

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Proprietary Fund  
Financial Statements  
For the Year Ended June 30, 2019**

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



**State of Illinois  
Department of Employment Security  
Financial Audit  
For the Year Ended June 30, 2019**

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The Department of Employment Security's <i>Compliance Examination</i> for the two years ended June 30, 2019, has been issued under a separate cover.	

**State of Illinois  
Department of Employment Security  
Agency Officials  
June 30, 2019**

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Director (Acting) (03/01/19 - Present) Director (07/01/18 – 02/01/19)	Mr. Thomas Chan Mr. Jeffrey D. Mays
Chief of Staff (06/18/19 - Present) Chief of Staff (01/01/19 – 06/17/19) Chief of Staff (08/01/18 – 12/31/18) Chief of Staff (07/01/18 – 07/31/18)	Mr. Raymond Marchiori Vacant Ms. Helen Cashman Vacant
Deputy Director Service Delivery Bureau	Ms. Trina Taylor
Deputy Director Business Services Bureau	Ms. Dolores Simon
Chief Legal Counsel (Acting, LOA) (03/01/19 – Present) Chief Legal Counsel (Acting) (08/01/18 – 02/28/19) Chief Legal Counsel (07/01/18 – 07/31/18)	Mr. Thomas Chan Mr. Thomas Chan Mr. Joseph P. Mueller
Chief Financial Officer (Acting) (06/01/19 – Present) Chief Financial Officer (Acting) (08/01/18 – 05/31/19) Chief Financial Officer (07/01/18 – 07/31/18)	Mr. Isaac Burrows Mr. L. Briant Coombs Ms. Linda DeMore
Chief Operating Officer (02/23/19 – Present) Chief Operating Officer (07/01/08 – 02/22/19)	Vacant Ms. Jennifer Waldinger
Chief Internal Auditor	Mr. Rex Crossland
Chief Information Officer (12/01/18 – Present) Chief Information Officer (shared w/ IL DoIT) (07/01/18 – 11/30/18)	Position fully transitioned to IL DoIT Mr. Thomas Revane
Chief Technology Officer (12/01/18 – Present) Chief Technology Officer (shared w/ IL DoIT) (07/01/18 – 11/30/18)	Position fully transitioned to IL DoIT Mr. Venkata Twarakavi
Manager, Accounting Services Division (06/01/19 – Present) Manager, Accounting Services Division (LOA) (08/01/18 – 05/31/19) Manager, Accounting Services Division (07/01/18 – 07/31/18)	Mr. L. Briant Coombs Mr. L. Briant Coombs Mr. L. Briant Coombs
Manager, Economic Information and Analysis Division (Acting) (01/01/19 – Present) Manager, Economic Information and Analysis Division (07/01/18 – 12/31/18)	Mr. George Putnam, PhD Ms. Evelina Loescher, PhD
Manager, Revenue Division (Acting) (03/01/19 – Present) Manager, Revenue Division (07/01/18 – 02/28/19) Manager, Revenue Division (07/01/18 – 07/31/18)	Mr. Algie Crivens Mr. Bodgan (Bob) Acamovic Ms. Lois Cuevas
Statewide Manager, Field Operations	Ms. Janice Taylor Brown
Statewide Manager, Unemployment Insurance Programs	Mr. Justin Brissette

The Department's primary administrative offices are located at:

33 S. State Street  
Chicago, IL 60603-2802

607 E. Adams, 9<sup>th</sup> Floor  
Springfield, IL 62701-1606

**State of Illinois  
Department of Employment Security**

**Financial Statements  
For the Year Ended June 30, 2019**

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**FINANCIAL STATEMENT REPORT SUMMARY**

The audit of the accompanying financial statements of the State of Illinois, Department of Employment Security (Department) was performed by RSM US LLP as of and for the year ended June 30, 2019.

Based on their audit, the auditors expressed an unmodified opinion on the Department's nonshared proprietary fund financial statements.

**SUMMARY OF FINDINGS**

The auditors identified five matters involving the Agency's internal control over financial reporting that they considered to be material weaknesses and significant deficiencies. Further, the auditors identified five noncompliance matters.

<u>Item No.</u>	<u>Page</u>	<u>Last Reported</u>	<u>Description</u>	<u>Finding Type</u>
CURRENT FINDINGS				
2019-001	18	NEW	Inadequate Controls over Receivable Allowances	Material Weakness and Material Noncompliance
2019-002	19	2018	Inadequate Refunds Payable	Material Weakness and Material Noncompliance
2019-003	20	NEW	Inadequate Controls over Penalty and Interest Receivables	Material Weakness and Material Noncompliance
2019-004	21	2018	Inadequate Controls over Write Offs	Significant Deficiency and Noncompliance
2019-005	22	2018	Inadequate Controls over GenTax Access	Significant Deficiency and Noncompliance
PRIOR FINDING NOT REPEATED				
2018-001	23	2018	Inadequate Controls over Taxes Receivable	
2018-002	23	2018	Inadequate Controls over Claimant Overpayment Receivables	
2018-003	23	2018	Inadequate Controls over Refund Liabilities	
2018-005	24	2018	Incomplete Conversion of Account Details	
2018-007	24	2018	Inadequate Controls over Changes to GenTax	

**EXIT CONFERENCE**

The Department waived an exit conference in a correspondence from James Schreiber, Audit Liaison, on January 28, 2020. The responses to the recommendations were provided James Schreiber, Audit Liaison, on January 28, 2020.

**Independent Auditor's Report**

Honorable Frank J. Mautino  
Auditor General  
State of Illinois

**Report on the Financial Statements**

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Unemployment Compensation Trust Fund (Trust Fund), an individual nonshared proprietary fund of the State of Illinois, Department of Employment Security (Department), as of and for the year ended June 30, 2019, and the related notes to the financial statements which collectively comprise the Trust Fund financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Trust Fund of the Department, as of June 30, 2019, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 2, the financial statements present only the Trust Fund and do not purport to, and do not, present fairly the financial position of either the State of Illinois or the Department as of June 30, 2019, the respective changes in their financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters***Required Supplementary Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2020 on our consideration of the Department's internal control over financial reporting of the Trust Fund and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

**Restricted Use of this Auditor's Report**

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.

**SIGNED ORIGINAL ON FILE**

Schaumburg, Illinois  
February 6, 2020

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Proprietary Fund  
Statement of Net Position  
June 30, 2019  
(Amounts in \$000's)**

	<b>Unemployment Compensation Trust Fund</b>
<b>Current assets</b>	
Cash and cash equivalents	\$ 14,850
Cash equivalents held by Federal government	2,118,168
Receivables, net	
Taxes	339,761
Intergovernmental	14,845
Other	94,211
Due from other Department and State funds	4,700
Due from component units of the State	146
<b>Total current assets</b>	<u>2,586,681</u>
<b>Current liabilities</b>	
Benefit payments payable	115,182
Intergovernmental payables	3,081
Due to other Department and State funds	1,096
<b>Total current liabilities</b>	<u>119,359</u>
<b>Net position</b>	
Restricted for payment of benefits	<u>\$ 2,467,322</u>

See Notes to Financial Statements.

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Proprietary Fund  
Statement of Revenues, Expenses, and Changes in Net Position  
Year Ended June 30, 2019  
(Amounts in \$000's)**

	<b>Unemployment Compensation Trust Fund</b>
<b>Operating revenues</b>	
Contributions - unemployment taxes	\$ 1,767,046
Contributions - Federal government	7,385
Total operating revenues	<u>1,774,431</u>
<b>Operating expenses</b>	
Benefit payments and refunds	<u>1,656,403</u>
Total operating expenses	<u>1,656,403</u>
<b>Operating income</b>	<u>118,028</u>
<b>Nonoperating revenues</b>	
Interest and investment income	45,720
Other revenue	65
Total nonoperating revenues	<u>45,785</u>
<b>Income before transfers</b>	163,813
Transfers out	<u>(15,910)</u>
<b>Change in net position</b>	147,903
<b>Net position, July 1, 2018</b>	<u>2,319,419</u>
<b>Net position, June 30, 2019</b>	<u>\$ 2,467,322</u>

See Notes to Financial Statements.



**State of Illinois  
Department of Employment Security**

**Individual Nonshared Proprietary Fund  
Statement of Cash Flows  
Year Ended June 30, 2019  
(Amounts in \$000's)**

	<b>Unemployment Compensation Trust Fund</b>
<b>Cash flows from operating activities</b>	
Contributions - unemployment taxes received	\$ 1,754,641
Contributions received from the Federal government	7,480
Unemployment benefits paid	<u>(1,617,836)</u>
Net cash provided by operating activities	<u>144,285</u>
<b>Cash flows from noncapital financing activities</b>	
Miscellaneous receipts - FUTA credit	61
Transfers out	<u>(17,114)</u>
Net cash used in noncapital financing activities	<u>(17,053)</u>
<b>Cash flows from investing activity</b>	
Interest and investment income	<u>45,720</u>
Net cash provided by investing activity	<u>45,720</u>
<b>Net increase in cash and cash equivalents</b>	172,952
<b>Cash and cash equivalents, July 1, 2018</b>	<u>1,960,066</u>
<b>Cash and cash equivalents, June 30, 2019</b>	<u>\$ 2,133,018</u>

(Continued)

State of Illinois  
Department of Employment Security

Individual Nonshared Proprietary Fund  
Statement of Cash Flows (Continued)  
Year Ended June 30, 2019  
(Amounts in \$000's)

	<b>Unemployment Compensation Trust Fund</b>
<hr/>	
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 118,028
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Taxes and other receivables	2,465
Intergovernmental receivables	11,349
Due from State funds	21,709
Due from component units	(8)
Benefit payments payable	(8,945)
Intergovernmental payables	(313)
Net cash provided by operating activities	<u>\$ 144,285</u>

See Notes to Financial Statements.

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Proprietary Fund  
Notes to Financial Statements  
June 30, 2019  
(Amounts in \$000's)**

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**Note 1. Description of Funds**

The State of Illinois, Department of Employment Security (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.

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.

**Note 2. Summary of Significant Accounting Policies**

The financial statements of the individual nonshared proprietary fund 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 understanding of the financial statements, significant accounting policies are summarized below.

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.

The financial statements present only the nonshared proprietary fund administered by the Department and do not purport to, and do not, present fairly the financial position of the Department or the State of Illinois as of June 30, 2019 nor changes in its financial position or 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, deferred inflows/outflows, 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 position, statement of revenues, expenses, and changes in net position, and statement of cash flows have been presented for the nonshared proprietary fund administered by the Department.

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Proprietary Fund  
Notes to Financial Statements  
June 30, 2019  
(Amounts in \$000's)**

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**Note 2. Summary of Significant Accounting Policies (Continued)**

**B. Basis of Presentation (Continued)**

The nonshared proprietary fund is an enterprise fund. Enterprise funds are used to 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, which are then 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 are required to contribute to the unemployment trust fund based on employees' wages and their past experience level of causing unemployment. 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. Contributions received from the Federal government pertain mostly to unemployment coverage for Federal employees and ex-service members and are considered operating revenues. Nonoperating revenues, such as investment earnings, result from nonexchange transactions or ancillary activities.

**C. Basis of Accounting**

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

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.

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Proprietary Fund  
Notes to Financial Statements  
June 30, 2019  
(Amounts in \$000's)**

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**Note 2. Summary of Significant Accounting Policies (Continued)**

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 original maturities of three months or less from the date of acquisition.

E. Interfund Transactions

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

a) Reimbursements

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

b) 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.

F. Operating Revenues

Details of the reported balance of Federal government contributions and grants revenue is shown in the table which follows. The negative balances shown below are because the Programs have come to an end. Those Programs include the Emergency Unemployment Programs, Temporary Extended Unemployment Compensation, Federal Additional Compensation and Extended Benefits. These amounts have historically been reported net consisting of, total Federal receipts less the recouped cash receipts from Claimants. Under Federal Guidelines the recouped receipts are reported as an offset of Federal revenue receipts.

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Proprietary Fund  
Notes to Financial Statements  
June 30, 2019  
(Amounts in \$000's)**

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**Note 2. Summary of Significant Accounting Policies (Continued)**

F. Operating Revenues (Continued)

Program	Revenue
	\$8,317
Unemployment Compensation for Federal Employees	
Unemployment Compensation for Ex-service members	4,174
Temporary Extended Unemployment Compensation	(44)
Emergency Unemployment Compensation 2008 (General Revenue funded)	(3,167)
Emergency Unemployment Compensation 2008 (FUTA funded)	(129)
Federal Additional Compensation	(331)
Extended Benefits	(325)
Emergency Unemployment Compensation 2008 (Non General Revenue)	(1,015)
Year-end Adjustment	(95)
Total	\$7,385

G. Net Position

Restricted Net Position includes resources in which the Department is legally obligated for payment of unemployment benefits in accordance with the Unemployment Insurance Act.

H. 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 at the date of the financial statements, the 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 and Investments**

At June 30, 2019, cash and cash equivalents for the UTF for a locally held fund had a carrying amount in the accompanying financial statements of \$14,850 and a bank balance of \$21,661.

Custodial credit risk relating to deposits is the risk that in the event of a bank failure, the Department's deposits may not be returned to it. As of June 30, 2019, the Department's deposits held outside the State Treasury were adequately collateralized and therefore not exposed to custodial credit risk.

Credit risk exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its obligations. The Department does not have a formal policy limiting credit risk.

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Proprietary Fund  
Notes to Financial Statements  
June 30, 2019  
(Amounts in \$000's)**

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**Note 3. Deposits and Investments (Continued)**

Investments held by the Federal government totaled \$2,118,168 as of June 30, 2019, and represents an external investment pool in which the Department's funds are pooled along with other participating States' funds. This pool is valued at amortized cost. It is not rated in regard to credit risk.

Custodial credit risk is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2019, the Department did not have any investments subject to this risk.

Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's value. The Department does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Department does not have any debt securities that are subject to interest rate risk.

**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.

Balances as of June 30, 2019, are as follows:

Unemployment taxes	\$ 567,502
Interest and penalties receivables on taxes	<u>133,843</u>
Total taxes receivable	701,345
Less allowance for uncollectible taxes	<u>(361,584)</u>
Taxes receivable, net	<u><u>\$ 339,761</u></u>

**Note 5. Intergovernmental Receivables**

Intergovernmental receivables represent reimbursements due from other State and local governments and from the Federal government for unemployment benefits paid to those governments' ex-employees. These totaled \$14,478 and \$367, respectively, at June 30, 2019.

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Proprietary Fund  
Notes to Financial Statements  
June 30, 2019  
(Amounts in \$000's)**

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**Note 6. Other Receivables**

Other receivables represent amounts due from claimants who received benefits that exceeded their allowable amounts. The allowance for uncollectible accounts has been based on historical collection experience which, per statute, is typically on a 5-year collection cycle.

Balances as of June 30, 2019 are as follows:

Other receivables	\$ 397,162
Less allowance for uncollectible receivables	<u>(302,951)</u>
Other receivable, net	<u><u>\$ 94,211</u></u>

**Note 7. Interfund Balances and Activities**

(a) Balances Due to and from Other Funds

The following balances at June 30, 2019 represent amounts due from and due to other Department and State of Illinois funds.

<u>Description/Purpose</u>	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>
Due from General Revenue Fund for reimbursement of unemployment benefits paid	\$ 3,214	\$ -
Due from Title III for reimbursement of unemployment benefits paid	19	-
Due from the Department of Transportation for reimbursement of unemployment benefits to former employees of the Department	1,456	-
Due to Operating Fund for discretionary transfers of penalties and interests	-	1,091
Due from Operating fund for discretionary transfers of nonsufficient funds (NSF) fees	<u>11</u>	<u>5</u>
Totals	<u><u>\$ 4,700</u></u>	<u><u>\$ 1,096</u></u>

Due from component units of the State of Illinois balance at June 30, 2019 of \$146 represents reimbursement of unemployment benefits paid to employees of State universities.



**State of Illinois  
Department of Employment Security**

**Individual Nonshared Proprietary Fund  
Notes to Financial Statements  
June 30, 2019  
(Amounts in \$000's)**

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**Note 7. Interfund Balances and Activities (Continued)**

(b) Transfers

Interfund transfers out to other Department funds for the year ended June 30, 2019, were as follows:

Description/Purpose	Transfer Out to Other Fund
Discretionary transfers of penalties and interests to Operating Fund	\$ 15,889
Discretionary transfers of NSF fees to Operating Fund	<u>21</u>
Totals	<u><u>\$ 15,910</u></u>

**Note 8. Intergovernmental Payables**

Intergovernmental payables of \$3,081 represent interstate combined wage claim benefits payable.

**Note 9. Contingencies**

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 fund financial statements.

**Independent Auditor's 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 Frank J. Mautino  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the 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, the financial statements of the Unemployment Compensation Trust Fund (Trust Fund), an individual nonshared proprietary fund of the State of Illinois, Department of Employment Security (Department), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Trust Fund's financial statements, and have issued our report thereon dated February 6, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Departments internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*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 a 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. We consider the deficiencies described in the accompanying schedule of findings as items 2019-001 through 2019-003 to be material weaknesses.

*A significant deficiency* is a deficiency, 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. We consider the deficiencies described in the accompanying schedule of findings as items 2019-004 and 2019-005 to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Trust Fund's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as items 2019-001 through 2019-005.

## **Department's Responses to the Findings**

The Department's responses to the findings identified in our audit are described in the accompanying schedule of findings. The Department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**SIGNED ORIGINAL ON FILE**

Schaumburg, Illinois  
February 6, 2020

**State of Illinois  
Department of Employment Security**

**Schedule of Findings  
For the Year Ended June 30, 2019**

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**Current Findings – Government Auditing Standards**

**2019-001 Inadequate Controls over Receivable Allowance**

The Department of Employment Security (Department) did not have sufficient internal control over the estimation of the allowance for doubtful accounts recorded in its financial statements.

During our testing of accounts receivable and the allowance for doubtful accounts, we noted that the allowance for the penalties and interest portion of the receivable was greater than the related receivable balance. We determined the overstatement of the allowance was caused by clerical errors in the calculation along with assumptions used in the calculation that were not reflective of the current economy. The Department ultimately revised and updated its methodology to determine a more accurate allowance which resulted in an adjustment to reduce the allowance by approximately \$99 million.

According to generally accepted accounting principles (GAAP), the allowance for uncollectible accounts should represent management's best estimate of the amount of receivables that will not be collected. The allowance for doubtful accounts is a significant estimate that requires proper analysis and evaluation of past and current events as well as the assumptions used.

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 and administrative controls to provide assurance that revenues applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

The Department indicated the error was due to management calculating its allowance for bad debts by factoring in the Economic Information and Analysis Division's growth percentages from third-party economic forecasts, resulting in overly conservative estimates.

Recording an allowance for doubtful accounts that isn't reflective of all known events and conditions has and will continue to result in misstatements of accounts receivable. Additionally, failure to properly review the allowance calculation may result in the continuance of clerical errors. (Finding Code No. 2019-001)

Recommendation

We recommend the Department implement controls to more closely review the allowance calculation, including all significant assumptions used in the calculation.

Department Response

The Department accepts the finding and will re-examine its assumptions, estimates, and process to calculate a reasonable allowance for bad debts for financial reporting purposes.

**State of Illinois  
Department of Employment Security**

**Schedule of Findings  
For the Year Ended June 30, 2019**

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**Current Findings – *Government Auditing Standards***

**2019-002 Inaccurate Refunds Payable**

The Department of Employment Security (Department) did not have sufficient internal control over the determination of refunds payable. The refunds payable account contained amounts that were already paid resulting in the Department's draft financial statements being misstated. As a result, refunds payable was adjusted by \$18.172 million.

During testing, we determined the Department's refunds payable account contained refunds for which the Department had already paid the employers. The Department included these amounts in the refunds payable account erroneously due to the employers not cashing the refund.

A good system of internal control requires that management review all significant accounts and balances recorded in the financial statements for accuracy, which includes transactions related to the refunds payable account.

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 and administrative controls to provide assurance that revenues applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

The Department indicated that the process to move the uncashed refunds back to the employer accounts required more time than anticipated for analysis and research from GenTax, IBIS and the Legacy systems, thus resulting in the carryover of the prior year findings to the current audit year.

As a result of including the refunds paid, the Department's refunds payable account and draft financial statements were overstated. (Finding Code No. 2019-002, 2018-004)

Recommendation

We recommend the Department implement controls to ensure that uncashed checks are not included in refunds payable.

Department Response

The Department accepts the finding and will continue to work on moving the remaining uncashed refunds back to the employer accounts for completion before Fiscal Year 2020 year-end and to implement controls to ensure that uncashed checks are not included in refunds payable in the future.

**State of Illinois  
Department of Employment Security**

**Schedule of Findings  
For the Year Ended June 30, 2019**

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**Current Findings – Government Auditing Standards**

**2019-003 Inadequate Controls over Penalty and Interest Receivables**

The Department of Employment Security (Department) did not have adequate controls over the penalty and interest receivable balance, which caused an overstatement in the Department's draft financial statements of \$17.333 million.

During testing, we noted the query that was run to record the estimated fourth quarter penalty and interest amount was extracting incorrect data and included additional interest that was not part of the quarter.

A good system of internal control requires that management review all significant accounts and balances recorded in the financial statements for accuracy, which includes transactions and balances related to the penalty and interest receivable account.

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 and administrative controls to provide assurance that revenues applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

The Department indicated that several key positions in Accounting & Reporting were recently vacated with transfers and retirements. The new employees filling these vacancies were unfamiliar with GAAP preparation, resulting in an oversight in reporting year-end receivables for Penalties and Interest.

As a result of utilizing an incorrect report, the Department's penalty and interest receivable account and draft financial statements were overstated. (Finding Code No. 2019-003)

Recommendation

We recommend the Department implement controls to ensure that the reports used to prepare estimates are accurate and are properly reviewed prior to recording the related entries.

Department Response

The Department accepts the finding. The Accounting & Reporting subdivision will implement controls to ensure reports are reviewed for accuracy, provide additional training in GAAP preparation, and continue to request the filling of vacancies.

**State of Illinois  
Department of Employment Security**

**Schedule of Findings  
For the Year Ended June 30, 2019**

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**Current Findings – *Government Auditing Standards***

**2019-004 Inadequate Controls over Write Offs**

The Department of Employment Security (Department) conducted write offs prior to obtaining the required Attorney General approval.

During the audit period, the Department wrote off \$14,936,755 prior to receiving approval from the Attorney General to do so. An adjustment was made to reverse this write off as the approval was not obtained until after year end.

The Statewide Accounting Management System (SAMS) Manual (Procedure 26.40.40) requires agencies to request approval from the Attorney General to certify claims which are greater than \$1,000 as uncollectible.

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 and administrative controls to provide assurance that revenues applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

The Department indicated that, in anticipation of the Attorney General's timely approval, it commenced its internal process to write off uncollectible receivables in order to meet the fiscal year-end deadline and to avoid repeating the prior year finding regarding overstatement of gross receivables. Unfortunately, the Attorney General's approval was delayed pending remediation by the Department of information deficiencies.

Writing off accounts without Attorney General approval represents noncompliance with State law and could result in an unauthorized account write off. (Finding Code No. 2019-004, 2018-006)

Recommendation

We recommend the Department obtain Attorney General approval prior to conducting any write offs which require such approval.

Department Response

The Department accepts the finding and will only write off Uncollectible Taxes Receivable with the Attorney General approval.

**State of Illinois  
Department of Employment Security**

**Schedule of Findings  
For the Year Ended June 30, 2019**

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**Current Findings – Government Auditing Standards**

**2019-005 Inadequate Controls over GenTax Access**

The Department of Employment Security (Department) did not ensure adequate security over the enterprise-wide tax system (GenTax).

During our review of GenTax security, we noted for the 18 terminated employees:

- 3 (17%) individuals continued to have access to GenTax after their termination from the Department.
- 5 (28%) terminated individuals did not have their GenTax access timely de-activated. Their access was terminated 11 to 22 days after termination.

Furthermore, the Department's GenTax Security Procedures did not require the Department to conduct a review of GenTax access; thus, no such review was completed during the audit period.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to ensure State resources are used efficiently and effectively.

Additionally, generally accepted information technology guidance endorses the development of well-designed and well-managed controls to protect computer systems and data. Effective computer security controls provide for safeguarding, securing, and controlling access to hardware, software, and the information stored in the computer system.

Department management indicated the weaknesses were due to oversight and lack of adequate communication.

Failure to properly approve and disable users' access in a timely manner puts the Department at risk of unauthorized access to GenTax. (Finding Code No. 2019-005, 2018-008)

**Recommendation**

We recommend the Department implement controls over GenTax security, including those over terminated employees. We also recommend the Department periodically conduct a review of all users and their associated access rights.

**Department Response**

The Department accepts the finding and is in the process of developing a security case to better track, control and monitor GenTax access and termination of access. The Department will be scheduling periodic review of all users and their associated access rights.



**State of Illinois**

**Department of Employment Security**

**Schedule of Prior Year Finding  
For the Year Ended June 30, 2019**

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**Prior Findings Not Repeated – *Government Auditing Standards***

**A. Inadequate Controls over Taxes Receivable**

During the previous audit, the Department of Employment Security (Department) did not have adequate controls over its taxes receivable, which caused a misstatement in the Department's draft financial statements. As a result of the inaccuracies noted during testing, the gross taxes receivable balance was adjusted by \$10,323,207.

Status: Not Repeated

During the current audit, our sample testing did not indicate any errors relating to the prior year issues identified. However, we noted other issues relating to taxes receivable which are reported as findings 2019-001 and 2019-003. (Finding Code 2018-001)

**B. Inadequate Controls over Claimant Overpayment Receivables**

During the previous audit, the Department of Employment Security (Department) did not have adequate controls over its claimant overpayment receivables, which led to the draft financial statements including accounts which had been written off. As a result, the accounts receivable related to claimant overpayments was materially misstated in the Department's draft financial statements. Due to the inaccuracies noted during testing, the gross accounts receivable balance was adjusted by \$312,486,000, with the net balance being adjusted by \$20,545,000.

Status: Not Repeated

During the current audit, we reviewed current write offs of claimant overpayment receivables (other receivables) and noted that they were properly recorded and approved. We reviewed the other receivable detail which materially agreed to the financial statements. (Finding Code 2018-002)

**C. Inadequate Controls over Refund Liabilities**

During the previous audit, the Department of Employment Security (Department) did not have adequate controls over refunds, resulting in refund liabilities in the Department's draft financial statements being misstated. As a result, an adjustment of \$11,352,058 was made to the liability.

Status: Not Repeated

During the current audit, our sample testing did not indicate any errors relating to the prior year issue identified. However, we noted another issue relating to refunds payable which is reported as finding 2019-002. (Finding Code 2018-003)

**State of Illinois**

**Department of Employment Security**

**Schedule of Prior Year Finding  
For the Year Ended June 30, 2019**

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**Prior Findings Not Repeated – *Government Auditing Standards***

**D. Incomplete Conversion of Account Details**

During the previous audit, the Department of Employment Security (Department) did not convert complete employer account details during the conversion process from the Department's Legacy systems to GenTax.

Status: Not Repeated

During the current audit, testing was done on the suspended reports which contained the referenced account. No additional information was found that should have been converted. (Finding Code 2018-005)

**E. Inadequate Controls over Changes to GenTax**

During the previous audit, the Department of Revenue and the Department of Employment Security (Departments) did not maintain adequate controls over changes to the enterprise-wide tax system (GenTax).

Status: Not Repeated

During the current audit, we reviewed a sample of GenTax changes completed during the audit period, noting no exceptions. (Finding Code 2018-007)