



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

William G. Holland, Auditor General

**SUMMARY REPORT DIGEST**

**ILLINOIS DEPARTMENT OF EMPLOYMENT SECURITY**

**Financial Audit  
 For the Year Ended June 30, 2014**

**Release Date: February 5, 2015**

FINDINGS THIS AUDIT: 1	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
<b>Category 1:</b>	<b>0</b>	<b>0</b>	<b>0</b>	2013		14-1	
<b>Category 2:</b>	<b>0</b>	<b>1</b>	<b>1</b>				
<b>Category 3:</b>	<b>0</b>	<b>0</b>	<b>0</b>				
<b>TOTAL</b>	<b>0</b>	<b>1</b>	<b>1</b>				
<b>FINDINGS LAST AUDIT: 1</b>							

**SYNOPSIS**

- (14-1) The Department did not have adequate controls over financial close and reporting to allow management or employees in the normal course of performing their assigned functions to prevent or detect financial statement misstatements in a timely manner.

**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 information is summarized on next page}

**ILLINOIS DEPARTMENT OF EMPLOYMENT SECURITY**  
**FINANCIAL AUDIT**  
**For the Year Ended June 30, 2014**

<b>STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION</b>		
<b>Unemployment Compensation Trust Fund (in thousands)</b>	<b>2014</b>	<b>2013</b>
<b>Operating Revenues</b>		
Unemployment taxes.....	\$ 2,643,591	\$ 3,209,923
Federal government.....	574,093	1,440,204
Total Operating Revenues.....	<u>3,217,684</u>	<u>4,650,127</u>
<b>Operating Expenses</b>		
Benefit payments and refunds.....	2,736,614	3,560,948
Total Operating Expenses.....	<u>2,736,614</u>	<u>3,560,948</u>
<b>Operating Income.....</b>	481,070	1,089,179
<b>Nonoperating revenues (expenses)</b>		
Interest/investment income/interest expense and other .....	<u>3,691</u>	<u>(12,425)</u>
<b>Income Before Transfers.....</b>	484,761	1,076,754
Transfers in / (out)	<u>(31,737)</u>	<u>(19,910)</u>
<b>Change in Net Position.....</b>	453,024	1,056,844
Net Position (Deficit), beginning of year.....	637,673	(419,171)
Restatement.....	<u>(4,436)</u>	<u>-</u>
Net Position (Deficit), beginning of year as restated.....	633,237	(419,171)
<b>Net Position, end of year.....</b>	<u>\$ 1,086,261</u>	<u>\$ 637,673</u>

<b>STATEMENT OF NET POSITION</b>		
<b>Unemployment Compensation Trust Fund (in thousands)</b>	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
Cash and cash equivalents.....	\$ 130,200	\$ 102,505
Deposits held by the federal government.....	1,341,107	1,104,400
Receivables, Net:		
Taxes.....	649,128	693,459
Intergovernmental.....	19,865	63,280
Other.....	211,366	224,394
Other assets.....	<u>6,015</u>	<u>11,857</u>
Total Assets.....	<u>2,357,681</u>	<u>2,199,895</u>
<b>Liabilities</b>		
Benefit payments payable.....	128,829	164,231
Intergovernmental payables.....	4,803	4,441
Due to other State funds.....	2,188	3,236
Accrued bond interest expense.....	2,178	2,596
Revenue bonds payable.....	<u>1,133,422</u>	<u>1,387,718</u>
Total Liabilities.....	<u>1,271,420</u>	<u>1,562,222</u>
<b>Net Position.....</b>	<u>\$ 1,086,261</u>	<u>\$ 637,673</u>

**AGENCY DIRECTOR**  
During the Audit Period: Jay Rowell  
Current: Jeff Mays

**FINDINGS, CONCLUSIONS, AND**  
**RECOMMENDATIONS**

**NEED TO IMPROVE CONTROLS OVER FINANCIAL  
CLOSE AND REPORTING**

The Department did not have adequate controls over financial close and reporting to allow management or employees in the normal course of performing their assigned functions to prevent or detect financial statement misstatements in a timely manner.

During our audit, we noted the following errors that required audit adjustments to the financial statements:

**\$11 million reclassification entry  
needed to correct error**

- A Transfer In to the Title III Social Security and Employment Services Fund of \$11 million was recorded as Other Revenues in the Fund resulting in an overstatement of revenues in the Fund. An adjusting entry was recorded to reclassify it from Other Revenues to Transfer In for the Fund.

- A Transfer Out from the Unemployment Compensation Special Administration Fund of \$11 million was recorded as Employment and Economic Development Expenditures in the Fund resulting in an overstatement of expenditures in the Fund. An adjusting entry was recorded to reclassify it from Expenditures to Transfer Out for the Fund.

**\$4.4 million restatement to correct  
the current year write off of  
unamortized bond issuance costs**

- The Department wrote off \$4.4 million of unamortized bond issuance costs in the current year interest expense. An adjusting entry in the amount of \$4.4 million was recorded to restate opening net position and to reduce interest expense for the current fiscal year. Also, the restatement was not properly disclosed in the financial statements. (Finding 1, pages 48-49)

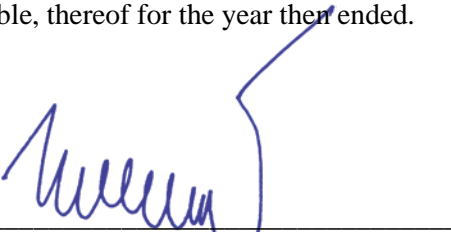
We recommended the Department improve controls over yearend financial closure and reporting to ensure accurate presentation and disclosure of the Department's financial statements.

**Department agrees with auditors**

Department officials agreed with the recommendation and stated they will continue training staff and will review yearend financial closure procedures to ensure accurate presentation of the Department's financial statements.

**AUDITOR'S OPINIONS**

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, 2014, and the changes in financial position and cash flows, where applicable, thereof for the year then ended.



A handwritten signature in blue ink, appearing to read 'William G. Holland', is written over a horizontal line. A long, thin blue line extends from the end of the signature upwards and to the right.

WILLIAM G. HOLLAND  
.. Auditor General

WGH:TLK

**SPECIAL ASSISTANT AUDITORS**

Our Special Assistant Auditors for this audit were McGladrey LLP.