

**STATE OF ILLINOIS  
DEPARTMENT OF EMPLOYMENT SECURITY**

**Individual Nonshared Governmental Funds  
Individual Nonshared Proprietary Funds  
Financial Statements  
For the Year Ended June 30, 2012**

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



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

**State of Illinois  
 Department of Employment Security  
 Financial Audits  
 For the Year Ended June 30, 2012**

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**State of Illinois  
Department of Employment Security  
Agency Officials  
June 30, 2012**

Director	Mr. Jay Rowell
Executive Deputy Director, Administration September 19, 2011 to present May 8, 2011 to September 18, 2011	Ms. Barbara Piwowarski Vacant
Executive Deputy Director, Service Delivery	Mr. Amit Singla
Deputy Director, Business Services May 7, 2012 to present	Mr. Gideon Blustein
Deputy Director, Information Services August 17, 2011 to present January 14, 2011 to August 16, 2011	Ms. Monica Carranza Vacant
Director, Field Operations August 29, 2011 to present June 1, 2010 to August 28, 2011	Mr. Julian Federle Vacant
Chief Financial Officer December 10, 2012 to present Acting, August 22, 2012 to December 9, 2012 Previous to August 22, 2012	Ms. Linda DeMore Mr. L. Briant Coombs Mr. Jon Gingrich
Chief Internal Auditor	Mr. Marcus A. Dodd
Chief Technology Officer	Mr. Thomas Revane
Equal Employment Opportunity Officer	Mr. Carlos Charneco
General Counsel	Mr. Joseph P. Mueller
Manager, Accounting Services Division	Mr. L. Briant Coombs
Manager, Economic Information and Analysis Division	Ms. Evelina Loescher, PhD
Manager, Revenue Division	Ms. Lois Cuevas
Manager, Unemployment Insurance Programs December 16, 2012 to present October 1, 2012 to December 15, 2012 Previous to October 1, 2012	Ms. Trina Taylor Vacant Mr. Frank DeMore

The Department's Administrative offices are located at:

33 South State Street  
Chicago, IL 60603-2802

850 East Madison Street  
Springfield, IL 62702-5603

**STATE OF ILLINOIS  
DEPARTMENT OF EMPLOYMENT SECURITY**

**Individual Nonshared Governmental Funds**

**Financial Statements**

**For the Year Ended June 30, 2012**

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

**State of Illinois  
Department of Employment Security  
Financial Statements  
For the Year Ended June 30, 2012**

**FINANCIAL STATEMENT REPORT SUMMARY**

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

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

**EXIT CONFERENCE**

An exit conference was conducted on January 10, 2013. Attending were:

Illinois Department of Employment Security

Jay Rowell, Director  
Linda DeMore, Chief Financial Officer  
Bethani Whiting, Assistant Deputy Director  
L. Briant Coombs, Accounting Services Division Manager  
Lois Cuevas, Revenue Division Manager  
Kathy Harlan, Audit Liaison  
Maria Luisa Toledo, Accounting and Reporting Manager

Office of the Auditor General

Thomas Kizziah, Manager

E. C. Ortiz & Co., LLP

Edilberto Ortiz, Partner  
Leilani Rodrigo, Partner  
Emily Causon, Manager



## INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Operating Fund and Special Programs Fund (Individual Nonshared Governmental Funds) of the State of Illinois, Department of Employment Security (Department), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the financial statements present only the Individual Nonshared Governmental Funds and do not purport to, and do not, present fairly the financial position of the Department as of June 30, 2012, and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Individual Nonshared Governmental Funds of the Department, as of June 30, 2012, and the changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 18, 2013 on our consideration of the Department's internal control over financial reporting of the Individual Nonshared Governmental Funds and on our tests of the Department's compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted management's discussion and analysis for the Individual Nonshared Governmental Funds that accounting principles generally accepted in the United States of America require to be presented to supplement the fund financial statements. Such missing information, although not a part of the fund financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the fund financial statements in an appropriate operational, economic, or historical context. Our opinion on the fund financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements of the Individual Nonshared Governmental Funds of the Department. The Combining Operating Fund Schedules are presented for purposes of additional analysis and are not a required part of the fund financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the fund financial statements. The Combining Operating Fund Schedules have been subjected to the auditing procedures applied in the audit of the fund financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the fund financial statements or to the fund financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Operating Fund Schedules are fairly stated in all material respects in relation to the fund financial statements taken as a whole.

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

*C. C. G. & A. L. P.*  
Chicago, Illinois  
January 18, 2013

**State of Illinois**  
**Department of Employment Security**  
**Individual Nonshared Governmental Funds**  
**Balance Sheets**  
**June 30, 2012**  
**(Amounts in \$000's)**

	<b>Operating Fund</b>	<b>Special Programs Fund</b>
	<hr/>	<hr/>
<b>Assets</b>		
Cash and cash equivalents	\$ 9,118	\$ -
Intergovernmental receivables	41,553	403
Other receivables	1	-
Due from other State funds	3,399	-
Inventories	704	-
	<hr/>	<hr/>
<b>Total assets</b>	<b>\$ 54,775</b>	<b>\$ 403</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities and fund balances</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 10,435	\$ 402
Intergovernmental payables	362	1
Due to other State funds	42,375	-
Due to component units	3	-
Deferred revenues	27,494	-
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>80,669</b>	<b>403</b>
	<hr/>	<hr/>
<b>Fund balances (deficit)</b>		
Nonspendable - Inventories	704	-
Restricted	9,719	-
Unassigned	(36,317)	-
	<hr/>	<hr/>
<b>Total fund balances (deficit)</b>	<b>(25,894)</b>	<b>-</b>
	<hr/>	<hr/>
<b>Total liabilities and fund balances</b>	<b>\$ 54,775</b>	<b>\$ 403</b>
	<hr/> <hr/>	<hr/> <hr/>

*See Notes to Financial Statements.*

**State of Illinois**  
**Department of Employment Security**  
**Individual Nonshared Governmental Funds**  
**Statements of Revenues, Expenditures, and Changes in Fund Balances**  
**Year Ended June 30, 2012**  
**(Amounts in \$000's)**

	<b>Operating Fund</b>	<b>Special Programs Fund</b>
	<u>          </u>	<u>          </u>
<b>Revenues</b>		
Federal government	\$ 231,065	\$ 13,164
Other revenues	3,620	-
Licenses and fees	9	-
Interest and investment income	6	-
	<u>          </u>	<u>          </u>
Total revenues	<u>234,700</u>	<u>13,164</u>
<b>Expenditures</b>		
Employment and economic development	265,281	13,164
Capital outlays	29	-
	<u>          </u>	<u>          </u>
Total expenditures	<u>265,310</u>	<u>13,164</u>
<b>Deficiency of revenues over expenditures</b>	<u>(30,610)</u>	<u>-</u>
<b>Other financing sources</b>		
Transfers in	15,638	-
	<u>          </u>	<u>          </u>
<b>Net changes in fund balances (deficit)</b>	<u>(14,972)</u>	<u>-</u>
<b>Fund balances (deficit), July 1, 2011</b>	<u>(10,922)</u>	<u>-</u>
<b>Fund balances (deficit), June 30, 2012</b>	<u>\$ (25,894)</u>	<u>\$ -</u>

*See Notes to Financial Statements.*

**State of Illinois**  
**Department of Employment Security**  
**Individual Nonshared Governmental Funds**  
**Notes to Financial Statements**  
**June 30, 2012**  
**(Amounts in \$000's)**

**NOTE 1 - DESCRIPTION OF FUNDS**

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

A. Operating Fund

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

*Title III Social Security and Employment Services Fund*

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

*Unemployment Compensation Special Administration Fund*

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

B. Special Programs Fund

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

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**Individual Nonshared Governmental Funds**  
**Notes to Financial Statements**  
**June 30, 2012**  
**(Amounts in \$000's)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

A. Reporting Entity

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

Financial accountability is defined as:

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

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

The financial statements present only the Operating Fund and Special Programs Fund administered by the Department and do not purport to, and do not, present fairly the financial position of the Department as of June 30, 2012, and changes in its financial position for the year then ended in conformity with GAAP.

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**Individual Nonshared Governmental Funds**  
**Notes to Financial Statements**  
**June 30, 2012**  
**(Amounts in \$000's)**

B. Basis of Presentation

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

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

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

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

C. Basis of Accounting

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

Revenues are recognized as soon as they are both measurable and available. Nonexchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants from the federal and other State governments.

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Revenue from grants, entitlements, and similar items is recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met and the resources are available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year.

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

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

Grants receipts earned but not drawn or received by the Department within sixty days after June 30, 2012 are reported under liabilities as deferred revenue.

D. Cash and Cash Equivalents

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

E. Inventories

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

F. Interfund Transactions

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

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**Department of Employment Security**  
**Individual Nonshared Governmental Funds**  
**Notes to Financial Statements**  
**June 30, 2012**  
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*Services provided and used*

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

*Reimbursements*

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

*Operating transfers*

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

G. Compensated absences

A liability for unpaid, accumulated vacation and sick leave balances for the Department employees is reported in the nonshared funds only if they have matured, for example, as a result of employee resignations and retirements. There was no liability for compensated absences recorded as of June 30, 2012.

H. Fund Balances

Fund balances are classified in the following categories:

*Nonspendable*

This consists of amounts that cannot be spent because they are either (a) not in spendable form or (b) legally required to be maintained intact. The Title III Social Security and Employment Services Fund comprised nonspendable fund balance as of June 30, 2012.

**State of Illinois**  
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**Notes to Financial Statements**  
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*Restricted*

This consists of amounts that are restricted to specific purposes, that is, when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. The Unemployment Compensation Special Administration Fund comprised restricted fund balance as of June 30, 2012.

*Committed*

This consists of amounts constrained by limitation that the Department imposes upon itself through resolutions. The commitment amount will be binding unless removed or amended in the same manner. There were no committed fund balances as of June 30, 2012.

*Assigned*

This consists of net amounts that are constrained by the Department's intent to be used for specific purposes, but are neither restricted or committed. There were no assigned fund balances as of June 30, 2012.

*Unassigned*

This consists of amounts that are available financial resources and are not designated for specific purposes. The Title III Social Security and Employment Services Fund had a negative residual balance and comprised the unassigned fund balance as of June 30, 2012.

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

I. Use of Estimates

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

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**Individual Nonshared Governmental Funds**  
**Notes to Financial Statements**  
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**NOTE 3 - DEPOSITS**

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

As of June 30, 2012, deposits in the Operating Fund represent cash on hand amounting to \$4 and deposits in the custody of the State Treasurer (or in transit) amounting to \$9,114.

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

**NOTE 4 - INTERGOVERNMENTAL RECEIVABLES/PAYABLES**

In the Operating Fund, intergovernmental receivables represent reimbursements due from the federal government and other local government for administrative expenses incurred totaling \$41,508 and \$45, respectively. In the Special Programs Fund, intergovernmental receivables represent due from the federal government for reimbursement of unemployment benefits paid under the TRA, ATAA, and DUA totaling \$403.

In the Operating Fund, intergovernmental payables represent withholding federal taxes on payroll totaling \$362. In the Special Programs Fund, intergovernmental payables represent withholding federal taxes on unemployment benefits paid under the Special Programs Fund totaling \$1.

**State of Illinois**  
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**Notes to Financial Statements**  
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**(Amounts in \$000's)**

**NOTE 5 - INTERFUND BALANCES AND ACTIVITIES**

(a) Balances Due to/from Other Funds

The following balances at June 30, 2012 represent amounts due from other Department and State of Illinois funds.

Fund	Amount	Description/Purpose
Operating Fund	\$ 3	Due from Unemployment Compensation Trust Fund representing discretionary transfers of NSF fees
	5	Due from Department of Public Aid for weekly statistical services and monthly intercept of UI benefits
	36	Due from Department of Commerce and Economic Opportunity for WIA grant
	1,355	Due from Unemployment Compensation Trust Fund representing transfers of penalties and interest
	2,000	Due from Department of Health and Family Services for SMART Act wage reporting
	<u>\$ 3,399</u>	

The following balances at June 30, 2012 represent amounts due to other Department and State of Illinois funds.

Fund	Amount	Description/Purpose
Operating Fund	\$ 42,344	Due to other State funds for payment of services
	31	Due to Unemployment Compensation Trust Fund for reimbursement of unemployment benefits paid to former employees of the Department
	<u>\$ 42,375</u>	

Due to component units of the State of Illinois of \$3 are for payments of services.

**State of Illinois**  
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**(Amounts in \$000's)**

(b) Transfers to/from Other Funds

Interfund transfers in for the year ended June 30, 2012, were as follows:

Fund	Amount	Description/Purpose
Operating Fund	\$ 10	Discretionary transfer of NSF fees from Unemployment Compensation Trust Fund
	15,628	Discretionary transfer of penalties and interest from Unemployment Compensation Trust Fund
	\$ 15,638	

**NOTE 6 - PENSION PLAN**

Substantially all of the Department's full-time employees who are not eligible for participation in another State-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2012 are included in the State of Illinois' CAFR for the year ended June 30, 2012. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

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

The Department pays employer retirement contributions in the individual nonshared governmental funds based upon an actuarially determined percentage of their payrolls. For fiscal year 2012, the employer contribution rate was 34.190%.

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**NOTE 7 - POST-EMPLOYMENT BENEFITS**

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

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

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

**NOTE 8 - RISK MANAGEMENT**

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; workers compensation and natural disasters. The State

**State of Illinois**  
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retains the risk of loss (i.e., self insured) for these risks. There has been no reduction in insurance coverage from coverage in the prior year. Settlement amounts have not exceeded coverage for the current or prior two fiscal years. The Department's risk management activities for workers compensation are financed through appropriations to the DCMS and are accounted for in the General Fund of the State. The claims are not considered to be liabilities of the Department and accordingly, have not been reported in the Department's financial statements for the year ended June 30, 2012.

**NOTE 9 - COMMITMENTS AND CONTINGENCIES**

(a) Federal funding

The Department receives federal grants, which are subject to review and audit by federal grantor agencies. Certain costs could be questioned as not being an eligible expenditure under the terms of the grants. At June 30, 2012, there were no material questioned costs that have not been resolved with the federal awarding agencies. However, questioned costs could still be identified during audits to be conducted in the future. Management of the Department believes there will be no material adjustments to the federal grants and, accordingly, has not recorded a provision for possible repayment.

(b) Litigation

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

(c) Due to Illinois Department of Central Management

Included in our current liability under Due to Other State Funds are due to DCMS of \$40,400. During lapsed period, only \$9,313 was paid and the balance of \$31,087 remains unpaid. Due to shortfalls in funding, the Department has discussed a possible payment plan with DCMS to pay off the balance owed.

**SUPPLEMENTARY INFORMATION**

**State of Illinois**  
**Department of Employment Security**  
**Individual Nonshared Governmental Funds**  
**Combining Balance Sheets for Operating Funds**  
**June 30, 2012**  
**(Amounts in \$000's)**

	<b>Title III Social Security and Employment Services Fund</b>	<b>Unemployment Compensation Special Administration Fund</b>	<b>Eliminations</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 590	\$ 8,528	\$ -	\$ 9,118
Intergovernmental receivables	41,553	-	-	41,553
Other receivables	-	1	-	1
Due from other State funds	2,044	1,355	-	3,399
Inventories	704	-	-	704
<b>Total assets</b>	<b>\$ 44,891</b>	<b>\$ 9,884</b>	<b>\$ -</b>	<b>\$ 54,775</b>
<b>Liabilities and fund balances</b>				
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ 10,270	\$ 165	\$ -	\$ 10,435
Intergovernmental payables	362	-	-	362
Due to other State funds	42,375	-	-	42,375
Due to component units	3	-	-	3
Deferred revenues	27,494	-	-	27,494
<b>Total liabilities</b>	<b>80,504</b>	<b>165</b>	<b>-</b>	<b>80,669</b>
Fund balances (deficit)				
Nonspendable - Inventories	704	-	-	704
Restricted	-	9,719	-	9,719
Unassigned	(36,317)	-	-	(36,317)
<b>Total fund balances (deficit)</b>	<b>(35,613)</b>	<b>9,719</b>	<b>-</b>	<b>(25,894)</b>
<b>Total liabilities and fund balances</b>	<b>\$ 44,891</b>	<b>\$ 9,884</b>	<b>\$ -</b>	<b>\$ 54,775</b>

**State of Illinois**  
**Department of Employment Security**  
**Individual Nonshared Governmental Funds**  
**Combining Statements of Revenues, Expenditures, and Changes in Fund Balances**  
**for Operating Funds**  
**Year Ended June 30, 2012**  
**(Amounts in \$000's)**

	<b>Title III Social Security and Employment Services Fund</b>	<b>Unemployment Compensation Special Administration Fund</b>	<b>Eliminations</b>	<b>Total</b>
<b>Revenues</b>				
Federal government	\$ 231,065	\$ -	\$ -	\$ 231,065
Other revenues	3,620	-	-	3,620
Licenses and fees	9	-	-	9
Interest and investment income	3	3	-	6
Total revenues	<u>234,697</u>	<u>3</u>	<u>-</u>	<u>234,700</u>
<b>Expenditures</b>				
Employment and economic development	263,127	2,154	-	265,281
Capital outlays	29	-	-	29
Total expenditures	<u>263,156</u>	<u>2,154</u>	<u>-</u>	<u>265,310</u>
<b>Deficiency of revenues over expenditures</b>	<u>(28,459)</u>	<u>(2,151)</u>	<u>-</u>	<u>(30,610)</u>
<b>Other financing sources (uses)</b>				
Transfers in	12,010	15,628	(12,000)	15,638
Transfers out	-	(12,000)	12,000	-
Total other financing sources	<u>12,010</u>	<u>3,628</u>	<u>-</u>	<u>15,638</u>
<b>Net changes in fund balances (deficit)</b>	<u>(16,449)</u>	<u>1,477</u>	<u>-</u>	<u>(14,972)</u>
<b>Fund balances (deficit), July 1, 2011</b>	<u>(19,164)</u>	<u>8,242</u>	<u>-</u>	<u>(10,922)</u>
<b>Fund balances (deficit), June 30, 2012</b>	<u>\$ (35,613)</u>	<u>\$ 9,719</u>	<u>\$ -</u>	<u>\$ (25,894)</u>



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the Operating Fund and Special Programs Fund (Individual Nonshared Governmental Funds) of the State of Illinois, Department of Employment Security (Department), as of and for the year ended June 30, 2012, and have issued our report thereon dated January 18, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting of the Individual Nonshared Governmental Funds that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's Individual Nonshared Governmental Funds financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

*E. C. Glazier & Co. LLP*  
Chicago, Illinois  
January 18, 2013

**STATE OF ILLINOIS  
DEPARTMENT OF EMPLOYMENT SECURITY**

**Individual Nonshared Proprietary Funds**

**Financial Statements**

**For the Year Ended June 30, 2012**

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

**State of Illinois  
Department of Employment Security  
Financial Statements  
For the Year Ended June 30, 2012**

**FINANCIAL STATEMENT REPORT SUMMARY**

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

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

**SUMMARY OF FINDINGS**

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 41 - 45 as findings 12-1 and 12-2.

**EXIT CONFERENCE**

The findings and recommendations appearing in this report were discussed with Agency personnel at an exit conference on January 10, 2013. Attending were:

Illinois Department of Employment Security  
Jay Rowell, Director  
Linda DeMore, Chief Financial Officer  
Bethani Whiting, Assistant Deputy Director  
L. Briant Coombs, Accounting Services Division Manager  
Lois Cuevas, Revenue Division Manager  
Kathy Harlan, Audit Liaison  
Maria Luisa Toledo, Accounting and Reporting Manager

Office of the Auditor General  
Thomas Kizziah, Manager

E. C. Ortiz & Co., LLP  
Edilberto Ortiz, Partner  
Leilani Rodrigo, Partner  
Emily Causon, Manager

The responses to the recommendations were provided by Kathy Harlan, Audit Liaison, in a letter dated January 18, 2013.



## INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Unemployment Compensation Trust Fund and Title XII Interest Fund (Individual Nonshared Proprietary Funds) of the State of Illinois, Department of Employment Security (Department), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the financial statements present only the Individual Nonshared Proprietary Funds and do not purport to, and do not, present fairly the financial position of the Department as of June 30, 2012, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Individual Nonshared Proprietary Funds of the Department, as of June 30, 2012, and the changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11, the Department's Unemployment Compensation Trust Fund, from which funds are drawn to pay unemployment benefits to claimants, was depleted due to extended high unemployment rates during the course of the current recession and tax revenues that have not matched the increased level of payments. Absent a robust economic recovery and/or legislative changes to the system, the Department projects that borrowing for the State will continue through at least 2013.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 18, 2013 on our consideration of the Department's internal control over financial reporting of the

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

Management has omitted management's discussion and analysis for the Individual Nonshared Proprietary Funds that accounting principles generally accepted in the United States of America require to be presented to supplement the fund financial statements. Such missing information, although not a part of the fund financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the fund financial statements in an appropriate operational, economic, or historical context. Our opinion on the fund financial statements is not affected by this missing information.

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

*C. C. Grij & Co. LLP*  
Chicago, Illinois  
January 18, 2013

**State of Illinois**  
**Department of Employment Security**  
**Individual Nonshared Proprietary Funds**  
**Statement of Net Assets**  
**June 30, 2012**  
**(Amounts in \$000's)**

	<b>Unemployment Compensation Trust Fund</b>	<b>Title XII Interest Fund</b>
	<u>          </u>	<u>          </u>
<b>Current assets</b>		
Cash and cash equivalents	\$ 94,355	\$ -
Receivables, net		
Taxes	625,667	-
Intergovernmental	95,499	-
Other	109,166	-
Due from State funds	14,134	-
Due from component units	239	-
	<u>          </u>	<u>          </u>
<b>Total current assets</b>	<u>939,060</u>	<u>-</u>
<b>Current liabilities</b>		
Benefit payments payable	166,153	-
Intergovernmental payables	52,428	-
Due to other State funds	1,386	-
Due to federal government	1,138,264	-
	<u>          </u>	<u>          </u>
<b>Total current liabilities</b>	<u>1,358,231</u>	<u>-</u>
<b>Net assets (deficit)</b>		
Unrestricted	<u>\$ (419,171)</u>	<u>\$ -</u>

*See Notes to Financial Statements.*

**State of Illinois**  
**Department of Employment Security**  
**Individual Nonshared Proprietary Funds**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**Year Ended June 30, 2012**  
**(Amounts in \$000's)**

	<b>Unemployment Compensation Trust Fund</b>	<b>Title XII Interest Fund</b>
<b>Operating revenues</b>		
Contributions - unemployment taxes	\$ 3,216,031	\$ -
Federal government	2,535,043	-
Total operating revenues	<u>5,751,074</u>	<u>-</u>
<b>Operating expenses</b>		
Benefit payments and refunds	5,041,591	-
Interest expense	46,040	20,937
Total operating expenses	<u>5,087,631</u>	<u>20,937</u>
<b>Operating income (loss)</b>	<u>663,443</u>	<u>(20,937)</u>
<b>Nonoperating revenues</b>		
Interest and investment income	86	7
Other nonoperating revenues	101,678	-
Total nonoperating revenues	<u>101,764</u>	<u>7</u>
<b>Income (loss) before transfers</b>	765,207	(20,930)
<b>Other financing sources (uses)</b>		
Transfers in	18,590	-
Transfers out	(15,638)	(18,590)
Total other financing sources (uses)	<u>2,952</u>	<u>(18,590)</u>
<b>Change in net assets (deficit)</b>	768,159	(39,520)
<b>Net assets (deficit), July 1, 2011</b>	<u>(1,187,330)</u>	<u>39,520</u>
<b>Net assets (deficit), June 30, 2012</b>	<u>\$ (419,171)</u>	<u>\$ -</u>

*See Notes to Financial Statements.*

**State of Illinois**  
**Department of Employment Security**  
**Individual Nonshared Proprietary Funds**  
**Statement of Cash Flows**  
**Year Ended June 30, 2012**  
**(Amounts in \$000's)**

	<b>Unemployment Compensation Trust Fund</b>	<b>Title XII Interest Fund</b>
<b>Cash flows from operating activities</b>		
Contributions - unemployment taxes received	\$ 3,229,859	\$ -
Federal grants received	2,515,598	-
Unemployment benefits paid	(4,862,458)	-
Net cash provided by operating activities	<u>882,999</u>	<u>-</u>
<b>Cash flows from noncapital financing activities</b>		
Proceeds from loans	1,795,152	-
Loan repayments	(2,794,952)	-
Interest paid on loans	-	(71,422)
Miscellaneous receipts - FUTA credit	101,678	-
Transfers in	18,590	-
Transfers out	(15,638)	(18,590)
Net cash used in noncapital financing activities	<u>(895,170)</u>	<u>(90,012)</u>
<b>Cash flows from investing activity</b>		
Interest and investment income	86	7
Net cash provided by investing activity	<u>86</u>	<u>7</u>
<b>Net decrease in cash and cash equivalents</b>	(12,085)	(90,005)
<b>Cash and cash equivalents, July 1, 2011</b>	<u>106,440</u>	<u>90,005</u>
<b>Cash and cash equivalents, June 30, 2012</b>	<u>\$ 94,355</u>	<u>\$ -</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 663,443	\$ (20,937)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Provision for uncollectible accounts	254,367	-
Changes in assets and liabilities:		
Receivables	(169,564)	-
Intergovernmental receivables	(22,751)	-
Due from State funds	46,837	-
Due from component units	40	-
Benefit payments payable	63,321	-
Intergovernmental payables	47,452	-
Due to other State funds	(146)	-
Interest payments on loans	-	20,937
Net cash provided by operating activities	<u>\$ 882,999</u>	<u>\$ -</u>

See Notes to Financial Statements.

**State of Illinois**  
**Department of Employment Security**  
**Individual Nonshared Proprietary Funds**  
**Notes to Financial Statements**  
**June 30, 2012**  
**(Amounts in \$000's)**

**NOTE 1 - DESCRIPTION OF FUNDS**

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

A. Unemployment Compensation Trust Fund

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

B. Title XII Interest Fund

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**State of Illinois**  
**Department of Employment Security**  
**Individual Nonshared Proprietary Funds**  
**Notes to Financial Statements**  
**June 30, 2012**  
**(Amounts in \$000's)**

A. Reporting Entity

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

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

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

The financial statements present only the UCTF and Title XII Interest Fund administered by the Department and do not purport to, and do not, present fairly the financial position of the Department as of June 30, 2012, and changes in its financial position and cash flows for the year then ended in conformity with GAAP.

B. Basis of Presentation

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

The individual nonshared proprietary fund is an enterprise fund. Enterprise funds are used to

**State of Illinois**  
**Department of Employment Security**  
**Individual Nonshared Proprietary Funds**  
**Notes to Financial Statements**  
**June 30, 2012**  
**(Amounts in \$000's)**

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

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

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

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

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

C. Basis of Accounting

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

**State of Illinois**  
**Department of Employment Security**  
**Individual Nonshared Proprietary Funds**  
**Notes to Financial Statements**  
**June 30, 2012**  
**(Amounts in \$000's)**

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

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

**D. Cash and Cash Equivalents**

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

**E. Interfund Transactions**

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

*Reimbursements*

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

*Transfers*

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

**State of Illinois**  
**Department of Employment Security**  
**Individual Nonshared Proprietary Funds**  
**Notes to Financial Statements**  
**June 30, 2012**  
**(Amounts in \$000's)**

F. Net Assets

Net assets consist of the following:

Restricted net assets consist of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. There were no restricted fund balances as of June 30, 2012.

Unrestricted net assets consists of net assets that do not meet the criteria of the preceding category. For the current fiscal year, the UCTF is reporting unrestricted net deficit of \$419,171. This is due to the depletion of the fund in previous years, combined with the current year's excess of benefit payments over contribution from employers.

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

G. Use of Estimates

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

**NOTE 3 - DEPOSITS**

Cash and cash equivalents as of June 30, 2012 have a carrying amount in the accompanying financial statements of \$94,355.

At June 30, 2012, cash on deposit for the UTF for locally held funds has a carrying amount of \$198 and the bank balance was \$282. The bank balance of \$282 was fully insured by the Federal Depository Insurance Corporation (FDIC). Deposits in Illinois Funds and in the custody of the State Treasurer for the UTF totaled \$95,573 and have a carrying amount of \$94,157 at June 30, 2012.

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

**State of Illinois**  
**Department of Employment Security**  
**Individual Nonshared Proprietary Funds**  
**Notes to Financial Statements**  
**June 30, 2012**  
**(Amounts in \$000's)**

outside the State Treasury. The State of Illinois' CAFR may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1871.

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

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

**NOTE 4 - TAXES RECEIVABLE**

Taxes receivable represent unemployment taxes, known as contributions, owed by private and non-governmental employers. The allowance for uncollectible taxes has been based on historical collection experience which, per statute, is typically on a 4-year collection cycle.

Balance as of June 30, 2012, are as follows:

Unemployment taxes	\$ 709,934
Interest and penalties receivables on taxes	66,434
Total taxes receivable	<u>776,368</u>
Less allowance for uncollectible taxes	<u>(150,701)</u>
Taxes receivable, net	<u><u>\$ 625,667</u></u>

**NOTE 5 - INTERGOVERNMENTAL RECEIVABLES**

Intergovernmental receivables represent reimbursements due from other State and local governments and from federal government for unemployment benefits paid to those governments' ex-employees totaling \$40,360 and \$55,139, respectively.

**State of Illinois**  
**Department of Employment Security**  
**Individual Nonshared Proprietary Funds**  
**Notes to Financial Statements**  
**June 30, 2012**  
**(Amounts in \$000's)**

**NOTE 6 - OTHER RECEIVABLES**

Other receivables represent amounts due from claimants who received benefits, which exceeded the allowable amounts. The allowance for uncollectible accounts has been based on historical collection experience which, per statute, is typically on a 4-year collection cycle.

Balances as of June 30, 2012 are as follows:

Other receivables	\$ 763,821
Less allowance for uncollectible accounts	<u>(654,655)</u>
Other receivables, net	<u><u>\$ 109,166</u></u>

**NOTE 7 - INTERFUND BALANCES AND ACTIVITIES**

(a) Balances Due to/from Other Funds

The following balances at June 30, 2012 represent amounts due from other Department and State of Illinois funds.

<u>Fund</u>	<u>Amount</u>	<u>Description/Purpose</u>
Unemployment Compensation Trust Fund	\$ 14,103	Due from General Revenue Fund for reimbursement of unemployment benefits paid to employees of other State agencies
	31	Due from Operating Fund for reimbursement of unemployment benefits to former employees of the Department
	<u><u>\$ 14,134</u></u>	

Due from component units of the State of Illinois of \$239 represents reimbursement of unemployment benefits paid to employees of State universities.

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The following balances at June 30, 2012 represent amounts due to other Department and State of Illinois funds.

<u>Fund</u>	<u>Amount</u>	<u>Description/Purpose</u>
Unemployment Compensation Trust Fund	\$ 3	Due to Operating Fund for discretionary transfers of NSF fees
	28	Due to Illinois Math and Science Academy for overpayment of reimbursable unemployment
	1,355	Due to Operating Fund for discretionary transfers of penalties and interests
	<u>\$ 1,386</u>	

(b) Transfers to/from Other Funds

Interfund transfers in (out) for the year ended June 30, 2012, were as follows:

<u>Fund</u>	<u>Amount</u>	<u>Description/Purpose</u>
Unemployment Compensation Trust Fund	\$ 18,590	Transfer of cash balance from Title XII Interest Fund
	(15,628)	Discretionary transfers of penalties and interests to Operating Fund
	(10)	Discretionary transfers of NSF fees to Operating Fund
	<u>\$ 2,952</u>	
Title XII Interest Fund	<u>\$ (18,590)</u>	Transfer of cash balance to Unemployment Compensation Trust Fund

**NOTE 8 - INTERGOVERNMENTAL PAYABLES**

Intergovernmental payables of \$52,428 represent interstate combined wage claim benefits payable of \$4,723, accrued interest on loans payable of \$46,040, and overpayments to the federal government of \$1,665.

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Federal regulations specify that interest on loan advances from the federal government to the Illinois' account within the federal UTF may not be paid using the Trust Fund. The computed accrued interest of \$46,040 at June 30, 2012, due to the federal government on September 30, 2012 although shown in the UTF, will not be paid using the Trust Fund. The accrued interest is shown for information that the State owes the federal government interest on outstanding loan advances. Provisions have been made that this interest due will be paid out of the proceeds of bonds issued in July 2012. Additional information related to this activity is provided in Note 12, Subsequent Events.

**NOTE 9 - CONTINGENCIES**

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

**NOTE 10 - AMERICAN RECOVERY AND REINVESTMENT ACT**

The American Recovery and Reinvestment Act (ARRA) was enacted on February 17, 2009. Under this ARRA, the Department is accountable in the implementation and submission of all required federal reports for Emergency Unemployment Compensation (EUC 08). EUC 08 is payable to eligible claimants who have exhausted their regular unemployment compensation. This ARRA program is funded with federal general revenues. For the fiscal year ended, June 30, 2012, the EUC 08 program (ARRA) paid a total amount of \$1,385,844 to claimants.

**NOTE 11 - LOANS PAYABLE TO THE FEDERAL GOVERNMENT**

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

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Under current federal law, these loans were interest free through the end of calendar year 2010, and interest started accruing beginning January 1, 2011. Interest is due and payable to the federal government each September 30<sup>th</sup> and may not be paid from the State's unemployment fund or from federal funds. The interest rate charged for a given calendar year is the earnings yield on the UTF for the quarter ending December 31 of the previous calendar year, which is at 4.09% in 2011 and 2.94% in 2012. On September 29, 2011, the Department paid interest of \$71,422.

Under Section 1201 of Title XII of the Social Security Act, if a State retains a loan balance on January 1st for 2 consecutive years and has not fully repaid the loan balance by November 10<sup>th</sup>, contributory employers will be subject to additional Federal Unemployment Taxes (FUTA), in the form of those employers' effective FUTA credit which will be reduced by .03% each year the loan balance remains unpaid. A decrease in FUTA credit increases employers' federal tax liability. The receipts from this reduced FUTA credits will be applied against the State's loan advances. For the fiscal year ended June 30, 2012, \$100,739 was applied against the loan as a result of the reduced FUTA credit. As of June 30, 2012, loan and accrued interest were as follows:

SFY2011 loan advances balance	\$ 2,138,064
SFY2012 loan advances	1,795,152
SFY2012 repayments on loan advances	(2,694,213)
SFY2012 applied FUTA credit	<u>(100,739)</u>
Loan balance, net	1,138,264
Accrued interest as of June 30, 2012	<u>46,040</u>
Balance	<u><u>\$ 1,184,304</u></u>

To avoid future reduction in FUTA credit to the employers of the State of Illinois, Public Act 97-0621 was enacted on November 18, 2011 and included an expansion and extension of existing bonding authority to maintain the Department's option to refinance federal advances to minimize interest costs and limit federal penalty taxes.

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**NOTE 12 - SUBSEQUENT EVENTS**

- (a) In July 2012, the Department issued Unemployment Insurance Fund Building Receipts Revenue Bonds for \$1,469,940 consisting of Series 2012A for \$652,075, Series 2012B for \$707,865, and Series 2012C for \$110,000.

The series bonds were issued for the purposes of repaying principal and interest on unpaid advances to the State's unemployment trust account with the federal unemployment trust fund; paying unemployment benefits by depositing a portion of the proceeds in the State's unemployment trust fund; paying a portion of the interest on the series 2012 bonds; and, paying costs of issuance.

On July 31, 2012, all Series 2012 bonds were issued and part of the proceeds were used to pay the outstanding loan as follows:

Loan balance at June 30, 2012	\$ 1,138,264
July 2012 loan advances	95,134
July 2012 loan repayments	(48,013)
July 2012 applied FUTA credit	<u>(2,283)</u>
Loan balance, net	1,183,102
Payment from Bond proceeds	<u>(1,183,102)</u>
Balance	<u><u>\$ -</u></u>

Funds are set aside to pay accrued interest to the day the loan was paid which is estimated at \$48,391, due on September 30, 2012.

- (b) On September 17, 2012, the request of the Department to dissolve Title XII Interest Fund has been approved by the Illinois Office of the Comptroller.
- (c) In January 2013, Congress extended the federal Emergency Unemployment Compensation (EUC) insurance program as part of the on-going fiscal cliff negotiations. The federal EUC program extends unemployment benefits past the 25 or 26-week state insurance period, generally providing benefits for an additional 53 weeks. Congress, however, did not add new weeks of benefits.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the Unemployment Compensation Trust Fund and Title XII Interest Fund (Individual Nonshared Proprietary Funds) of the State of Illinois, Department of Employment Security (Department), as of and for the year ended June 30, 2012, and have issued our report thereon dated January 18, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting of the Individual Nonshared Proprietary Funds that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings as items 12-1 and 12-2, that we consider to be significant

deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiencies, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Department's Individual Nonshared Proprietary Funds financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

*C. C. King & Co. LLP*  
Chicago, Illinois  
January 18, 2013

**State of Illinois  
Department of Employment Security  
Schedule of Findings  
For the Year Ended June 30, 2012**

**Current Findings - *Government Auditing Standards***

**12-1 Inadequate Controls Over Computer Security**

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

The Information Services Division (ISD) is responsible for the development and maintenance of the Department's information systems and for preserving the integrity and security of information warehoused within those systems. The Department processed approximately \$3.2 billion in employer unemployment tax revenue contributions and \$5.04 billion of unemployment benefit payments in fiscal year 2012.

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

We noted that the ISD programmers were sharing and using Super IDs generally on a weekly basis and sometime multiple times in one day, on a non-emergency basis in the production environment for resolving transactional or application-related problems that occurred during the regular day or at night's batch processing. The Super ID is necessary to fix production problems when production control staff is not available and to fix data errors directly to the production environment. Since the Super IDs were shared, the individual accountability over its use was limited.

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

According to the Department, their current production control staff do not always have the requisite skills to fix all production problems encountered. They have to rely on ISB programmers to access the data to make necessary changes.

**State of Illinois**  
**Department of Employment Security**  
**Schedule of Findings**  
**For the Year Ended June 30, 2012**

**Current Findings - *Government Auditing Standards* (Continued)**

**12-1 Inadequate Controls Over Computer Security (Continued)**

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal controls and administrative controls. In addition, generally accepted information technology guidance endorses the development of well-designed and well-managed controls to protect computer systems and data. Controls over the use of Super ID should include approval from the business system owner and review of a detailed transaction log to ascertain that only authorized and approved updates or changes were performed.

The use of the Super IDs increases the risk of unauthorized access to systems and data which could jeopardize the integrity of the Department's resources. Programming staff should generally be limited to accessing only the information specifically required to complete their assigned system development projects. Furthermore, Department policy stated that the use of the Super ID should be limited to the resolution of production problems when the Production Control Unit staff is either not scheduled or unavailable. (Finding Code Nos. 12-1, 11-1, 10-1, 09-2, and 08-2)

**Recommendation**

We recommend the Department:

- Allocate the resources necessary to correct day-to-day transactional and applications related information systems problems without compromising the security of those systems by over utilizing Super ID access rights.
- Restrict the use of the Super ID to emergency cases only, as required by Department policy.
- Implement additional compensating controls until the current practices are terminated. Additional compensating controls may include:
  - Revising the approval process to include approvals by non-IS business application owner/manager to ensure proper separation of duties.
  - Providing a more meaningful transaction log that shows the nature of changes made in using the Super ID. Review and approval of the transaction logs should be performed, documented and retained.

**State of Illinois  
Department of Employment Security  
Schedule of Findings  
For the Year Ended June 30, 2012**

**Current Findings - *Government Auditing Standards* (Continued)**

**12-1 Inadequate Controls Over Computer Security (Continued)**

**Department Response**

We accept the recommendations. Since the last audit, the Department has worked to reduce our reliance on Super IDs. Our goal is to eliminate the use of Super IDs completely by increasing the skill level of IDES employees working in Information Service Bureau's (ISB) Support Services. By increasing staff's skill level in Support Services, we hope to move to a model whereby when staff are notified of an issue after hours they will call the Support Services staff working the night shift in our Computer Room who will log-in to our systems using their unique usernames and passwords to resolve any issues. In this way we will create a more accurate audit trail of specific employees making changes.

While we are working to accomplish this goal, we commit to implementing several new policies to better control the use of Super IDs. First, within 24 hours of a Super ID being used, ISB staff will formally notify the non-ISB business application manager of the change and receive written approval for the modification. This documentation will be maintained by ISB.

Second, currently ISB staff are required to submit a Super ID form to their manager within 24 hours of using a Super ID. This form is supposed to include a detailed description of the change made using the ID and an ISB manager's signature. Additionally, the manager of Support Services receives a weekly transaction log of every instance a Super ID was used that week. The manager checks this report against the Super ID forms to ensure there is a signed form for each incident. If a form is missing the Support Services manager follows-up to ensure the proper documentation is submitted. The weekly transaction log and accompanying Super ID forms are retained by the Support Services manager. The Department will work with our ISB staff to ensure Super ID forms provide a more meaningful description showing the nature of the changes made using the Super ID, including the actual transaction codes that were executed, or the tables or files that were accessed. Again, all of this documentation will continue to be reviewed on a weekly basis and retained by ISB's Support Services manager.

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

**State of Illinois  
Department of Employment Security  
Schedule of Findings  
For the Year Ended June 30, 2012**

**Current Findings - *Government Auditing Standards* (Continued)**

**12-2 Improper Accounting of Unapplied Credits**

The Illinois Department of Employment Security (Department) did not properly account for unapplied credits relating to unemployment tax contributions received from other State agencies and component units, totaling to \$4.9 million.

As of June 30, 2012, the Department had unapplied refunds payable (presented as part of the benefit payments payable) of about \$38 million. This account consists of unapplied credits for overpayment made by employers to the Department due to wage or rate adjustments, consolidation or deconsolidation of accounts of companies under common ownership, and erroneous overpayment. The unapplied refunds payable is applied by the Benefit Funding System (BFS) automatically in the following taxable quarter when there is tax due from the employer and the employer did not request a refund. When the unapplied credit is applied to a certain taxable quarter, the Department credits the revenue account in the books. The Department reviews unapplied credits upon request of the employers.

During our review of 25 employer accounts with unapplied credits totaling \$11 million (30%), we noted one account had unapplied credits totaling \$4.8 million. This account pertains to unapplied credits of a State agency for unemployment benefits paid to its former employees from June 2010 through March 2011. Upon further review, we noted four State agencies and component units with unapplied credits totaling \$63 thousand for benefits paid to their former employees during various taxable quarters in 2011 and 2000. 820 ILCS 405/1405 of the Unemployment Insurance Act states that state entities may elect, instead, in lieu of paying contributions, to reimburse the Department for the actual amount of any benefits paid to their former workers. Contributions received from state entities electing to reimburse benefits were considered reimbursable transactions however, the unapplied credits were due to the Department's posting these transactions under inactive accounts in BFS.

Government Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* states that governments should recognize revenues, net of estimated refunds and estimated uncollectible amounts, in the same period that the assets are recognized, provided that the underlying exchange transaction has occurred. There is no provision in the standard to delay recognition of this type of transaction until the accounts are processed.

Generally accepted accounting principles and the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001), requires the Department to establish and maintain a system or systems of internal fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers

**State of Illinois  
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Schedule of Findings  
For the Year Ended June 30, 2012**

**Current Findings - *Government Auditing Standards* (Continued)**

**12-2 Improper Accounting of Unapplied Credits (Continued)**

of assets, resources or funds applicable to operations are properly recorded and accounted for to permit preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

According to the Department, staff was unfamiliar with the process of posting payments to reimbursable State accounts, so the payments were posted to existing but inactive accounts in BFS.

Failure to properly account for unapplied credits resulted in understatement of revenues and an overstatement of payables recorded on the financial statements. (Finding Code No. 12-2)

**Recommendation**

We recommend the Department implement procedures to ensure reimbursable transactions and other unapplied credits relating to State agencies and component units are properly posted in BFS to ensure that the records and financial statements are accurate.

**Department Response**

We accept the recommendation. The individual posting these receipts in BFS has been notified and informed of the proper process. Unapplied credits of \$4.8 million posted to inactive BFS account and the \$63 thousand credits from other agencies and component units have been adjusted and correctly applied to active BFS reimbursable accounts. Effective in SFY 2013, Accounting Services Division will review unapplied credits on a quarterly basis to ensure that payments received from other State agencies and component units are properly credited to correct BFS accounts. Any discrepancies will be communicated immediately to the Revenue Manager and staff to update the BFS system. Revenue Division will update their current Procedure and Accounting Services will modify the memo sent to the Springfield Processing Center (SPC) to correctly state the application of credits to the active reimbursable state agency accounts.

**State of Illinois  
Department of Employment Security  
Schedule of Prior Finding Not Repeated  
For the Year Ended June 30, 2012**

**Inaccurate Balance of Allowance for Uncollectible Accounts for Other Receivables**

In the prior year, the Department of Employment Security (Department) understated its allowance for uncollectible accounts for other receivables by \$9.5 million.

Status: Implemented

During the current year audit, the Department developed a process to evaluate the reasonableness of the accounting estimate. (Finding Code No. 11-2)