



STATE OF ILLINOIS
OFFICE OF THE
AUDITOR GENERAL

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF EMPLOYMENT SECURITY

Compliance Examination
For the Two Years Ended June 30, 2017

Release Date: April 26, 2018

FINDINGS THIS AUDIT: 11	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	2015		17-07, 17-08	
Category 2:	4	7	11	2013		17-05, 17-06	
Category 3:	0	0	0	2011		17-02	
TOTAL	4	7	11	2009		17-04	
				2003		17-03	
FINDINGS LAST AUDIT: 9							

INTRODUCTION

This digest covers our compliance examination of the Department of Employment Security (Department) for the two years ended June 30, 2017. A separate financial audit as of and for the year ended June 30, 2017 was previously released on January 11, 2018. In total, this report contains 11 findings, one of which was reported in the financial audit.

SYNOPSIS

- (17-02) The Department did not fully comply with the Unemployment Insurance Act.
- (17-04) The Department did not issue eligibility determinations within the required 21 day timeframe.
- (17-08) The Department did not have adequate controls over its property and equipment and related records.
- (17-10) The Department did not have adequate controls over the submission of reconciliation records with the Comptroller's Monthly Reports.

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.

{Expenditures and Activity Measures are summarized on next page.}

**ILLINOIS DEPARTMENT OF EMPLOYMENT SECURITY
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2017**

EXPENDITURE STATISTICS	2017	2016	2015
Total Expenditures.....	\$ 193,986,120	\$ 205,402,743	\$ 218,392,729
OPERATIONS TOTAL.....	\$ 180,636,664	\$ 200,868,883	\$ 195,809,540
% of Total Expenditures.....	93.1%	97.8%	89.7%
Lump Sums.....	179,619,327	199,710,547	194,927,242
Legal assistance required by law.....	1,017,337	1,138,797	880,852
Interest penalty.....	-	19,539	1,446
UNEMPLOYMENT COMPENSATION BENEFITS.....	\$ 4,027,193	\$ 4,100,550	\$ 22,582,789
% of Total Expenditures.....	2.1%	2.0%	10.3%
To former State employees.....	27,193	100,550	20,682,789
To Department of Transportation employees.....	4,000,000	4,000,000	1,900,000
TORT CLAIMS.....	\$ 69,806	\$ 433,310	\$ 400
% of Total Expenditures.....	0.0%	0.2%	0.0%
EMPLOYMENT SECURITY AUTOMATION.....	\$ 6,500,000	\$ -	\$ -
% of Total Expenditures.....	3.4%	0.0%	0.0%
BENEFIT INFORMATION SYSTEM REDEFINITION.....	\$ 2,752,457	\$ -	\$ -
% of Total Expenditures.....	1.4%	0.0%	0.0%
Total Receipts.....	\$ 202,574,410	\$ 208,641,893	\$ 224,710,703
Average Number of Employees.....	1,095	1,082	1,177

SELECTED ACTIVITY MEASURES	2017	2016	2015
Unemployment Insurance - Initial Claims (in thousands).....	553.51	608.81	606.59
JOB PLACEMENT (in thousands)			
Entered employments.....	Not available	314.80	434.38
Job openings received.....	650.15	1,064.87	39.28

AGENCY DIRECTOR
During Examination Period: Jeffrey Mays
Currently: Jeffrey Mays

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**NONCOMPLIANCE WITH UNEMPLOYMENT
INSURANCE ACT**

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

Economic Data Task Force responsibilities were not fully performed

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 12-13) **This finding has been repeated since 2011.**

We recommended the Department comply with the Act by fulfilling the requirements of the Economic Data Task Force or seek legislative remedy.

Department agree with auditors

Department management agreed with the finding and stated they will continue working to resolve the finding through legislation. *(For the previous Department response, see Digest Footnote #1.)*

**UNTIMELY ISSUANCE OF ELIGIBILITY
DETERMINATIONS**

The Department did not issue eligibility determinations within the designated timeframe.

Eligibility determinations not timely

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 workflow summaries stated timely determinations of 63% in Fiscal Year 2016 and 73% in Fiscal Year 2017. We noted during our examination of 25 claimants that the Department failed to make a determination within 21 days for 8 claimants (32%). The determinations were made 1 to 47 days late. (Finding 4, pages 16-17) **This finding has been repeated since 2009.**

We recommended the Department implement procedures to enable them to make all eligibility determinations within the designated timeframes.

Department agrees with auditors

Department management agreed with the finding. *(For the previous Department response, see Digest Footnote #2.)*

INADEQUATE CONTROLS OVER PROPERTY AND EQUIPMENT RECORDS

The Department did not have adequate controls over its property and equipment and related records.

Department could not determine whether confidential information was stored on the missing laptop

We reviewed the Department's property inventory certification as of December 31, 2015 that was submitted to the Department of Central Management Services (DCMS). The inventory certification as of December 31, 2015 reported 16 items totaling \$18,588 of equipment that could not be located by the Department. Included in the equipment that was reported as "unlocated" was one laptop. The Department could not determine what type of data or whether confidential information was stored on the missing laptop.

In addition, we noted the following:

Department property records were not updated to track movement

- The Department did not properly update their property and equipment records. 30 of 46 (65%) items selected for physical inspection, with a value of \$121,367, were not found in the location indicated in the inventory listing. 22 (73%) of the 30 assets tested were assigned to one location within the Central Office. However, it was later determined that the assets were disbursed to several locations within the Central Office and the inventory listing was not updated. In addition, we toured the facilities and randomly selected equipment to be traced back to the inventory listing. 20 (48%) of the 42 equipment items selected could not be found on the inventory listing. Of the 20 items not found, 14 cost less than \$500 and therefore did not satisfy the dollar threshold for data conversion to SAP.

Invalid inventory tags are displayed on Department property

- During the engagement period, the Department started a conversion process to an enterprise resource planning system (SAP). During the conversion process, the Department only carried forward equipment equal to or greater than \$500. All other items were no longer tracked on the property control records in SAP, including items under \$500 that would be susceptible to theft. However, despite the revisions in the inventory records, assets under \$500 still had valid inventory tags that would be indistinguishable from assets that were valued at \$500 or above.

Department no longer monitors obsolete or surplus equipment

- The Department no longer monitors obsolete or surplus equipment retained at the warehouse to be transferred to the DCMS. In addition, the Department had surplus and obsolete equipment at various cost centers in the Central Office which were considered

transferrable property to be relocated to the warehouse and eventually transferred over to DCMS.

Department policies and procedures are not up to date

- Due to the conversion to SAP, the Department does not have updated policies and procedures to reflect the new process. (Finding 8, pages 24-26)

We recommended the Department adhere to the requirements of the Illinois Procurement Code, State Property Control Act, DCMS Property Rules, Personal Information Protection Act and Department Procedures by providing additional training to employees to enable the Department to properly maintain property and equipment records and to accurately report information to DCMS. We also recommended the Department review procedures for maintaining surplus/unused items in order to minimize the amount of idle property and equipment.

Department agrees with auditors

Department management agreed with the finding and stated they are in the process of addressing these issues.

INADEQUATE CONTROLS OVER THE SUBMISSION OF MONTHLY RECONCILIATIONS

The Department did not have adequate controls over the submission of reconciliation records with the Comptroller's Monthly Reports.

Department reconciliations were not prepared or were not prepared timely

During our testing of 24 monthly reconciliation reports, we noted the following:

- Nine (38%) monthly reconciliations were not prepared and completed for the Fiscal Year 2017.
- Seven (29%) monthly reconciliations were not reconciled timely, six for Fiscal Year 2016 and one for Fiscal Year 2017.

Department revenue reconciliations were not prepared, prepared but with no evidence of review, or prepared but not dated

During our testing of 48 monthly revenue reconciliation reports, we noted the following:

- Fourteen (29%) monthly reconciliations were not prepared and completed for Fiscal Year 2017.
- Twelve (25%) monthly revenue reconciliations were prepared but with no evidence of review, seven for Fiscal Year 2016 and five for Fiscal Year 2017.
- Twenty-one (44%) monthly revenue reconciliations were prepared and reviewed but not dated. We could not determine if the reconciliations were timely prepared and reviewed.

Department cash reconciliations have not been prepared since October 2016

No cash reconciliations were prepared starting October 2016 through the new system implementation. The Department has yet to determine how to pull the appropriate reports from enterprise resource planning system (SAP) to facilitate the reconciliation. (Finding 10, pages 29-30)

Department agrees with auditors

We recommended the Department consistently complete monthly reconciliations of the Comptroller's Monthly Reports.

Department management agreed with the finding and stated they are in the process of addressing these issues.

OTHER FINDINGS

The remaining findings are reportedly being given attention by the Department. We will review the Department's progress towards the implementation of our recommendations in our next engagement.

AUDITOR'S OPINION

The financial audit report was previously released. The auditors stated the financial statements of the Department as of and for the year ended June 30, 2017 are fairly stated in all material respects.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the Department for the two years ended June 30, 2017, as required by the Illinois State Auditing Act. The accountants stated the Department complied, in all material respects, with the requirements described in the report.

This engagement was conducted by RSM US LLP.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

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

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:JGR

DIGEST FOOTNOTES

#1 – NONCOMPLIANCE WITH UNEMPLOYMENT INSURANCE ACT – prior response

2015 – Regarding 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. The Department is seeking legislation to remove Section 1900P from the Act.

As for Section 1900.2, Task Force members were not designated as BLS agents because it was determined they would not examine any data deemed confidential under state or federal law, so the designation would be unnecessary. The Department will continue working to resolve the finding regarding the Task Force through legislation.

#2 – UNTIMELY ISSUANCE OF ELIGIBILITY DETERMINATIONS – prior response

2015 – The Department agrees with the finding and is implementing a statewide re-balancing of workload allocation on determination time-lapse. The initial steps towards such re-balancing include but are not limited to: The Central Region has been eliminated and the offices and respective workloads have been reassigned to the Southern and Northwest Regions. Also, IDES has found that auto-adjudicated cases help to manage workload while also enabling such auto-determinations to be completed timely. IDES is working with Central Management Services in applying LEAN principles, a process for continuous improvement to our current adjudication processes which, we believe, will result in steady reduction of workload imbalances and reliable achievement of DOL benchmarks.