completed.
- The Department should implement a random supervisory check of claimant files on a limited basis to ensure the files contain the required documentation and to ensure the claims were properly entered into the benefit information system.
- Larger offices should implement a mechanism to assign numbers to claimants as they arrive. Once their assigned number is called, the claimant would be served by the next available claims taker. This type of system would ensure better service as people would be served in the order they arrived and it would limit the ability of the claimant to choose their claims taker.

State of Illinois
Department of Employment Security

Compliance Report

Current Findings – State Compliance (Continued)
For the Two Years Ended June 30, 2005

05-1 Local Offices Controls Need Improvement (Continued)

- Employment training services should always be reviewed with claimants during the claims filing process.
- With respect to the administrative deficiencies noted, the Department should take steps to reduce the number of directory assisted calls, segregate the duties of ordering and receiving and ensure all travel vouchers are properly approved.

Department Response

We accept the recommendations. The “drop off process” has already been discontinued. The Department will implement random supervisory checks of claimant files, random assignment of claimants to claims-takers in larger offices, review of training services during the claims process and steps to reduce the noted administrative deficiencies. The Department is reworking its intake process as part of the ongoing Benefit Information System redesign which will allow for consideration of how identification and other documentation are best retained. However we have not yet determined if it will be desirable to standardize identification documents since the identification authentication process will most likely be different for in-person claims than it will be for claims filed over the internet.

State of Illinois
Department of Employment Security

Compliance Report

Current Findings – State Compliance (Continued)
For the Two Years Ended June 30, 2005

05-2 Inadequate Follow-up of Unmatched Social Security Numbers

The Department is not performing follow-up on certain exceptions with claimant social security numbers.

One of the key internal control features of the unemployment system is the social security number match. When a claimant initially applies to the Department for unemployment compensation, the claimant's social security number is entered into the benefit information system. At the end of the day, all new claimant social security numbers are sent to the Social Security Administration and a match is performed. A report is sent to the Department indicating the numbers verified and the exceptions. For fiscal year 2005, there were 453,765 social security numbers representing substantially all new claimants sent to the Social Security Administration (SSA) for verification and the results were as follows:

	<u>Number</u>	<u>Percent</u>
Numbers verified	443,471	97.73%
Potential exceptions	<u>10,294</u>	<u>2.27%</u>
	<u>453,765</u>	<u>100.00%</u>

As noted by these statistics, a very high percentage of social security numbers come back as verified. However, of the numbers that are not verified, the Department does not have adequate follow-up procedures.

The potential exceptions fall within the following major categories:

	<u>Number</u>
Invalid number	1,364
Date of birth mismatch	3,309
Name mismatch	5,414
Other	<u>207</u>
	<u>10,294</u>

The Department only performs follow-up procedures on the invalid numbers and the remaining potential exceptions are ignored.

Good internal control practices would necessitate the Department perform some type of follow-up procedures on other categories of social security mismatches identified.

Management indicated that they believed it was only necessary to follow-up on the invalid social security numbers and there was a lower risk of error with the date of birth and name mismatch. For example, management indicated that many times a nickname or familiar name is substituted for a person's legal name thus creating a mismatch, which is truly not an invalid claim.

State of Illinois
Department of Employment Security

Compliance Report

Current Findings – State Compliance (Continued)
For the Two Years Ended June 30, 2005

05-2 Inadequate Follow-up of Unmatched Social Security Numbers – Continued

By ignoring the remaining potential exceptions, individuals not entitled to benefits may be receiving benefits inappropriately. If an invalid claimant were to get through the system and receive a full term of benefits, the cost per claimant would average \$4,000. (Finding Code No. 05-2)

Recommendation

We recommend the Department establish procedures to perform some type of follow-up on all categories of social security number exceptions that are identified through the match with the Social Security Administration.

Department Response

We accept the recommendation and will work to establish procedures for the handling of name and date of birth mismatches identified via the match with the Social Security Administration, ensuring that there is appropriate follow-up that comports with federal law, regulations and guidance in this evolving area.

State of Illinois
Department of Employment Security

Compliance Report

Current Findings – State Compliance (Continued)
For the Two Years Ended June 30, 2005

05-3 Weaknesses in Control Procedures Relating to Social Security Number Verification

The Department has several weaknesses in the control procedures relating to the social security number verification for new claimants.

Once the Department has identified an invalid social security number as a result of the Social Security Administration match process, a manual adjustment to the claimant's record must be made to stop the unemployment compensation payments. A clerical employee of the Department is required to access the claimant's computerized record and manually input a stop payment code to stop payment on the account and enter a date to specify the length of time the stop payment is to continue. We also noted during our testing that the code entered into the system to stop payment due to a social security code mismatch is not unique.

In our testing of this control procedure, we sampled 60 claimants whose social security numbers were initially identified as invalid. Of the 60 items tested, we noted 12 (20%) instances in which the system failed to stop payment. Of the 12 instances noted, 3 were due to data entry errors and 9 where no apparent action was taken to stop unemployment benefit payments.

Because of the frequency of errors noted in our sample testing, we expanded our procedures to obtain information on all of the 1,364 claims with invalid social security numbers. The additional testing indicated the Department paid 411 claimants (30%) with invalid social security numbers benefits totaling \$1.1 million.

Good internal control practices would require that processes be developed to ensure that data entered into the benefit payment system related to invalid social security numbers achieve a higher accuracy level than 70%.

Management stated that due to the relatively low volume of invalid social security numbers, the agency chose to maintain the manual process and to use a general issue code to describe the reasons for the claim stop.

Failure to improve the accuracy of data entered into the benefit payment system for invalid social security numbers identified increases the risk of invalid payments to recipients and decreases the likelihood of recovery of invalid payments. (Finding Code No. 05-3)

Recommendation

We recommend the Department eliminate the need for human intervention and look for a potential automated approach to stopping claim payments to recipients with invalid social security numbers. In the meantime, under the current manual data entry system, we recommend the Department strengthen the supervisory review of this key internal control to improve the timeliness and accuracy of data entered into the benefit payment system. Further we recommend the code entered into the system to create the stop payment should be unique to the social security number mismatch and contain an indefinite stop, which would eliminate the necessity to enter stop payment dates into the system.

State of Illinois
Department of Employment Security

Compliance Report

Current Findings – State Compliance (Continued)
For the Two Years Ended June 30, 2005

05-3 Weaknesses in Control Procedures Relating to Social Security Number Verification (Continued)

Department Response

We accept the recommendation. The Department will establish a unique code to identify social security number discrepancies and any stops associated with it will be indefinite. The invalid social security number process will be automated so that a system generated stop preventing payments will be placed on initial claims identified as having invalid social security numbers. The stop will remain in effect until the claimant reports to the local office and the issued is resolved. We expect to have this system in place no later than June 30, 2006.

The Department believes the report statement that \$1.1 million in payments were made to claimants with invalid social security numbers could lead the reader to conclude that the entire amount consists of erroneous payments. The reason for the invalid number would have to be determined in each instance before any conclusions could be drawn. Even though a claimant was paid under an invalid number, he or she may legitimately be entitled to receive benefits as in the case of a transposition of digits in a valid social security number.

State of Illinois
Department of Employment Security

Compliance Report

Current Findings – State Compliance (Continued)
For the Two Years Ended June 30, 2005

05-4 Inadequate Procedures for Multiple Unemployment Benefit Checks Delivered to the Same Address

The Department's procedures relating to testing for multiple unemployment benefit checks delivered to the same address need to be strengthened.

The Department creates a monthly report that lists multiple unemployment compensation checks being delivered to the same address (the multiple claimant single address report). During fiscal year 2005, the Multiple Claimants Single address report identified 46,848 claimants that had multiple claims paid to the same address. The report identified an average of 7.5 claimants per the same address.

The claimant single address report created by the Department requires a supervisor to review the claimants and determine what follow-up is necessary, if any. In our attempt to review this control procedure, we found documentation of the supervisory review of these reports was not kept and procedures relating to the timeliness and follow-up were not documented. We found that the Department had established procedures relating to the multiple claimant single address report, but the procedures do not address documenting the supervisory review and retention of the reports.

Good internal control procedures require that procedures be developed to document the supervisory review and retention of the reports to comply with the Department's established policies and procedures for review and follow-up of multiple unemployment claims payments mailed to the same address.

Department management stated that although a supervisory review is performed and reports retained they did not believe it was necessary to prescribe the details of how the review is documented and the retention time frames in the Department's policies and procedures.

Although there may be valid reasons why multiple claims may be paid to the same address (apartment building, homeless shelter), past history has indicated a potential higher instance of fraud where multiple claimant checks are mailed to the same address. (Finding Code No. 05-4)

Recommendation

We recommend the Department improve controls over its procedures for reviewing the multiple claimants single address reports and keep copies of the documentation and subsequent follow-up to evidence the procedures performed.

Department Response

We accept the recommendation. The Department's Policies and Procedures will be revised to include criteria for determining which addresses are investigated, documentation of supervisory review, documentation of follow-up procedures performed, and retention of the reports and follow-up documentation.

State of Illinois
Department of Employment Security

Compliance Report

Current Findings – State Compliance (Continued)
For the Two Years Ended June 30, 2005

05-5 Inadequate Control Over Personnel Forms and Records

The Department lacked adequate controls over personnel forms and records.

During our review of 58 personnel files we found the following:

- Two files (3%) did not have an updated and approved performance evaluation form included in the personnel file;
- Thirty-eight files (67%) did not contain timely performance evaluations; the evaluations performed ranged from 37 to 658 days late;
- Two files (3%) did not contain signature cards;
- One (2%) contained an application for leave which was not signed by the authorized signatory;
- Nine applications for leave (16%) were missing from the file;
- Five files (9%) included discrepancies on the signature cards and the computerized verification form;
- One file (2%) was missing the computerized verification forms; and
- One file (2%) did not contain the signature page of the computerized verification form.

The Illinois Administrative Code (80 Ill. Adm. Code 302.260 and 80 Ill. Adm. Code 302.270) requires that performance records be included in the employee's personnel file and that the performance records include an evaluation of employee performance. For a certified employee, the Department is required to prepare an evaluation not less often than annually.

The Department's Policy 2005 requires that managers or their designees review all personnel forms, (i.e. signature cards, application for leave, retirement forms, etc.) submitted for completeness and accuracy and shall indicate approval of the entries by signing the forms. The final authorized signature on the form must be one of the individuals whose name appears on the approved list maintained by Expenditure Control/Payroll. Good internal control dictates that personnel forms and records be organized and filed promptly to allow easy retrieval and verification.

According to Department personnel, these exceptions were due to lack of staff in the Human Resource and Expenditure Control/Payroll departments to maintain updated files of personnel forms and records and perform sufficient review of payroll related documents.

Performance evaluations are a systematic and uniform approach used for the development of employees and communication of performance expectations to employees. Inadequate maintenance of employee personnel files may result in unauthorized payroll transactions. (Finding Code No. 05-5, 03-2)

State of Illinois
Department of Employment Security

Compliance Report

Current Findings – State Compliance (Continued)
For the Two Years Ended June 30, 2005

05-5 Inadequate Control Over Personnel Forms and Records (Continued)

Recommendation

We recommend the Department allocate the resources necessary to strengthen controls over personnel forms and files. The Department should ensure performance evaluations are performed timely, supervisor's sign leave forms authorizing employee leave and employee personnel files contain all the appropriate forms authorizing payroll and personnel transactions.

Department Response

We accept the recommendation. Timely performance evaluations historically have been an ongoing problem. Notification is sent to management a month and a half in advance of the performance evaluation due date. Past due notifications are sent out on a monthly basis. To address leaves of absences, effective immediately, the FMLA/Leave Coordinator will ensure that every leave of absence request is supported by a PO-4, a copy of which shall be placed in the appropriate leave of absence file.

Signature cards were obtained for the two missing cost centers in July 2005. These were small cost centers and the payroll records were properly approved by the appropriate Division Manager or Deputy Director. Administrative Payroll sent a letter to all cost centers the week of February 20, 2006 requesting updated signature authorization forms be completed as required in Policy & Procedure Section 2005 (i.e., updated in February of each year). Beginning in December 2005, additional staff in Administrative Payroll are also reviewing FI-46s and the FI-46 Verification Forms (Reports) to ensure completeness and that they are signed by an authorized signatory.

State of Illinois
Department of Employment Security

Compliance Report

Current Findings – State Compliance
For the Two Years Ended June 30, 2005

05-6 Inappropriate Travel Reimbursements

The Department did not properly assign an employee's designated headquarters and as a result the employee received inappropriate reimbursements for travel expenses.

During our review of travel expenditures, we noted that one employee was reimbursed \$19,148 from July 2003 through January 2004 for commuting expenses from his home in Bloomington, Illinois to his office in Chicago, Illinois, and for lodging, taxi and meal expenses while staying in Chicago.

According to the Department's Procedure Manual (Section 3001.30), only mileage in excess of commuting mileage is reimbursable. The employee agreed to work in Chicago while residing in Bloomington. The designated headquarters should have been assigned to Chicago where the employee's official duties required that the employee spend the majority of his time. Commuting mileage between Bloomington and Chicago, lodging, taxi and meal expenses in Chicago should not have been reimbursable cost for this employee.

According to Department personnel, the expenses were reimbursed for this employee based on an agreement that the headquarters for the position would be designated as Springfield with the expectation that the employee would split time between Springfield and Chicago. The employee subsequently deviated from that plan by spending most of his time in Chicago and the failure to process related paperwork in a timely manner exacerbated the situation.

Inappropriate designation of official headquarters for employees results in excessive and inappropriate expenditure of State funds. (Finding Code No. 05-6)

Recommendation

We recommend that the Department review its policy for reimbursing employees for travel expenses.

Department Response

We accept the recommendation and have implemented travel policy changes as suggested. IDES and CMS approved the change in headquarters with the understanding the employee was going to divide his time between Springfield and Chicago. Reimbursement for the employee's time in Chicago would have been appropriate had the employee followed the plan. However, the employee materially deviated from the original plan by spending virtually all of his time in Chicago and his failure to process travel vouchers in a timely fashion hindered the Department's ability to detect the deviation as promptly as it might otherwise have. The employee was subsequently dismissed and changes to the Department's policies and procedures for travel reimbursement were made, including a new requirement that all travel vouchers must be submitted within 30 days.

State of Illinois
Department of Employment Security

Compliance Report

Current Findings – State Compliance
For the Two Years Ended June 30, 2005

05-7 Failure to Review Computerized Information Systems of Third Party Bank Trustees

The Department did not obtain independent internal control reviews of all bank trustees involved with the processing of cash receipts, bond transactions and other data for the Department.

The Department utilizes several commercial banks to process bond transactions and to process cash receipts and other data submitted by employers. Substantially all of the Department's Unemployment Insurance tax receipts totaling \$2.5 billion are processed by the banks. The Department issued \$700 million in bonds during fiscal year 2005 managed by third party bank trustees. The contracting for computer services with outside banks may pose internal control and security risk similar to those encountered in an agency's internal computer environment. Independent reviews would provide the Department assurances regarding the security, integrity, and recovery capability of computer systems of the third party processors. Additionally, the reviews would specify procedures necessary to be performed at the Department to ensure controls are working effectively.

Good internal controls require that each service provider must arrange to have a periodic independent review of internal control placed in operation and issue a report on the results of this review commonly known as a SAS 70 report. SAS 70 reports should be obtained periodically from all companies and financial institutions that process critical data for the Department.

According to Department personnel, they were not aware of this requirement. Consequently, contracts currently in place with third-party service providers do not include reviews of their information systems as a deliverable.

It is essential to obtain and review an independent review of each service provider's information systems environment. Independent reviews provide a method of evaluating the systems in place at each service provider and help the Department develop internal control processes that would complement those at the service providers. Based on the review, the Department would have better assurance that the internal controls are adequate to ensure the information received from such service providers is accurate and reliable. (Finding Code No. 05-7)

Recommendation

We recommend the Department obtain SAS 70 reviews from appropriate third party vendors processing critical data for the Department.

Department Response

We accept the recommendation and have begun implementation. Any future Requests for Proposals (RFP) for third party vendors processing critical data for the Department will include a SAS 70 review as a requirement. The recently released RFP for the employer remittance lockbox included this review as a requirement.

State of Illinois
Department of Employment Security

Compliance Report

Current Findings – State Compliance
For the Two Years Ended June 30, 2005

05-8 **Untimely Approval of Contracts**

The Department did not ensure that all contracts were reviewed and signed on a timely basis.

During our review of 20 contracts, we noted that 2 contracts (10%), totaling \$377,366, were signed after the beginning of the contract period. One contract was signed 8 days after services began and the other contract was signed 64 days after services began.

Sound internal controls require contracts be reviewed and signed prior to their inception to be binding and enforceable. Per the SAMS Manual, Section 15.20.30, the contractors and an authorized representative of the State must sign contracts before the services are performed.

Department personnel indicated that the two incidents were the result of Central Management Services (CMS) processing backlogs and the reorganization of the Information Technology Procurement office at CMS.

Failure to review and sign contracts before the beginning of the contract period does not bind the contractor for compliance with applicable laws, regulations and rules and may result in improper and unauthorized payments. (Finding Code No. 05-8)

Recommendation

We recommend the Department process and approve the contracts in writing before the beginning of the contract period.

Department Response

We accept the recommendations. The two contracts referred to in the findings were signed by the IDES Director and the applicable vendors prior to their effective dates but were not signed by CMS until after the effective dates notwithstanding the Department's timely submission of the contracts to CMS. IDES' IS-Administrative Services tracks contracts sent to CMS and makes follow-up inquiries as appropriate. IDES' IS-Administrative Services will more aggressively monitor contracts sent to CMS for signature to help ensure that all IT-related contracts are signed on a timely basis.

State of Illinois
Department of Employment Security

Compliance Report

Prior Findings Not Repeated – State Compliance
For the Two Years Ended June 30, 2005

05-9 Late Deposit of Receipts

During the two-year period ended June 30, 2003, the prior examination noted that checks received by the Department were not deposited on time by the Cash Management Unit. It was recommended that the Department strengthen its controls over cash receipts to ensure that receipts are deposited timely. (Finding Code No. 03-1)

Status: Implemented

The Department increased its awareness of the untimely deposits during the past two fiscal years. During sample testing and review of the cash receipts we did not note any late deposits.

05-10 Insufficient Documentation of Review and Contract Monitoring of Subrecipients

During the two-year period ended June 30, 2003, the prior examination noted that the Department did not sufficiently document its review and contract monitoring of Workforce Investment Act (WIA) subrecipients. (Finding Code No. 03-3)

Status: No Longer Applicable

The contract monitoring for the Workforce Investment Act was transferred to the Department of Commerce and Economic Opportunity effective June 1, 2003. The Department of Employment Security was not responsible for this program during fiscal year 2004 or fiscal year 2005.

State of Illinois
Department of Employment Security

Supplementary Information for State Compliance Purposes

Summary

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:
 - Schedule of Expenditures of Federal Awards
 - Notes to the Schedules of Expenditures of Federal Awards
 - Schedule of Appropriations, Expenditures, and Lapsed Balances
 - Notes to Schedules of Appropriations, Expenditures, and Lapsed Balances
 - Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances
 - Schedule of Efficiency Initiative Payments
 - Schedule of Changes in State Property
 - Comparative Schedule of Cash Receipts
 - Reconciliation Schedules of Cash Receipts to Deposits Remitted to the State Comptroller
 - Analysis of Significant Variations in Expenditures
 - Analysis of Significant Variations in Receipts
 - Analysis of Significant Lapse Period Spending
 - Analysis of Significant Account Balances
 - Analysis of Accounts Receivable
 - Cash Basis Schedules – Locally Held Special Programs Fund
- Analysis of Operations:
 - Agency Functions and Planning Program
 - Average Number of Employees
 - Annual Cost Statistics (Not Examined)
 - Emergency Purchases
 - Service Efforts and Accomplishments (Not Examined)

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

**SUPPLEMENTARY INFORMATION FOR
STATE COMPLIANCE PURPOSES**

State of Illinois
 Department of Employment Security

Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2005
 (Expressed in Thousands)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U. S. Department of Labor Programs:		
Unemployment Insurance:		
Unemployment Insurance Trust	17.225	\$ 1,923,700
Temporary Extended Unemployment Compensation, Trust	17.225	20
Unemployment Insurance Administration	17.225	128,360
Temporary Extended Unemployment Compensation, Administration	17.225	4,884
Federal Employment Compensation Act (FECA):		
Unemployment Compensation for Ex-Military Employees (UCX)	17.225	10,928
Unemployment Compensation for Ex-Federal Employees (UCFE)	17.225	19,723
Total Unemployment Insurance		2,087,615
Workforce Investment Act (WIA):		
Pass-Through from the Illinois Department of Commerce and Economic Opportunity		
Adult Program	17.258	84
Youth Program	17.259	85
Dislocated Workers	17.260	97
Total Workforce Investment Act (WIA)		266
Employment Services:		
Wagner Peyser	17.207	31,904
One Stop Service-Labor Market Information	17.207	1,337
Reemployment Services	17.207	1,362
Work Opportunities Tax Credits (WOTC)	17.207	1,072
Total Employment Services		35,675

See Notes to Schedule of Expenditures of Federal Awards.

State of Illinois
 Department of Employment Security

Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2005
 (Expressed in Thousands)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Labor Programs, continued:		
Trade Readjustment Act (TRA):		
Trade Adjustment Activities (TAA)	17.245	\$ 35,992
Alternative Trade Adjustment Act (ATAA)	17.245	371
North American Free Trade Agreement (NAFTA)	17.245	33
Pass-Through from the Illinois Department of Commerce and Economic Opportunity		
Trade Adjustment Activities (TAA)	17.245	5,015
North American Free Trade Agreement (NAFTA)	17.245	17
Total Trade Readjustment Act (TRA)		41,428
Veterans Programs:		
Disabled Veterans Outreach Program (DVOP)	17.801	2,941
Local Veteran Employment Representative (LVER)	17.804	3,788
Total Veterans Program		6,729
Bureau of Labor Statistics	17.002	2,641
Alien Labor Certification	17.203	514
Total U.S. Department of Labor		2,174,868
U.S. Department of Homeland Security		
Disaster Unemployment Administration	97.034	11
U.S. Department of Education		
Voc. Ed - Perkins Title IIA Leadership	84.048A	198
Pass-Through from the Illinois State Board of Education		
Voc. Ed - Perkins Title IIA Leadership	84.048A	128
Total U.S. Department of Education		326
Total Expenditures of Federal Awards		\$ 2,175,205

See Notes to Schedule of Expenditures of Federal Awards.

State of Illinois
Department of Employment Security

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004
(Expressed in Thousands)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U. S. Department of Labor Programs:		
Unemployment Insurance:		
Unemployment Insurance Trust	17.225	\$ 2,244,272
Temporary Extended Unemployment Compensation, Trust	17.225	399,870
Unemployment Insurance Administration	17.225	126,768
Reed Act, Trust	17.225	4,884
Temporary Extended Unemployment Compensation, Administration	17.225	1,640
Federal Employment Compensation Act (FECA):		
Unemployment Compensation for Ex-Military Employees (UCX)	17.225	15,922
Unemployment Compensation for Ex-Federal Employees (UCFE)	17.225	12,372
Total Unemployment Insurance		<u>2,805,728</u>
Workforce Investment Act (WIA):		
Adult Program	17.258	865
Youth Program	17.259	410
Dislocated Workers	17.260	773
Total Workforce Investment Act (WIA)		<u>2,048</u>
Employment Services:		
Wagner Peyser	17.207	31,152
One Stop Service-Labor Market Information	17.207	1,189
Reemployment Services	17.207	1,448
Work Opportunities Tax Credits (WOTC)	17.207	1,039
Total Employment Services		<u>34,828</u>
Trade Readjustment Act (TRA):		
Trade Adjustment Activities (TAA)	17.245	33,026
North American Free Trade Agreement (NAFTA)	17.245	1,053
Alternative Trade Adjustment Act (ATAA)	17.245	4
Total Trade Readjustment Act (TRA)		<u>34,083</u>

See Notes to Schedule of Expenditures of Federal Awards.

State of Illinois
 Department of Employment Security

Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2004
 (Expressed in Thousands)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Labor Programs, continued:		
Veterans Programs:		
Disabled Veterans Outreach Program (DVOP)	17.807	\$ 3,507
Local Veteran Employment Representative (LVER)	17.804	3,050
Total Veterans Program		6,557
 Bureau of Labor Statistics	 17.002	 3,028
 Alien Labor Certification	 17.203	 788
 WIA - National Emergency Grants (NEG):		
New Fields for Farmers	17.255	13
Dual Enrollment	17.260	100
Trade Act Supplement	17.260	405
Total National Emergency Grants		518
 Disaster Unemployment Act (DUA)	 83.516	 44
 Total U.S. Department of Labor		 2,887,622
 U.S. Department of Education		
Voc. Ed-Perkins Title IIA Leadership	84.048	253
 Total Expenditures of Federal Awards		\$ 2,887,875

See Notes to Schedule of Expenditures of Federal Awards.

State of Illinois
Department of Employment Security

Notes to the Schedules of Expenditures of Federal Awards
For the Years Ended June 30, 2005 and 2004
(Expressed in Thousands)

Organization and Grant Administration

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

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

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

Significant Accounting Policies

Reporting Entity

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

Basis of Accounting

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

Relationships to Federal Financial Reports

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

Subrecipients

Of the federal expenditures presented in the schedules, the Department provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Sub recipients	
		2005	2004
Wagner Peyser	17.207	\$ 169	\$ 148
WIA Adult Program	17.258	-	33
WIA Youth Program	17.259	-	36
WIA Dislocated Workers	17.260	-	47
		<u>\$ 169</u>	<u>\$ 264</u>

State of Illinois
Department of Employment Security

Schedule of Appropriations, Expenditures, and Lapsed
Balances

Appropriations for Fiscal Year 2005
Fourteen Months Ended August 31, 2005

	Final Appropriations (Note 1)	Expenditures through June 30	Lapse Period Expenditures 7/1/05- 8/31/05	Total Expenditures	Balances Lapsed
TITLE III - SOCIAL SECURITY AND EMPLOYMENT SERVICES FUND - 052					
Central Administration	\$ 13,436,411	\$ 10,273,595	\$ 485,092	\$ 10,758,687	\$ 2,677,724
Finance and Administration	35,842,254	22,923,319	2,015,636	24,938,955	10,903,299
Information Service	31,180,197	19,081,536	2,627,302	21,708,838	9,471,359
Operations	37,323,806	14,310,563	3,537,553	17,848,116	19,475,690
Unemployment Insurance Revenue	35,231,551	28,465,146	1,240,692	29,705,838	5,525,713
Workforce Development	84,568,126	70,069,427	3,340,341	73,409,768	11,158,358
Trust Fund Unit	1,734,300	87,717	75,872	163,589	1,570,711
Total	<u>239,316,645</u>	<u>165,211,303</u>	<u>13,322,488</u>	<u>178,533,791</u>	<u>60,782,854</u>
UNEMPLOYMENT COMPENSATION - SPECIAL ADMINISTRATION ACCOUNT FUND - 055					
Finance and Administration	10,000,000	2,000,000	-	2,000,000	8,000,000
Operations	12,100,000	1,455,611	10,191,466	11,647,077	452,923
Total	<u>22,100,000</u>	<u>3,455,611</u>	<u>10,191,466</u>	<u>13,647,077</u>	<u>8,452,923</u>
GENERAL REVENUE FUND - 001					
Operations	704,600	700,926	3,674	704,600	-
Trust Fund Unit	20,064,000	19,477,324	-	19,477,324	586,676
Total	<u>20,768,600</u>	<u>20,178,250</u>	<u>3,674</u>	<u>20,181,924</u>	<u>586,676</u>
ROAD FUND - 011	<u>1,900,000</u>	<u>1,782,557</u>	<u>117,443</u>	<u>1,900,000</u>	<u>-</u>
NON-DEPARTMENT FUNDS:					
IMSAs INCOME FUND - 768	16,700	16,700	-	16,700	-
Total Appropriated	<u>\$ 284,101,945</u>	<u>190,644,421</u>	<u>23,635,071</u>	<u>214,279,492</u>	<u>\$ 69,822,453</u>
NON-APPROPRIATED:					
Unemployment Compensation - Special Administration Account Fund - 055		631,776	461,178	1,092,954	
State Employees Unemployment Benefit Fund - 056		21,401,913	775	21,402,688	
Total Non-Appropriated		<u>22,033,689</u>	<u>461,953</u>	<u>22,495,642</u>	
Grand Total - ALL FUNDS	<u>\$ 284,101,945</u>	<u>\$ 212,678,110</u>	<u>\$ 24,097,024</u>	<u>\$ 236,775,134</u>	

State of Illinois
 Department of Employment Security

Schedule of Appropriations, Expenditures, and Lapsed
 Balances

Appropriations for Fiscal Year 2004
 Fourteen Months Ended August 31, 2004

	Final Appropriations (Note 2)	Expenditures through June 30	Lapse Period Expenditures 7/1/04- 8/31/04	Total Expenditures	Balances Lapsed
TITLE III - SOCIAL SECURITY AND EMPLOYMENT SERVICES FUND - 052					
Central Administration	\$ 17,152,300	\$ 10,869,225	\$ 551,549	\$ 11,420,774	\$ 5,731,526
Finance and Administration	50,175,200	32,398,653	4,858,222	37,256,875	12,918,325
Information Service	29,320,100	18,847,383	2,391,703	21,239,086	8,081,014
Operations	37,004,200	13,475,445	2,535,962	16,011,407	20,992,793
Unemployment Insurance Revenue	38,695,400	26,229,474	2,158,623	28,388,097	10,307,303
Workforce Development	98,241,675	79,104,900	3,609,294	82,714,194	15,527,481
Trust Fund Unit	1,734,300	92,902	52,291	145,193	1,589,107
Total	<u>272,323,175</u>	<u>181,017,982</u>	<u>16,157,644</u>	<u>197,175,626</u>	<u>75,147,549</u>
UNEMPLOYMENT COMPENSATION - SPECIAL ADMINISTRATION ACCOUNT FUND - 055					
Finance and Administration	6,000,000	2,156,049	-	2,156,049	3,843,951
Operations	12,100,000	1,397,563	7,894,986	9,292,549	2,807,451
Total	<u>18,100,000</u>	<u>3,553,612</u>	<u>7,894,986</u>	<u>11,448,598</u>	<u>6,651,402</u>
GENERAL REVENUE FUND - 001					
Operations	772,600	750,237	22,363	772,600	-
Trust Fund Unit	16,000,000	15,664,540	-	15,664,540	335,460
Total	<u>16,772,600</u>	<u>16,414,777</u>	<u>22,363</u>	<u>16,437,140</u>	<u>335,460</u>
EMPLOYMENT SECURITY ADMINISTRATION FUND - 116					
Operations	286,058	79,345	-	79,345	206,713
ROAD FUND - 011	2,000,000	1,262,148	671,578	1,933,726	66,274
NON-DEPARTMENT FUNDS:					
IMS A INCOME FUND - 768	17,600	2,971	89	3,060	14,540
Total Appropriated	<u>\$ 309,499,433</u>	<u>202,330,835</u>	<u>24,746,660</u>	<u>227,077,495</u>	<u>\$ 82,421,938</u>
NON-APPROPRIATED:					
Unemployment Compensation - Special Administration Account Fund - 055		542,142	54,885	597,027	
State Employees Unemployment Benefit Fund - 056		17,946,256	-	17,946,256	
Total Non-Appropriated		<u>18,488,398</u>	<u>54,885</u>	<u>18,543,283</u>	
Grand Total - ALL FUNDS		<u>\$ 220,819,233</u>	<u>\$ 24,801,545</u>	<u>\$ 245,620,778</u>	

State of Illinois
Department of Employment Security

Notes to Schedules of Appropriations, Expenditures, and Lapsed Balances

1. Appropriation Authorization, Fiscal Year 2005

Appropriated amounts were authorized by Public Act 93-0842 as approved by the Governor on July 30, 2004, pursuant to Article IV, Section 9(d) of the Illinois Constitution of 1970. Pursuant to Section 13.2 of the State Finance Act, the sum of transfers among line item appropriations shall not exceed 2% of the aggregate appropriation. Based on Office of the Comptroller's records, the Department's appropriated transfers did not exceed this 2% ceiling.

2. Appropriation Authorization, Fiscal Year 2004

Appropriated amounts were authorized by Public Act 93-0014 and 93-0075 as approved by the Governor on July 1, 2003, pursuant to Article IV, Section 9(d) of the Illinois Constitution of 1970. Pursuant to Section 13.2 of the State Finance Act, the sum of transfers among line item appropriations shall not exceed 2% of the aggregate appropriation. Based on Office of the Comptroller's records, the Department's appropriated transfers did not exceed this 2% ceiling.

3. Basis of Accounting

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

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

4. Non-Department Funds

Funds under this title are not controlled by the Department. However, state appropriation laws pertaining to these funds give the Department authority to appropriate monies for unemployment benefits claimed by employees of these funds.

State of Illinois
 Department of Employment Security

Notes to Schedules of Appropriations, Expenditures, and Lapsed Balances

5. Directors and Board of Review Salaries Paid from Title III – Social Security and Employment Services Fund

The Department directly pays its Director and Board of Review from the Title III – Social Security and Employment Services Fund appropriations. The appropriations and expenditures are as follows for the fiscal year ended June 30:

	Director	Board of Review	Total
2005			
Appropriation	\$ 120,900	\$ 75,000	\$ 195,900
Expenditures	120,900	61,250	182,150
Lapse	\$ -	\$ 13,750	\$ 13,750
2004			
Appropriation	\$ 120,900	\$ 75,000	\$ 195,900
Expenditures	120,900	59,572	180,472
Lapse	\$ -	\$ 15,428	\$ 15,428
2003			
Appropriation	\$ 120,900	\$ 75,000	\$ 195,900
Expenditures	120,876	54,572	175,448
Lapse	\$ 24	\$ 20,428	\$ 20,452

State of Illinois
Department of Employment Security

Comparative Schedule of Net Appropriations, Expenditures,
and Lapsed Balances

For the Years Ended June 30, 2005, 2004, and 2003

	Year ended June 30		
	2005	2004	2003
CENTRAL ADMINISTRATION			
Title III - Social Security and Employment Services Fund:			
Appropriations (net of transfers)	\$ 13,436,411	\$ 17,152,300	\$ 16,507,400
Expenditures:			
Personal services	5,814,636	5,924,392	6,021,072
Employee retirement contributions paid by employer	1,883,469	2,544,691	3,746,016
Contribution to State Employee's Retirement System	931,814	787,112	620,379
Contribution to Social Security	433,767	448,439	449,066
Contributions to group insurance	1,068,953	912,096	812,276
Contractual services	389,738	444,406	493,454
Travel	77,426	116,627	85,127
Telecommunications services	158,884	243,011	262,654
Total Expenditures	10,758,687	11,420,774	12,490,044
Lapsed Balances	2,677,724	5,731,526	4,017,356
FINANCE AND ADMINISTRATION			
Title III - Social Security and Employment Services Fund:			
Appropriations (net of transfers)	35,842,254	50,175,200	41,906,700
Expenditures:			
Personal services	10,996,634	10,728,583	11,269,202
Contribution to State Employee's Retirement System	1,766,086	1,435,409	1,161,035
Contribution to Social Security	808,219	780,716	821,448
Contribution to group insurance	2,194,760	1,723,485	1,549,550
Contractual services	4,985,287	12,564,560	8,855,140
Travel	95,190	100,439	100,984
Commodities	1,195,887	1,180,974	1,005,232
Printing	1,504,706	1,720,031	1,956,545
Equipment	262,326	323,140	755,863
Telecommunications services	533,015	430,785	324,508
Operation of automotive equipment	99,889	75,352	93,480
America's Labor Market Information System	405,273	644,145	403,691
Potential relocation	91,683	5,549,256	22,642
Total Expenditures	24,938,955	37,256,875	28,319,320
Lapsed Balances	\$ 10,903,299	\$ 12,918,325	\$ 13,587,380

State of Illinois
Department of Employment Security

Comparative Schedule of Net Appropriations, Expenditures,
and Lapsed Balances, Continued
For the Years Ended June 30, 2005, 2004, and 2003

	Year ended June 30		
	2005	2004	2003
FINANCE AND ADMINISTRATION (Continued)			
Unemployment Compensation Fund - Special Administration			
Account Fund:			
Appropriations (net of transfers)	\$ 10,000,000	\$ 6,000,000	\$ -
Expenditures:			
Interest on Advances	2,000,000	2,156,049	-
Total Expenditures	2,000,000	2,156,049	-
Lapsed Balances	8,000,000	3,843,951	-
TOTAL FINANCE AND ADMINISTRATION			
Appropriations (net of transfers)	45,842,254	56,175,200	41,906,700
Expenditures	26,938,955	39,412,924	28,319,320
Lapsed Balances	18,903,299	16,762,276	13,587,380
INFORMATION SERVICES			
Title III - Social Security and Employment Services Fund:			
Appropriations (net of transfers)	31,180,197	29,320,100	31,077,500
Expenditures:			
Personal services	5,004,727	5,165,218	6,002,225
Contribution to State Employee's Retirement System	806,189	694,247	615,465
Contribution to Social Security	356,170	366,327	425,259
Contributions to group insurance	1,023,995	900,738	851,605
Contractual services	11,558,914	12,457,049	15,660,967
Travel	2,871	7,512	10,290
Equipment	1,482,405	244,052	668,200
Electronic data processing	-	-	415,483
Telecommunications services	1,473,567	1,403,943	1,416,779
Total Expenditures	21,708,838	21,239,086	26,066,273
Lapsed Balances	9,471,359	8,081,014	5,011,227
OPERATIONS			
General Revenue Fund			
Appropriations (net of transfers)	704,600	772,600	772,600
Expenditures:			
Network outreach services for veterans	704,600	772,600	772,600
Lapsed Balances	\$ -	\$ -	\$ -

State of Illinois
Department of Employment Security

Comparative Schedule of Net Appropriations, Expenditures,
and Lapsed Balances, Continued
For the Years Ended June 30, 2005, 2004, and 2003

	Year ended June 30		
	2005	2004	2003
OPERATIONS, continued			
Title III - Social Security and Employment Services Fund:			
Appropriations (net of transfers)	\$ 37,323,806	\$ 37,004,200	\$ 36,873,600
Expenditures:			
Personal services	2,991,429	3,289,774	3,813,024
Contribution to State Employee's Retirement System	481,651	442,202	394,572
Contribution to Social Security	206,278	223,905	253,061
Contributions to group insurance	615,368	543,832	546,756
Contractual services	362,537	2,048,927	3,471,623
Travel	64,054	57,340	59,103
Telecommunications services	53,443	85,539	1,010,779
Employment security automation	1,026,017	848,928	1,258,160
Benefit information system redefinition	6,957,305	-	217,246
Awards and grants	5,087,034	8,457,546	3,311,816
Tort claims	3,000	-	-
Refunds	-	13,414	-
Total Expenditures	17,848,116	16,011,407	14,336,140
Lapsed Balances	19,475,690	20,992,793	22,537,460
Unemployment Compensation Special Administration Account Fund:			
Appropriations (net of transfers)	12,100,000	12,100,000	12,100,000
Expenditures:			
Legal assistance required by law	1,647,077	1,652,052	1,791,537
For deposit into Title III Social Security and Employment Services Fund	10,000,000	7,640,497	1,674,410
Interest on refunds	-	-	-
Total Expenditures	11,647,077	9,292,549	3,465,947
Lapsed Balances	452,923	2,807,451	8,634,053
Employment Security Administration Fund:			
Appropriations (net of transfers)	-	286,058	945,619
Expenditures:			
Reduction and prevention of unemployment	-	79,345	659,542
Lapsed Balances	\$ -	\$ 206,713	\$ 286,077

State of Illinois
 Department of Employment Security

Comparative Schedule of Net Appropriations, Expenditures,
 and Lapsed Balances, Continued
 For the Years Ended June 30, 2005, 2004, and 2003

	Year ended June 30		
	2005	2004	2003
TOTAL OPERATIONS			
Appropriations (net of transfers)	\$ 50,128,406	\$ 50,162,858	\$ 50,691,819
Expenditures:	30,199,793	26,155,901	19,234,229
Lapsed Balances	19,928,613	24,006,957	31,457,590
UNEMPLOYMENT INSURANCE REVENUE			
Title III - Social Security and Employment Services Fund:			
Appropriations (net of transfers)	35,231,551	38,695,400	36,247,100
Expenditures:			
Personal services	20,003,190	19,096,382	17,715,219
Contribution to State Employee's Retirement System	3,221,906	2,565,541	1,826,672
Contribution to Social Security	1,468,919	1,406,503	1,298,899
Contributions to group insurance	4,353,499	3,321,736	2,784,135
Contractual services	107,869	207,480	181,690
Travel	155,314	123,007	121,827
Telecommunications services	395,141	1,667,448	1,499,860
Total Expenditures	29,705,838	28,388,097	25,428,302
Lapsed Balances	\$ 5,525,713	\$ 10,307,303	\$ 10,818,798

State of Illinois
Department of Employment Security

Comparative Schedule of Net Appropriations, Expenditures,
and Lapsed Balances, Continued
For the Years Ended June 30, 2005, 2004, and 2003

	Year ended June 30		
	2005	2004	2003
WORKFORCE DEVELOPMENT			
Title III - Social Security and Employment Services Fund:			
Appropriations (net of transfers)	\$ 84,568,126	\$ 98,241,675	\$ 411,527,000
Expenditures:			
Personal services	46,453,390	48,328,904	56,020,512
Contribution to State Employee's Retirement System	7,474,501	6,485,134	5,778,693
Contribution to Social Security	3,401,887	3,526,185	4,097,506
Contributions to group insurance	11,569,918	9,170,485	8,930,284
Contractual services	185,250	9,042,247	9,167,881
Travel	755,331	603,480	797,541
Telecommunications services	3,489,491	5,557,759	5,539,386
Federal workforce development program	-	-	169,482,254
Illinois human resource investment	-	-	33,391
Refunds	-	-	750
Welfare to work program	-	-	7,178,797
Community partnership for enhanced customer service	80,000	-	-
Total Expenditures	73,409,768	82,714,194	267,026,995
Lapsed Balances	11,158,358	15,527,481	144,500,005
TRUST FUND UNIT			
General Revenue Fund:			
Appropriations (net of transfers)	20,064,000	16,000,000	8,148,000
Expenditures:			
Unemployment Compensation benefits to former State employees	19,477,324	15,664,540	8,148,000
Lapsed	586,676	335,460	-
Road Fund:			
Appropriations (net of transfers)	1,900,000	2,000,000	2,000,000
Expenditures:			
Unemployment Compensation benefits to former State employees	1,900,000	1,933,726	1,794,658
Lapsed Balances	\$ -	\$ 66,274	\$ 205,342

State of Illinois
Department of Employment Security

Comparative Schedule of Net Appropriations, Expenditures,
and Lapsed Balances, Continued
For the Years Ended June 30, 2005, 2004, and 2003

	Year ended June 30		
	2005	2004	2003
TRUST FUND UNIT, continued			
Title III - Social Security and Employment Services Fund:			
Appropriations (net of transfers)	\$ 1,734,300	\$ 1,734,300	\$ 1,734,300
Expenditures:			
Unemployment Compensation benefits to former State employees	163,589	145,193	27,842
Lapsed Balances	1,570,711	1,589,107	1,706,458
IMSA Income Fund:			
Appropriations (net of transfers)	16,700	17,600	17,600
Expenditures:			
Unemployment Compensation benefits to former State employees	16,700	3,060	17,600
Lapsed Balances	-	14,540	-
TOTAL TRUST FUND UNIT			
Appropriations (net of transfers)	23,715,000	19,751,900	11,899,900
Expenditures	21,557,613	17,746,519	9,988,100
Lapsed Balances	2,157,387	2,005,381	1,911,800
GRAND TOTALS - ALL DIVISIONS			
Appropriations (net of transfers)	284,101,945	309,499,433	599,857,419
Expenditures	214,279,492	227,077,495	388,553,263
Lapsed Balances	69,822,453	82,421,938	211,304,156
SUMMARY BY FUND - Expenditures			
General Revenue Fund	20,181,924	16,437,140	\$ 8,920,600
Title III - Social Security and Employment Services Fund	178,533,791	197,175,626	373,694,916
Unemployment Compensation Special Administration Fund	13,647,077	11,448,598	3,465,947
Employment Security Administration Fund	-	79,345	659,542
Road Fund	1,900,000	1,933,726	1,794,658
IMSA Income Fund	16,700	3,060	17,600
Total Expenditures	\$ 214,279,492	\$ 227,077,495	\$ 388,553,263

State of Illinois
Department of Employment Security

Comparative Schedule of Net Appropriations, Expenditures,
and Lapsed Balances - All Funds
For the Year Ended June 30, 2005, 2004, and 2003

	Year ended June 30		
	2005	2004	2003
Appropriations (net of transfers)	\$ 284,101,945	\$ 309,499,433	\$ 599,857,419
Total expenditures:			
Personal services	91,264,006	92,533,253	100,841,254
Employee retirement contributions paid by employer	1,883,469	2,544,691	3,746,016
Contribution to State Employee's Retirement System	14,682,147	12,409,645	10,396,816
Contribution to Social Security	6,675,240	6,752,075	7,345,239
Contributions to group insurance	20,826,493	16,572,372	15,474,606
Contractual services	17,589,595	36,764,669	37,830,755
Travel	1,150,186	1,008,405	1,174,872
Commodities	1,195,887	1,180,974	1,005,232
Printing	1,504,706	1,720,031	1,956,545
Equipment	1,744,731	567,192	1,424,063
Telecommunications services	6,103,541	9,388,485	10,053,966
Federal workforce development program	-	-	169,482,254
Legal assistance required by law	1,647,077	1,652,052	1,791,537
For deposit into Title III Social Security and Employment Services Fund	10,000,000	7,640,497	1,674,410
# Interest on advances	2,000,000	2,156,049	-
Unemployment Compensation benefits to former State employees	21,557,613	17,746,519	9,988,100
Reduction and prevention of unemployment	-	79,345	659,542
America's Labor Market Information System	405,273	644,145	403,691
Potential relocation	91,683	5,549,256	22,642
Employment security automation	1,026,017	848,928	1,258,160
Benefit information system redefinition	6,957,305	-	217,246
Electronic data processing	-	-	415,483
Network outreach services for veterans	704,600	772,600	772,600
Operation of automotive services for veterans	99,889	75,352	93,480
Awards and grants	5,087,034	8,457,546	3,311,816
Tort claims	3,000	-	-
Illinois human resource investment	-	-	33,391
Refunds	-	13,414	750
Community partnership for enhanced customer service	80,000	-	-
Welfare to work program	-	-	7,178,797
Total Expenditures	214,279,492	227,077,495	388,553,263
Lapsed Balances	\$ 69,822,453	\$ 82,421,938	\$ 211,304,156

State of Illinois
Department of Employment Security

Schedule of Efficiency Initiative Payments

<u>Internal Audit Consolidation Initiative</u>	<u>Fiscal Year 2005</u>	<u>Fiscal Year 2004</u>
Title III Fund -052		
Contractual Services	\$ -	\$ 259,222
Grand Total	<u>\$ -</u>	<u>\$ 259,222</u>

Note: This schedule includes only those payments made pursuant to 30 ILCS 105/6p-5.
Amounts were obtained from the Agency and reconciled to information from
the Office of the Comptroller.

State of Illinois
 Department of Employment Security

Schedule of Changes in State Property
 For the Two Years Ended June 30, 2005

	Year Ended June 30, 2005				
	Balance July 1, 2004	Additions	Deletions	Net Transfers	Balance June 30, 2005
Equipment	\$ 31,537,560	2,009,679	679,348	(5,564,804)	\$ 27,303,087
	\$ 31,537,560	\$ 2,009,679	\$ 679,348	\$ (5,564,804)	\$ 27,303,087

	Year Ended June 30, 2004				
	Balance July 1, 2003	Additions	Deletions	Net Transfers	Balance June 30, 2004
Equipment	\$ 33,925,674	3,917,214	60,528	(6,244,800)	\$ 31,537,560
	\$ 33,925,674	3,917,214	60,528	(6,244,800)	\$ 31,537,560

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

State of Illinois
Department of Employment Security

Comparative Schedule of Cash Receipts
For the Years Ended June 30, 2005, 2004 and 2003

Descriptions of Receipts	Year ended June 30		
	2005	2004	2003
TITLE III - SOCIAL SECURITY AND EMPLOYMENT SERVICES FUND - 052			
U. S. Department of Labor	\$ 164,479,577	\$ 179,377,573	\$ 367,625,469
U. S. Department of Education	105,589	310,075	250,264
Federal Workforce Training	7,107,224	8,195,671	-
Federal Government and Illinois Government Units - JTPA	-	-	-
Fund Transfers - Unemployment Compensation			
Special Adm. Fund	7,640,497	1,674,410	10,000,000
Miscellaneous	3,471	2,659	29,299
Illinois State Board of Education	127,500	127,500	159,375
Department of Public Aid	4,884	4,884	4,884
Department of Human Services	-	50,000	200,000
Board of Higher Education	-	-	25,000
Other States	85,971	-	145,000
Fines, Penalties or Violations	11,474	13,335	14,365
User Fees	10,102	12,929	153,717
Conference Fees	-	320	83,271
Local Illinois Governmental Units	9,995	-	181,362
Subscriptions and Publications	2,190	2,505	1,925
One Stop Participants	828,125	959,681	909,293
Reimbursement on Behalf of Others	3,785	3,898	-
General Revenue Fund	25,000	50,000	-
Copy Fees	7,635	6,844	-
Shared Data Access Fees	5,000	11,358	-
Labor Market Information	214,085	131,500	-
Commerce & Economic Opportunity	189,017	171,794	-
Investment Income Repurchase Agreements	530,165	2,805,330	-
Reed Act	4,884,186	-	-
Prior Year Refunds and Voids	45,972	835,867	-
Total Fund (052)	186,321,444	194,748,133	379,783,224

State of Illinois
 Department of Employment Security

Comparative Schedule of Cash Receipts
 For the Years Ended June 30, 2005, 2004 and 2003

	Year ended June 30		
	2005	2004	2003
STATE EMPLOYEES UNEMPLOYMENT BENEFIT			
FUND - 056			
Fund Transfers:			
General Revenue	\$ 19,477,324	\$ 20,016,317	\$ 10,182,356
Road Fund	1,782,557	1,889,015	1,805,364
Title III - Social Security and Employment Services Fund	87,717	108,430	26,308
IMSA Income Fund	16,701	2,971	17,553
Investment Income Repurchase Agreements	36,210	22,314	23,228
Total Fund (056)	<u>21,400,509</u>	<u>22,039,047</u>	<u>12,054,809</u>
EMPLOYMENT SECURITY ADMINISTRATION FUND - 116			
Investment Income Repurchase Agreements	17	246	5,872
Prior Year Refunds and Voids	-	2,651	-
Total Fund (116)	<u>17</u>	<u>2,897</u>	<u>5,872</u>
Total Cash Receipts	<u>\$ 207,721,970</u>	<u>\$ 216,790,077</u>	<u>\$ 391,843,905</u>

State of Illinois
Department of Employment Security

Reconciliation Schedule of Cash Receipts to Deposits
Remitted to the State Comptroller
For the Two Years Ended June 30, 2005

	June 30, 2005			
	Title III - Social Security and Employment Services Fund (052)	State Employees Unemployment Benefit Fund (056)	Employment Security Administration Fund (116)	Total
Cash receipts per Department	\$ 186,321,444	\$ 21,400,509	\$ 17	\$ 207,721,970
Add: Deposits in transit at July 1, 2004	-	-	-	-
Less: Deposits in transit at June 30, 2005	-	-	-	-
Less: Investment income Deposits remitted to the State Comptroller	(530,165)	(36,210)	(17)	(566,392)
	<u>\$ 185,791,279</u>	<u>\$ 21,364,299</u>	<u>\$ -</u>	<u>\$ 207,155,578</u>

	June 30, 2004			
	Title III - Social Security and Employment Services Fund (052)	State Employees Unemployment Benefit Fund (056)	Employment Security Administration Fund (116)	Total
Cash receipts per Department	\$ 194,748,133	\$ 22,039,047	\$ 2,897	\$ 216,790,077
Add: Deposits in transit at July 1, 2003	-	-	-	-
Less: Deposits in transit at June 30, 2004	-	-	-	-
Less: Investment income Deposits remitted to the State Comptroller	(2,805,330)	(22,314)	(246)	(2,827,890)
	<u>\$ 191,942,803</u>	<u>\$ 22,016,733</u>	<u>\$ 2,651</u>	<u>\$ 213,962,187</u>

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

State of Illinois
 Department of Employment Security

Analysis of Significant Variations in Expenditures

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

A. General Revenue Fund

	<u>2005</u>	<u>2004</u>	<u>Amount</u>	<u>%</u>
Expenditures	\$20,181,924	\$16,437,140	\$3,744,784	23.0

The increase in expenditures is due to a large number of former government employees who filed for unemployment insurance benefits during 2005.

	<u>2004</u>	<u>2003</u>	Increase (Decrease)	
			<u>Amount</u>	<u>%</u>
Expenditures	\$16,437,140	\$8,920,600	\$7,516,540	84.0

Expenditures increased during 2004 compared to 2003 due to an increase in former government employees seeking unemployment benefits.

B. Title III - Social Security and Employment Services Fund (Title III)

	<u>2004</u>	<u>2003</u>	Increase (Decrease)	
			<u>Amount</u>	<u>%</u>
Expenditures	\$197,175,626	\$373,694,916	(\$176,519,290)	(47.0)

Total expenditures decreased during 2004 compared to 2003 due to the transfer of the administration of Workforce Investment Act (WIA) and the Welfare to Work Program (WTW) to the Department of Economic Commerce Opportunity in State fiscal year 2004.

C. Unemployment Compensation Special Administration Fund

	<u>2005</u>	<u>2004</u>	Increase (Decrease)	
			<u>Amount</u>	<u>%</u>
Expenditures	\$13,647,077	\$11,448,598	\$2,198,479	19.0

Expenditures increased during 2005 compared to 2004 due to an increase in cash transferred to Title III Fund in fiscal year 2005. During 2005 the transfers totaled \$10 million while in 2004 the transfers totaled \$7.6 million.

	<u>2004</u>	<u>2003</u>	Increase (Decrease)	
			<u>Amount</u>	<u>%</u>
Expenditures	\$11,448,598	\$3,465,947	\$7,982,651	230.0

Expenditures increased during 2004 compared to 2003 due to a payment of \$2 million for the interest on the Unemployment Insurance Trust Fund advances and an increase in the amount of cash transferred from this fund. During 2004 the transfers totaled \$7.6 million while in 2003 the transfers totaled \$1.6 million.

State of Illinois
 Department of Employment Security

Analysis of Significant Variations in Expenditures (continued)

D. Unemployment Compensation Trust Fund

	<u>2005</u>	<u>2004</u>	Increase (Decrease)	
			<u>Amount</u>	<u>%</u>
Expenditures	\$1,945,631,000	\$2,672,436,000	\$(726,805,000)	(27.0)

Expenditures decreased during 2005 compared to 2004 due to a reduction in the number of people receiving unemployment benefits. In addition, the Temporary Extended Unemployment Compensation Program was terminated by the Federal government effective October 31, 2004.

	<u>2004</u>	<u>2003</u>	Increase (Decrease)	
			<u>Amount</u>	<u>%</u>
Expenditures	\$2,672,436,000	\$3,054,290,000	\$(381,854,000)	(13.0)

Expenditures decreased during 2004 compared to 2003 due to a reduction in the number of people receiving unemployment benefits.

State of Illinois
 Department of Employment Security

Analysis of Significant Variations in Receipts

The variations presented below were obtained from amounts presented in the Comparative Schedule of Cash Receipts for fiscal years 2005, 2004 and 2003, except for the Unemployment Compensation Trust Fund information, which was obtained from the Individual Non-Shared Proprietary Fund Financial Statements.

A. State Employees Unemployment Benefit Fund

	<u>2004</u>	<u>2003</u>	Increase (Decrease)	
			<u>Amount</u>	<u>%</u>
Revenues	\$22,039,047	\$12,054,809	\$9,984,238	83.0

Revenues increased during 2004 compared to 2003 due to an increase in the number of individuals seeking unemployment benefits.

B. Title III - Social Security and Employment Services Fund (Title III)

	<u>2004</u>	<u>2003</u>	Increase (Decrease)	
			<u>Amount</u>	<u>%</u>
Revenues	\$193,912,266	\$379,783,224	(\$185,870,958)	49.0

Total revenues decreased during 2004 compared to 2003 due to the reduction in federal draws on grants due to the transfer of the Workforce Investment Act (WIA) and the Welfare to Work Program (WTW) programs to the Department of Commerce and Economic Opportunity in State fiscal year 2004.

C. Unemployment Compensation Special Administration Fund

	<u>2005</u>	<u>2004</u>	Increase (Decrease)	
			<u>Amount</u>	<u>%</u>
Revenues	\$12,929,477	\$9,457,074	\$3,472,403	37.0

Revenues increased during 2005 compared to 2004 due to an increase in payroll tax penalties and unemployment insurance.

	<u>2004</u>	<u>2003</u>	Increase (Decrease)	
			<u>Amount</u>	<u>%</u>
Revenues	\$9,457,074	\$11,122,938	(\$1,665,864)	(15.0)

Revenues decreased during 2004 compared to 2003 due to a decrease in fines, penalties or violations on payroll taxes.

State of Illinois
Department of Employment Security

Analysis of Significant Lapse Period Spending
July 1 to August 31, 2005

A. Unemployment Compensation Special Administration Fund

\$10.1 million was spent by the Department during the lapse period, of which \$10 million was for cash transfer to the Title III – Social Security and Employment Services Fund. The transfer was made to cover the deficit at year-end for this fund. The transfer is not completed until the month of July, which is after the actual deficit as of June is determined. Since the transfer is made in July, it is considered lapse spending.

State of Illinois
Department of Employment Security

Analysis of Significant Lapse Period Spending
July 1 to August 31, 2004

A. Unemployment Compensation Special Administration Fund

\$7.9 million was spent by the Department during the lapse period, of which \$7.6 million was for cash transfer to the Title III – Social Security and Employment Services Fund. The transfer was made to cover the deficit at year-end for this fund. The transfer is not completed until the month of July, which is after the actual deficit as of June is determined. Since the transfer is made in July, it is considered lapse spending.

B. Road Fund

\$1.9 million benefit was paid to former Department of Transportation employees during fiscal year 2004. Of this amount, \$671 thousand was paid during the lapse period.

State of Illinois
Department of Employment Security

Analysis of Significant Account Balances

A. Nonshared Governmental Funds

Title III - Social Security and Employment Services Fund

There was a decrease in the "Cash and cash equivalents" account of 33% from fiscal year 2004 to 2005 due to June 2005 reimbursable costs the Department requested from the federal government in July 2005 in compliance with CMIA. The decrease is also due to the transfer of TAA funds to the Department of Commerce and Economic Opportunity in April 2005.

The Fund's "Due from other State funds" account increased 4% from fiscal year 2004 to fiscal year 2005. This increase is due to an increase in cash transfers from the Unemployment Compensation Special Administration Fund to a total of \$10 million and \$7.6 million in fiscal year 2005 and 2004, respectively. This account represents receivable from SAA fund to cover future federal funding shortfalls.

There was a decrease of 5% in Fund balance from fiscal year 2004 to fiscal year 2005 for the "Unreserved-undesignated" account. This is due to a decrease in revenues in fiscal year 2005.

Unemployment Compensation Special Administration Fund

There was an increase of 35.5% in "Due to other State funds" from fiscal year 2004 to fiscal year 2005. This decrease is due to an increase in cash transfers to Title III Social Security and Employment Service Fund to a total of \$10 million and \$7.6 million in fiscal years 2005 and 2004, respectively. This account represents payable to Title III Social Security and Employment Services Fund to cover future federal funding shortfalls.

B. Nonshared Proprietary Funds

Unemployment Compensation Trust Fund

There were increases in "Cash and cash equivalents", "Investments", and "Net Assets Reserved for Unemployment compensation benefits" accounts from fiscal year 2004 to fiscal year 2005. Increases were due to the increase of the Illinois Unemployment Trust Fund (UTF) in July 2004 due to the timing of Unemployment Insurance (UI) Trust Fund return of overpayment collection and the UI Trust Fund return to solvency by the issuance of bonds.

Master Bond Fund

There was an increase in "Cash and cash equivalents" and an equivalent decrease in investments from fiscal year 2004 to fiscal year 2005. Although the fund was established prior to fiscal year 2005, bonds were actually issued on July 1, 2004. The increase was due to the timing of deposits required by the Master Indenture of Trust and from the redeposit of excess funds to the Unemployment Compensation Trust Fund.

State of Illinois
Department of Employment Security

Analysis of Accounts Receivable

For financial reporting purposes for fiscal years 2005 and 2004, the Department classified its accounts receivable in the following categories:

A. Nonshared Governmental Funds

Intergovernmental Receivables

Intergovernmental receivables represent reimbursements due from the federal government to reimburse the Department's administrative expenditures. Intergovernmental receivables totaled \$14,830,000 at June 30, 2005 and \$5,941,000 at June 30, 2004 (amounts expressed in thousands).

The Department does not calculate an allowance for uncollectible accounts for intergovernmental receivables as the amounts are due from other governmental entities and receipt is reasonably assured. In addition, the Department does not maintain records that age the entire intergovernmental receivable balance. Therefore, an account receivable aging schedule for intergovernmental receivables has not been provided on the accompanying schedules.

Other Receivables

Other receivables represent interest receivable from Illinois Funds in the custody of the State Treasurer. Other receivables totaled \$102,000 at June 30, 2005 and \$29,000 at June 30, 2004 (amounts expressed in thousands).

B. Nonshared Proprietary-Unemployment Compensation Trust Fund

Taxes Receivable

Taxes receivable represent unemployment taxes, known as contributions, owed by private, nongovernmental employers to the Trust Fund. The Department records the receivable based on the actual outstanding receivable plus an estimate of 2 quarters of employer liabilities, and an allowance for uncollectible accounts is recorded.

Intergovernmental Receivables

Intergovernmental receivables represent reimbursements due from other State governments for unemployment benefits paid to those states' ex-employees by the Trust Fund. The receivables also include amounts due from the federal government for ex-military and federal employees and temporary emergency unemployment compensation. Intergovernmental receivables totaled \$29,420 at June 30, 2005 and \$31,317 at June 30, 2004 (amounts expressed in thousands).

Other Receivables

Other receivables represent monies owed from claimants who received benefits which exceeded the allowable amounts. The Department records the receivable based on the actual outstanding overpayment receivable plus an estimate of additional overpayments related to the period and an allowance for uncollectible accounts is recorded based on historical collections.

State of Illinois
 Department of Employment Security

Analysis of June 30, 2005 Accounts Receivable
 (Relates to Proprietary Unemployment Compensation Trust Fund Only)
 (Expressed in Thousands)

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

Taxes Receivable at June 30, 2005		
Receivable for the quarter ended June 30, 2005	Receivable from prior quarters	Total Taxes Receivable
\$ 537,595	\$ 108,053	\$ 645,648
	Less: Allowance for uncollectible accounts	(131,900)
		\$ 513,748

Other Receivables at June 30, 2005					
2001 and Prior	2002	2003	2004	2005	Total Other Receivables
\$ 73,535	\$ 33,884	\$ 53,320	\$ 56,916	\$ 110,468	\$ 328,123
					Less: Allowance for uncollectible accounts (253,368)
					\$ 74,755

State of Illinois
 Department of Employment Security

Analysis of June 30, 2004 Accounts Receivable
 (Relates to Proprietary Unemployment Compensation Trust Fund Only)
 (Expressed in Thousands)

Taxes Receivable at June 30, 2004		
Receivable for the quarter ended June 30, 2004	Receivable from prior quarters	Total Taxes Receivable
\$ 398,817	\$ 115,098	\$ 513,915
	Less: Allowance for uncollectible accounts	(115,659)
		<u>\$ 398,256</u>

Other Receivables at June 30, 2004					
2000 and Prior	2001	2002	2003	2004	Total Other Receivables
\$ 68,589	\$ 25,719	\$ 38,279	\$ 60,326	\$ 95,650	\$ 288,563
					Less: Allowance for uncollectible accounts
					<u>(214,179)</u>
					<u>\$ 74,384</u>

State of Illinois
 Department of Employment Security

Cash Basis Schedules

Locally Held Special Programs Fund
 For the Years Ended June 30, 2005 and 2004

	June 30, 2005			
	Cash			Cash
	Balance	Cash	Cash	Balance
	July 1, 2004	Receipts	Disbursements	June 30, 2005
Trade Readjustment Act	\$ (299,258)	\$ 35,886,673	\$ 35,898,585	\$ (311,170)
Disaster Unemployment Assistance	6,105	12,311	13,434	4,982
North American Free Trade Agreement	(2,601)	45,174	42,573	-
Alternative Trade Adjustment Act	(3,403)	361,534	317,583	40,548
Total Special Program Fund	\$ (299,157)	\$ 36,305,692	\$ 36,272,175	\$ (265,640)

	June 30, 2004			
	Cash			Cash
	Balance	Cash	Cash	Balance
	July 1, 2003	Receipts	Disbursements	June 30, 2004
Trade Readjustment Act	\$ (114,733)	\$ 23,397,734	\$ 23,582,259	\$ (299,258)
Disaster Unemployment Assistance	2,114	34,011	30,020	6,105
North American Free Trade Agreement	(24,892)	987,863	965,572	(2,601)
Alternative Trade Adjustment Act	-	-	3,403	(3,403)
Total Special Program Fund	\$ (137,511)	\$ 24,419,608	\$ 24,581,254	\$ (299,157)

Note - The negative cash balance is due to the timing of Federal Draw. The draws are based on checks issued.

ANALYSIS OF OPERATIONS

State of Illinois
Department of Employment Security

Agency Functions and Planning Program

Programs

The Illinois Department of Employment Security (Department) is a cabinet-level State government agency under the leadership of a Director who is responsible for both general policy and day-to-day agency management. The **Offices of the Director** include Federal-State Legislative Liaison, Public Information, Office of Equal Opportunity, Office of Inspector General, Legal Services, Financial Operations, Strategic Planning and higher level Unemployment Insurance (UI) benefit appeals through the Board of Review. Other functions are carried out by the following two Bureaus:

Administration Bureau is responsible for the Department's provision of space, equipment and supplies. It produces labor market information, conducts quality assurance and compliance reviews and is responsible for IDES' plans and program analyses. The Bureau also manages and maintains the Department's management information systems. It provides for the hardware, software, and the technical expertise needed to assist the agency in achieving its mission. The Bureau provides staff training on personal computers, maintains the agency's Policies and Procedures Manual in both the on-line and hard copy versions, and provides technological planning assistance on all areas of automated data processing

Operations Bureau which employs the majority of the Department's staff is responsible for operating statewide system of regional & local offices for the programmatic oversight for the Unemployment Insurance, Employment Service and related programs. The Bureau administers the employer payroll tax assessed for purposes of funding UI benefit payments. It is responsible for audit and collections activity related to the UI tax, the processing of reports and remittances and providing customer service to employers in regards to their account with the Department.

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

Unemployment Insurance

The Unemployment Insurance (UI) program is designed to partially protect eligible workers against loss of income during periods of unemployment and to contribute to overall economic stability. Like any insurance system, UI is based on a reserve of funds. The reserve fund, the Unemployment Insurance Trust Fund, is maintained through contributions collected by the Department from employers defined as liable under the *Illinois Unemployment Insurance Act*. When a worker employed by a liable employer becomes unemployed, he/she can file a claim for unemployment insurance benefits. If the worker meets all the eligibility requirements set forth by the UI Act, he/she may receive benefits for the maximum number of weeks payable under the law.

State of Illinois
Department of Employment Security

Agency Functions and Planning Program, Continued

Programs

Employment Service

The Employment Services (ES) program is operated under the authority of the federal Wagner-Peyser Act, as amended by the Job Training Partnership Act of 1983, and is part of the nationwide labor exchange system. The central aim of ES is to speed re-employment through job matching and employability development services. The Department maintains close contacts with employers to locate job opportunities and to meet those labor needs as soon as possible with qualified job applicants. This is accomplished by matching workers' skills to employers' job orders and referring qualified applicants for employment interviews. If there are no suitable job openings listed for an individual or group of applicants, the Department staff attempts to develop openings with employers known to use the skills these applicants possess.

Labor Market Information

The Labor Market Information (LMI) program is also operated under the Wagner-Peyser Act and requires the Department maintain a labor market program to monitor employment-related conditions and trends. The LMI program staff collects, analyzes and distributes labor force and economic information. Using direct surveys, administrative data, and related economic information, LMI describes past, monitors current, and projects future economic trends in terms of indicators such as population, civilian labor force, unemployment, employment by industry and occupation, wages, and hours worked. This information is distributed through regular publications, workshops and seminars, and by the statewide network of Labor Market Economists.

Plans

The Department prepares a number of compliance plans as required for the receipt of federal funding and to satisfy a requirement of the State budget process.

Federal program plans and reports are submitted to the regional office of the U. S. Department of Labor's Employment and Training Administration (ETA) or Veterans Employment and Training (VETS). Plans cover one of two fiscal years: the Federal Fiscal Year (FFY) which runs from October 1 through September 30; or the Program Year (PY) which covers July 1 through June 30, the same period as the State Fiscal Year (SFY).

State of Illinois
Department of Employment Security

Agency Functions and Planning Program, Continued

Plans, continued

- < The State Quality Service Plan (SQSP) is the annual vehicle for requesting federal funds for the coming federal fiscal year to administer the Unemployment Insurance program. The narrative portion of the SQSP includes a summary of current-year program activities, program directions and initiatives for the next year, corrective action plans to meet federal performance standards that were not met for the twelve month period ending March 31 of the current federal fiscal year, a discussion of any deficiencies found during program reviews and plans to address them, and continuous improvement plans for any aspect of the program that is not currently deficient but requires attention. The budget portion of the plan includes worksheets detailing the Department's plan for distributing the funds (by function and quarter) that ETA estimates the Department will receive for the coming fiscal year. These estimates are based on preliminary Federal budget requests.

ETA requires the Department to prepare quarterly reports to monitor the status of the SQSP's corrective action plans. Focusing on action steps scheduled for completion during the report quarter, the report indicates those met and not met, and, for those not met, provides reasons and alternate plans and/or completion dates.

- < The Jobs for Veterans Act of 2002 requires the Department to submit Grant Modification Requests each Federal Fiscal Year to support staff who provide direct labor exchange services to veterans. These staff – Disabled Veterans Outreach Program (DVOP) staff and Local Veterans Employment Representatives (LVER) – are assigned to IDES offices throughout the state to ensure that veterans receive the priority of service mandated by federal regulations.
- < The initial grant modification request (FFY 05) consisted of a program plan and a budget plan. The program plan assessed the state's labor market and the representation of veterans in the civilian labor force, described the manner in which the Department will provide or facilitate the delivery of employment, training, and placement services for veterans and the role of DVOPs and LVERs in this effort, and discussed the Department's plan for implementing newly required performance incentive awards for quality employment, training and placement services and for serving special target groups, particularly veterans transitioning from the military to civilian employment. The budget plan outlined the projected costs for providing needed services to the state's veteran population, distributing Illinois' projected allocation to staff positions, incentives, and any other planned expenditures. The allocation is determined by applying a formula that considers the state's unemployment rate and veteran population to the estimated funding available. The subsequent grant modification request (FFY 06) updated programmatic offerings noted in the FFY 05 version and added a new budget plan based on the federal allocation of the plan fiscal year. The completed grant modification request is submitted to the national office of Veterans Employment and Training and to the VETS regional representative.
- < The Federal Wagner-Peyser funding represents a significant proportion of the Department's budget, but annual compliance planning is not currently required as a condition for receiving it each program year. With the passage of the Workforce Investment Act (WIA) of 1998, the annual Wagner-Peyser planning process for basic labor exchange and labor market information services was incorporated into a comprehensive five-year strategic plan which treats the many aspects of workforce development. The Illinois' strategic plan expired in 2005 and was replaced by an interim plan that became effective pending the passage of WIA reauthorization or whatever legislation will replace it. The interim plan subsumed the Migrant and Seasonal Farmworkers (MSFW) Plan, which had been a stand alone plan in recent years. Basically, the MSFW plan describes how the Department, with Wagner-Peyser funding will make agricultural workers aware of the employment services available to them and opportunities for more stable employment. Elements of this outreach plan include the resources the Department will make available for outreach and how those outreach activities will be conducted. Since there is no discrete allocation for this program, the plan does not include a budget.

State of Illinois
Department of Employment Security

Agency Functions and Planning Program, Continued

Plans, continued

Reemployment Services is a second, smaller program that utilizes Wagner-Peyser funding to facilitate the early reemployment of unemployment insurance claimants. IDES developed plans for service delivery and for distribution of staff positions around the state as a condition for receiving funding for the first few years of operation. ETA has waived the plan requirement for this program year.

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

Auditors' Assessment

The Department's planning process has been found to be adequate to satisfy statutory responsibilities.

State of Illinois
Department of Employment Security

Average Number of Employees
June 30, 2005, 2004 and 2003

The following table summarizes the average number of employees of the Department categorized by divisional code at June 30, 2005, 2004 and 2003.

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Central Administration	103	103	98
Finance and Administration	203	209	217
Information Services	81	89	99
Operations	53	60	69
Unemployment Insurance Revenue	386	370	365
Workforce Development	<u>1,073</u>	<u>1,102</u>	<u>1,207</u>
Total Employees	<u>1,899</u>	<u>1,933</u>	<u>2,055</u>

State of Illinois
Department of Employment Security

Annual Cost Statistics
(Not Examined)

	<u>2005</u>	<u>2004</u>
Average Benefit Paid Per Client	\$2,617	\$2,824
Average Administrative Cost Per Claimant	\$173	\$157

State of Illinois
Department of Employment Security

Emergency Purchases
For the Two Years Ended June 30, 2005

During 2004, the Department had one emergency purchase to Meilahn Manufacturing Co. in the amount of \$24,900 for services for dismantling and packaging benches and shelving at the State Street office and the unpacking and reassembling shelving and benches at the new State Street office.

According to Department officials, there were no emergency purchases during fiscal year 2005.

State of Illinois
Department of Employment Security

Service Efforts and Accomplishments

(Expressed In Thousands)
(Not Examined)

Activities and Performance	For the Years Ended June 30,		
	2005	2004	2003
Unemployment Insurance:			
Initial Claims	731.1	814.1	852.5
Job Placement:			
Total placements	9.9	14.3	12.8
Individuals placed	*	12.8	11.6
Job openings received	45.3	49.8	42.8

- (1) The Department provides temporary income assistance in the form of unemployment benefits to individuals who qualify under federal and state laws.
- (2) The Department provides match assistance for employees and specialized assessment and referral services for job seekers.

* - The "Individuals Placed" category will no longer be available due to a change in the reporting system with the Federal Government.

Unemployment Rates
(Not Examined)

The funding for the administration of the Department's programs is provided by the federal government and is largely based upon State levels of unemployment. National and State unemployment rates by quarter for calendar 2003 through 2005, as provided by the Bureau of Labor Statistics, are summarized below:

	Rate by Quarter			
	1st	2nd	3rd	4th
<u>2003:</u>				
National	6.4%	6.0%	6.0%	5.9%
State	7.1	6.2	6.6	6.7
<u>2004:</u>				
National	5.6	5.6	5.5	5.4
State	6.4	6.2	6.1	6.1
<u>2005:</u>				
National	5.3	5.1	5.0	*
State	5.7	5.9	5.9	*

* Figures not available at time of report.