

REPORT DIGEST

DEPARTMENT OF EMPLOYMENT SECURITY FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1995 AND COMPLIANCE AUDIT (In Accordance with the Federal Single Audit Act of 1984, and OMB Circular A-128) FOR THE TWO YEARS ENDED JUNE 30, 1995

SYNOPSIS

● During Fiscal Years 1994 and 1995 the Department paid questionable unemployment benefits to individuals who worked for the State. Sample testing found:

* Twenty percent of a total of 268 cases sampled revealed 53 individuals collected \$25,071 in unemployment benefits from State agencies to which the claimants may not have been entitled because they were simultaneously earning wages from other employers. Extrapolating the sampling results to the entire population of 5,078 similar-type State accounts results in an estimated \$475,000 in questionable unemployment benefits being paid by State agencies to former State employees. Similar sampling was not done of benefits being charged to private or other public employers so an estimate of overpayment of benefits by those entities, if any, was not made; and

* The Department paid over \$11,500 in questionable unemployment benefits to individuals who were receiving unemployment benefits charged to a State agency while working for that agency at the same time.

● The Department's ability to administratively recover improperly paid or fraudulently obtained unemployment benefits is restricted by a two-year limitation imposed by the Illinois Unemployment Insurance Act.

{Expenditures and Activity Measures are summarized on the reverse page.}

INTRODUCTION

Volume I covers our financial audit for the year ended June 30, 1995 and Volume II covers our compliance and federal Single Audit of the Department of Employment Security for the two years ended June 30, 1995.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

QUESTIONABLE UNEMPLOYMENT BENEFITS CHARGED TO STATE AGENCY ACCOUNTS

In 20 percent of the cases reviewed (53 of 268), employers reported paying wages, which, according to Department records, were unreported by individuals, at the same time they were receiving unemployment benefits. The total amount of questionable unemployment benefits paid by the Department to the 53 individuals was \$25,071. Applying the sample results to the entire population of 5,078 wage/unemployment matches, a total of \$475,000 in questionable unemployment benefits were charged to State accounts during Fiscal Years 1994 and 1995. In these cases, individuals left the employment of the State, applied for and received unemployment benefits, had wages reported by an employer in the same quarter, and failed to disclose these earnings on claim certifications. The wages employers reported paying to these 53 individuals were of a sufficient amount to either reduce or totally eliminate their eligibility for their weekly unemployment benefit amount. The testing applied to unemployment benefits charged to State accounts only; it did not include benefits being charged to other private or public employers. (Finding 2, Page 7)

We recommended the Department further investigate the cases where questionable benefits were received, recoup or recover funds where possible, and credit State government accounts when appropriate. We also recommended the Department conduct a cost-effectiveness study to determine the optimum level of staffing and other means to make its system more effective in identifying claimants who fail to report wages.

Department officials agreed with our finding and recommendation. They said the criteria used by their detection system would be reviewed.

QUESTIONABLE UNEMPLOYMENT BENEFIT PAYMENTS TO STATE OF ILLINOIS GOVERNMENT EMPLOYEES

The Department paid \$11,500 in questionable unemployment benefits to State of Illinois employees who, according to Department records, did not properly report wages earned on their claim certifications.

We noted instances where State agencies were charged unemployment benefits for employees that were working for the agency at the same time. In 21 of the 200 unemployment benefit cases tested, the failure of the State employee to certify wages earned led to questionable

unemployment benefit payments in excess of \$11,500. This estimate is for unemployment benefits charged to State accounts only; it does not include benefits being charged to other private or public employers. The 21 cases were divided among nine State agencies/universities. The Department notifies a State agency when a claim is filed by a former employee. The State agencies are responsible for developing and maintaining the internal controls necessary to review these reports and protest inappropriate claims to the Department. (Finding 3, Page 9)

We recommended the Department further investigate the cases where questionable benefits were received, recoup and/or recover funds if possible, and credit State government accounts when appropriate. Further, we recommended the Department follow up with the agencies where the questionable payments occurred to provide assistance in evaluating internal controls.

Department officials agreed with our finding and recommendation and stated they had expanded the quarterly audit, and will offer assistance to the agencies on how to detect claimants who fail to report wages paid.

TIME LIMITATIONS ON RECONSIDERED ELIGIBILITY DETERMINATIONS

The Department's ability to administratively recover improperly paid or fraudulently obtained unemployment benefits is restricted by a two-year limitation imposed by the Unemployment Insurance (UI) Act.

The UI Act precludes the Department from reconsidering a finding or determination of eligibility for unemployment benefits after two years from the initial determination. As a result, the Department cannot take administrative action to recoup or recover improperly paid unemployment benefits, even those fraudulently obtained, if more than two years has passed from the initial determination of eligibility. The administrative action requires a redetermination of eligibility. In these instances, the Department can refer fraud cases to the Office of the Attorney General for prosecution under the State Benefits Fraud section of the Criminal Code.

Because the essence of fraud is misrepresentation, the discovery of fraudulent actions may take longer than two years. Lengthening the two-year time limitation would allow the Department to pursue administrative remedies which may be less costly and more timely than formal court action. Audit testing of unemployment benefits charged to State agency accounts found that 26 percent of the cases where earnings were not reported by the claimant were for the last two quarters of 1993. Therefore, time limitations imposed by the UI Act would prevent the Department from making reconsidered determinations, which is necessary for the administrative actions against claimants who failed to disclose wages earned. (Finding 4, Page 10)

We recommended the Department pursue a change in the UI Act to allow more time to reconsider determinations of eligibility in cases involving unemployment benefits paid because of fraudulent statements or the failure to disclose material facts.

Department officials did not object to our finding and recommendation and stated they will seek input from the Employment Security Advisory Board and offer an amendment to the UI Act based on the Board's recommendation.

OTHER FINDING

The remaining finding was less significant and has been given appropriate attention by the Department. We will review the Department's progress toward the implementation of our recommendations in our next audit.

Mrs. Janet Taylor-Wilson, Inspector General, Department of Employment Security, provided the responses to our findings and recommendations.

AUDITORS' OPINION

Our auditors state the Department's general purpose financial statements at June 30, 1995 are fairly presented.

_____ WILLIAM G. HOLLAND, Auditor General

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SUMMARY OF AUDIT FINDINGS

NUMBER OF THIS AUDIT/PRIOR AUDIT

Audit findings 4 6

Repeated audit findings- 1

Recommendations implemented
or not repeated 6 12

SPECIAL ASSISTANT AUDITORS

Our special assistant auditors for this audit were from the accounting firm of Coopers & Lybrand LLP.

ILLINOIS DEPARTMENT OF EMPLOYMENT SECURITY
FINANCIAL AND COMPLIANCE AUDIT
For The Two Years Ended June 30, 1995

EXPENDITURE STATISTICS	FY 1995	FY 1994	FY 1993
• Total Expenditures (All Funds)	\$171,809,359	\$200,039,968	\$205,296,558
<u>OPERATIONS TOTAL</u>	\$169,528,795	\$198,009,663	\$203,742,198
% of Total Operations	98.7%	99.0%	99.2%
Personal Services	\$ 80,689,271	\$ 93,599,419	\$ 97,789,874
% of Operations Expenditures	47.6%	47.3%	48.0%
Average No. of Employees	2,193	2,761	3,004
Other Payroll Costs (FICA, Retirement)	\$ 21,414,557	\$ 26,647,704	\$ 28,296,783
% of Operations Expenditures	12.6%	13.5%	13.9%
Contractual Services	\$ 30,207,372	\$ 34,542,431	\$ 34,393,287
% of Operations Expenditures	17.8%	17.4%	16.9%
All Other Operations Items	\$ 37,217,595	\$ 43,220,109	\$ 43,262,254
% of Operations Expenditures	22.0%	21.8%	21.2%
<u>GRANTS TOTAL</u>	\$ 2,280,564	\$ 2,030,305	\$ 1,554,360
% of Total Expenditures	1.3%	1.0%	.8%
• Cost of Property and Equipment	\$ 38,106,000	\$ 38,050,000	\$ 35,644,000

SELECTED ACTIVITY MEASURES	*FY 1995	FY 1994	FY 1993
• Average Quarterly State Unemployment Rate	5.20%	5.67%	7.42%
• Average Quarterly National Unemployment Rate	5.62%	6.09%	6.81%

AGENCY DIRECTOR(S)

During Audit Period: Lynn Quigley Doherty
Currently: Lynn Quigley Doherty

* Calculation of the average does not include the fourth quarter.