



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS DEPARTMENT OF EMPLOYMENT SECURITY

Financial Audit

Release Date: May 12, 2016

For The Year Ended June 30, 2015

Compliance Examination

For The Two Years Ended June 30, 2015

| FINDINGS THIS AUDIT: 9 | | | AGING SCHEDULE OF REPEATED FINDINGS | | | | |
|------------------------|-----|--------|-------------------------------------|----------------|------------|------------|------------|
| | New | Repeat | Total | Repeated Since | Category 1 | Category 2 | Category 3 |
| Category 1: | 1 | 0 | 1 | 2013 | | 15-5, 15-6 | |
| Category 2: | 3 | 5 | 8 | 2011 | | 15-2 | |
| Category 3: | 0 | 0 | 0 | 2009 | | 15-4 | |
| TOTAL | 4 | 5 | 9 | 2003 | | 15-3 | |

FINDINGS LAST AUDIT: 7

SYNOPSIS

- 15-1 New employers were erroneously overcharged tax contributions by the Department in 2013 through 2015.
- 15-2 The Department failed to fully comply with the Unemployment Insurance Act.
- 15-4 The Department did not issue eligibility determinations within the required 21 day timeframe.
- 15-9 The Department lacked the minimum one full time Veterans' Employment Representative that is required to be assigned to each full service office.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).

Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.

Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Financial data is summarized on the reverse page.}

**ILLINOIS DEPARTMENT OF EMPLOYMENT SECURITY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Year(s) Ended June 30, 2015**

| STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION | | 2015 | 2014 |
|--|---------------------|---------------------|-------------|
| Unemployment Compensation Trust Fund (in thousands) | | | |
| Operating Revenues | | | |
| Unemployment taxes..... | \$ 2,397,190 | \$ 2,643,591 | |
| Federal government..... | (1,061) | 574,093 | |
| Total Operating Revenues..... | <u>2,396,129</u> | <u>3,217,684</u> | |
| Operating Expenses | | | |
| Benefit Payments and Refunds..... | 1,838,231 | 2,736,614 | |
| Total Operating Expenses..... | <u>1,838,231</u> | <u>2,736,614</u> | |
| Operating Income..... | 557,898 | 481,070 | |
| Nonoperating revenues (expenses) | | | |
| Interest/investment income/interest expense and other | <u>29,074</u> | <u>3,691</u> | |
| Income Before Transfers..... | 586,972 | 484,761 | |
| Transfers In/(Out)..... | <u>(24,372)</u> | <u>(31,737)</u> | |
| Change in Net Position..... | 562,600 | 453,024 | |
| Net Position, beginning of year..... | 1,086,261 | 633,237 | |
| Net Position, end of year..... | \$ 1,648,861 | \$ 1,086,261 | |
| STATEMENT OF NET POSITION | | | |
| Unemployment Compensation Trust Fund (in thousands) | | 2015 | 2014 |
| Assets: | | | |
| Cash and cash equivalents..... | \$ 56,453 | \$ 130,200 | |
| Deposits held by the federal government..... | 1,634,610 | 1,341,107 | |
| Receivables, Net: | | | |
| Taxes..... | 581,791 | 649,128 | |
| Intergovernmental..... | 17,767 | 19,865 | |
| Other..... | 159,281 | 211,366 | |
| Other assets..... | 6,397 | 6,015 | |
| Total Assets..... | <u>2,456,299</u> | <u>2,357,681</u> | |
| Liabilities: | | | |
| Benefit payments payable..... | 141,611 | 128,829 | |
| Intergovernmental payables..... | 8,358 | 4,803 | |
| Due to other State funds..... | 1,321 | 2,188 | |
| Accrued bond interest expense..... | 1,280 | 2,178 | |
| Revenue bonds payable..... | 654,868 | 1,133,422 | |
| Total Liabilities..... | <u>807,438</u> | <u>1,271,420</u> | |
| Net Position..... | \$ 1,648,861 | \$ 1,086,261 | |
| AGENCY DIRECTOR | | | |
| During the Examination Period: Jay Rowell (until 1-11-15), Jeffrey Mays (1-12-15 to present) | | | |
| Currently: Jeffrey Mays | | | |

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

NEED TO IMPROVE CONTROLS OVER TAX RATE INFORMATION USED TO CALCULATE EMPLOYER CONTRIBUTIONS

New employers were overcharged

The Department erroneously overcharged tax contributions for new employers in 2013 through 2015.

During our audit, Department management notified us that during their routine preparation of tax rates for calendar year 2016, the Department discovered calculation errors in its system program that erroneously inflated average industry tax rates for 2013 through 2015, impacting employers in the administrative, support/waste management, construction, company management, manufacturing, mining, information, transportation/warehousing, and unclassified industries.

\$21.8 million in employer contributions and interest

An adjusting entry in the amount of \$21.8 million consisting of \$14.9 million in employer tax contribution revenue and \$6.9 million in interest revenue was recorded in the financial statements to correct for the error. (Finding 1, page 10)

We recommended the Department implement procedures to review and test specifications of system generated information used to calculate tax rates to mitigate the risk of errors.

Department agrees with auditors

Department management accepted the recommendation.

NEED TO COMPLY WITH THE UNEMPLOYMENT INSURANCE ACT

Noncompliance with the Unemployment Insurance Act

The Department did not fully comply with the Unemployment Insurance Act (Act).

For the most recent calendar year, the Department did not provide a list of individuals or entities that report to them as paying wages to workers to the Department of Financial and Professional Regulation (DFPR).

Economic Data Task Force responsibilities not fully performed

Additionally, in our testing of the requirements related to the Economic Data Task Force, the Department had only appointed four out of five members to the task force; held only one of at least three required public hearings; had not reported its findings and recommendations to the Governor and General Assembly by June 30, 2013; and had not designated each member of the Task Force and each Department employee as an agent of Bureau of Labor Statistics pursuant to the federal Confidential Information Protection and Statistical Efficiency Act of 2002. (Finding 2, pages 11-12) **This finding has been repeated since 2011.**

| | |
|--|--|
| | We recommended the Department comply with the Act by fulfilling the requirements of the task force and execute a new Shared Data Agreement and submit the required listings to the DFPR or seek legislative remedy. |
| Department intends to seek legislative remedy | Department management stated that they will seek legislative remedy to address the issues noted in this finding. (<i>For the previous Department response, see Digest Footnote #1.</i>) |
| | NEED TO IMPROVE THE TIMELINESS OF ELIGIBILITY DETERMINATIONS |
| Eligibility determinations not timely | <p>The Department did not issue eligibility determinations within the designated timeframe.</p> <p>The Department did not meet the acceptable coverage of at least 80% for timely non-monetary eligibility determinations with the required 21 days. The Department's quarterly performance was between 45% and 69% in fiscal year 2014 and between 62% and 72% in fiscal year 2015. During our examination of a sample of 25 claimants, we noted that the Department failed to make a determination within 21 days for 14 claimants (56%). The determinations were made 1 to 71 days late. (Finding 4, pages 15-16) This finding has been repeated since 2009.</p> <p>We recommended the Department implement procedures to enable them to make all eligibility determinations within the designated timeframes.</p> |
| Department agrees with auditors | <p>Department management agreed with the finding and state that they are implementing a statewide re-balancing of workload allocation on determination time-lapse. (<i>For the previous Department response, see Digest Footnote #2.</i>)</p> |
| | NEED TO COMPLY WITH THE VETERANS' EMPLOYMENT REPRESENTATIVE ACT |
| | The Department did not fully comply with the requirements of the Veterans' Employment Representative Act (Act). |
| Department does not have the minimum Veterans' Employment Representatives | <p>The Department does not have at a minimum one full time Veterans' Employment Representative assigned to each full service office.</p> <p>The Act (330 ILCS 50/1) requires the Department to assign at least one full-time Veterans' Employment Representative to each full service office of the employment service, to work exclusively in job counseling, training, and placement of veterans. (Finding 9, pages 26-27)</p> <p>We recommended the Department comply with the Act by having one full time Veterans' Employment Representative at each full service office or seek legislative remedy.</p> |

Department disagrees with auditors

Department management disagreed with the finding. They stated that prior to July 23, 2013, Section 1 of the Act was interpreted by some as imposing such a requirement; it provided, “Each full service [employment service] office...shall assign at least one full time Veterans Employment Representative....” In 2013, PA 98-107 – a Department initiative – amended Section 1 to account for the lack of resources to comply with such a requirement. The language regarding each office assigning a Representative was removed, and Section 1 now provides, “The Department shall assign at least one full time Veterans Employment Representative...to each full service office...to work exclusively in job counseling, training and placement of veterans.”

While the General Assembly clearly intended that the representative work exclusively on services for veterans, it did not require that a representative be assigned exclusively to each office – i.e., one representative can be assigned to more than one office. Moreover, Section 2 of the Act expressly provides that the State can rely solely on federal funding for veterans services under the Act, lending further support to a reading of Section 1 as permitting assignment of a representative to more than one office if federal fund limitations so require. The Department acknowledges that it did not point out the 2013 law change until relatively late in the audit process. However, based on the law change, the Department maintains it has assigned a veterans employment representative to each full service employment service office, in compliance with the statute.

Auditors’ comment

In an auditors’ comment we noted the law states “[t]he Department of Employment Security shall assign at least one full time Veterans’ Employment Representative...to each full service office of the employment service, to work exclusively in job counseling, training and placement of veterans.” 30 ILCS 50/1. The issue is whether the law requires each full service office to have a Veterans’ Employment Representative present full-time to provide job counseling, training and placement services to veterans, or whether the law simply requires the Department to employ a full-time Veterans’ Employment Representative whose hours may be spread across multiple full service offices.

The auditors believe the plain reading of the statute requires a full time Veterans’ Employment Representative to be present full-time at each full service office. Additionally, a press release by the Governor’s Office on July 23, 2013, stated of House Bill 3125 (which became Public Act 98-107) that, among other things, “[t]he bill also requires IDES to have a veteran’s employment representative at each of its full employment service offices.”

If the Department continues to disagree with the auditor's interpretation, we recommended it seek a formal, written opinion from the Attorney General's Office as to the meaning of the statute, or seek a legislative clarification.

OTHER FINDINGS

The remaining findings are reportedly being given attention by Department personnel. We will review progress toward implementation of our recommendations in our next Audit/Examination.

AUDITOR'S OPINION

Our auditors stated the financial statements present fairly, in all material respects, the financial position of the Non-shared Funds of the Department of Employment Security as of June 30, 2015, and the changes in financial position and cash flows, where applicable, thereof for the year then ended.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the Department for the two years ended June 30, 2015, as required by the Illinois State Auditing Act. The auditors qualified their report on State Compliance for finding 2015-001. Except for the noncompliance described in this finding, the auditors state the Department complied, in all material respects, with the requirements described in the report.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:TLK

SPECIAL ASSISTANT AUDITORS

Our Special Assistant Auditors for this Audit/Examination were RSM US LLP.

DIGEST FOOTNOTES

#1 – Noncompliance with Unemployment Insurance Act

2013: The Department accepts the finding.

Social Security Retirement Pay Task Force - PA 97-621, which established the Task Force, required the Director and various other State officials to appoint members. The Task Force was to begin to conduct business upon the appointment of all members. The final appointments were not made until February 28, 2013 – two months after the statutory deadline for the Task Force’s report and more than a year after the Director had made his appointments. The Task Force has conducted three meetings so far. The Department will continue to work with the Task Force in the hope of solving the issue the Task Force was established to address.

Economic Data Task Force - The Department will continue to work with the Task Force to address the issue the Task Force was established to handle. As the finding notes, the members were not designated as agents of BLS in part because it was determined they would not examine any data deemed confidential under state or federal law.

Section 1900P - Federal confidentiality requirements would prohibit the Department of Employment Security (IDES) from simply sending the Department of Financial and Professional Regulation (DFPR) the information described in Section 1900P, absent a shared data agreement that spelled out DFPR’s responsibility to safeguard it. See, 20 CFR 603.10. Section 1900N of the Unemployment Insurance Act allows the Department to require an entity to enter into a shared data agreement as a condition of receiving information protected by Section 1900. Given that DFPR apparently does not need the information covered by Section 1900P, IDES has not pursued the multiple administrative steps that would be required to grant DFPR access to the information. For the reasons noted above, the Department will work to repeal this requirement.

Earnfare Program - For the reasons noted in the finding, the Department will continue to work to repeal Section 1704.1.

#2 – Untimely Issuance of Eligibility Determinations

2013: We accept the recommendation. Federal funding reductions led to staff reductions that have adversely impacted timeliness. To address this issue, IDES is moving to a new model of service delivery for unemployment services. It relies largely on internet claims filing combined with telephone customer support. Currently, nearly 90% of unemployment insurance claims are filed online or via the telephone. We anticipate that the new service model as well as load-balancing will improve determination completion timeframes.

It is important to note that during this time period, IDES lost a third of its staff due in large part to federal funding reductions. In addition, over a hundred employees moved into new positions via the bargaining unit contract’s layoff provisions. This resulted in reduced staffing as well as inexperienced staff participating in many efforts.