

State of Illinois
Department of Employment Security

Unemployment Compensation Trust Fund
Financial Statements
For the Year Ended June 30, 2020

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, 2020**

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**State of Illinois
Department of Employment Security
Department Officials
June 30, 2020**

Director (Acting) (8/10/20 – Present)	Ms. Kristin Richards
Director (Interim) (08/01/20 – 08/09/20)	Mr. Raymond Marchiori
Director (Acting) (07/01/19 – 07/31/20)	Mr. Thomas Chan
Chief of Staff (07/01/19 – Present)	Mr. Raymond Marchiori
Deputy Director Service Delivery Bureau	Ms. Trina Taylor
Deputy Director Business Services Bureau (02/01/21 – Present)	Ms. Carrie Thomas
Deputy Director Business Services Bureau (06/16/20 – 01/31/21)	Ms. Crystal Caison-Russell
Deputy Director Business Services Bureau (05/30/20 – 06/15/20)	Vacant
Deputy Director Business Services Bureau (07/01/19 – 05/29/20)	Ms. Dolores Simon
Chief Legal Counsel (01/16/20 – Present)	Mr. Kevin Lovellette
Chief Legal Counsel (Acting, LOA) (03/01/19 – 01/15/20)	Mr. Thomas Chan
Chief Financial Officer (12/01/19 – Present)	Mr. Isaac Burrows
Chief Financial Officer (Acting) (07/01/19 – 11/30/19)	Mr. Isaac Burrows
Chief Operating Officer (12/01/20 – Present)	Ms. Stacey Howlett
Chief Operating Officer (04/01/20 – 11/30/20)	Mr. Rex Crossland
Chief Operating Officer (03/17/20 – 03/31/20)	Vacant
Chief Operating Officer (Temporary Appointment) (11/12/19 – 03/16/20)	Mr. Daniel Long
Chief Operating Officer (07/01/19 – 11/11/19)	Vacant
Chief Internal Auditor (05/16/21 – Present)	Mr. Noe G. Reyes
Chief Internal Auditor (04/01/20 – 05/15/21)	Vacant
Chief Internal Auditor (07/01/19 – 03/31/20)	Mr. Rex Crossland
Chief Information Officer (07/01/19 – Present) DoIT	Position fully transitioned to IL
Chief Technology Officer (07/01/19 – Present) DoIT	Position fully transitioned to IL

The Department's primary administrative offices are located at:

33 S. State Street
Chicago, IL 60603-2802

607 E. Adams, 9th Floor
Springfield, IL 62701-

**State of Illinois
Department of Employment Security**

**Financial Audit
For the Year Ended June 30, 2020**

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Department of Employment Security Unemployment Compensation Trust Fund (Department) was performed by RSM US LLP as of and for the year ended June 30, 2020.

Based on their audit, the auditors expressed a qualified opinion on the Department's Unemployment Compensation Trust Fund financial statements.

SUMMARY OF FINDINGS

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

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
CURRENT FINDINGS				
2020-001	20	New	Failure to Implement General Information Technology Controls over the Pandemic Unemployment Assistance System	Material Weakness and Noncompliance
2020-002	23	New	Failure to Accurately Determine Claimants' Eligibility for Pandemic Unemployment Assistance	Material Weakness and Noncompliance
2020-003	27	New	Inadequate Controls over Pandemic Unemployment Assistance Program Processes	Material Weakness and Noncompliance
2020-004	29	New	Failure to Perform Timely Cash Reconciliations	Material Weakness and Noncompliance
2020-005	31	New	Inadequate Controls over Accruals	Material Weakness and Noncompliance
2020-006	33	2019/2019	Inadequate Controls over Receivable Allowance	Material Weakness and Noncompliance
2020-007	34	2019/2018	Inadequate Controls over GenTax Access	Significant Deficiency and Noncompliance
PRIOR FINDINGS NOT REPEATED				
A.	36	2019/2019	Inaccurate Refunds Payable	
B.	36	2019/2019	Inadequate Controls over Penalty and Interest Receivable	
C.	36	2019/2019	Inadequate Controls over Write Offs	

EXIT CONFERENCE

The Department waived an exit conference in a correspondence from James Schreiber, Audit Liaison, on July 14, 2021. The responses to the recommendations were provided by James Schreiber, Audit Liaison, on July 14, 2021.

Independent Auditor's Report

Honorable Frank J. Mautino
Auditor General
State of Illinois

RSM US LLP

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, 2020, and the related notes to the financial statements which collectively comprise the Unemployment 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 qualified audit opinion.

Basis for Qualified Opinion

The Department outsourced unemployment benefit claims processing to a service organization for the Pandemic Unemployment Assistance (PUA) program and the corresponding Federal Pandemic Unemployment Compensation (FPUC) benefits. The system processing these claims had material weaknesses in the design and operation of internal control and we were unable to obtain sufficient appropriate audit evidence to determine or verify by alternative means whether accrued claims and certain other paid claims met eligibility requirements. A backlog of claims processed through this new system existed at year end and as of our report date, which the Department recorded estimated payables and receivables of \$149 million. The payable balance includes estimated claims outstanding at year end, and the receivable balance is the estimated reimbursement to be received from the federal government for these claims. The impact of the backlog and other eligibility issues on contribution revenue and benefits expense for the year is \$307 million. Due to the material weaknesses in internal control over the system, we were unable to obtain sufficient appropriate audit evidence to conclude that the PUA and FPUC payables, receivables, revenues and expenses were free of material misstatement.

Opinion

In our opinion, except for the possible effects of the matter described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Trust Fund, as of June 30, 2020, 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 the State of Illinois or the Department as of June 30, 2020, the changes in their financial position, or, where applicable, their cash flows 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 July 15, 2021 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
July 15, 2021

**State of Illinois
Department of Employment Security**

**Unemployment Compensation Trust Fund
Statement of Net Position
June 30, 2020
(Amounts in \$000's)**

	Unemployment Compensation Trust Fund
Current assets	
Cash and cash equivalents	\$ 200,355
Cash equivalents held by Federal government	58,975
Receivables, net	
Taxes	331,062
Intergovernmental - Other unemployment insurance and related programs	217,625
Intergovernmental - Pandemic Unemployment Assistance (PUA)	47,660
Intergovernmental - Federal Pandemic Unemployment Compensation (FPUC) associated with Pandemic Unemployment Assistance (PUA)	101,270
Other	76,878
Due from other Department and State funds	14,860
Due from component units of the State	443
Total current assets	<u>1,049,128</u>
Current liabilities	
Benefit payable - Other unemployment Insurance and related programs	328,431
Benefits payable - Pandemic Unemployment Assistance (PUA)	47,660
Benefits payable - Federal Pandemic Unemployment Compensation (FPUC) associated with Pandemic Unemployment Assistance (PUA)	101,270
Intergovernmental payables	8,051
Due to other Department and State funds	3,396
Short-term notes payable	236,939
Total current liabilities	<u>725,747</u>
Net position	
Restricted for payment of benefits	<u>\$ 323,381</u>

See Notes to Financial Statements.

**State of Illinois
Department of Employment Security**

**Unemployment Compensation Trust Fund
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2020
(Amounts in \$000's)**

	Unemployment Compensation Trust Fund
Operating revenues	
Contributions - Unemployment taxes	\$ 1,570,873
Total operating revenues	<u>1,570,873</u>
Operating expenses	
Benefit payments and refunds - unemployment insurance and related programs	8,571,035
Benefit payments and refunds - Pandemic Unemployment Assistance (PUA)	426,080
Benefit payments and refunds - Federal Pandemic Unemployment Compensation (FPUC) associated with Pandemic Unemployment Assistance (PUA)	833,690
Total operating expenses	<u>9,830,805</u>
Operating loss	<u>(8,259,932)</u>
Nonoperating revenues	
Contributions - Other unemployment insurance and related programs	4,780,432
Contributions - Pandemic Unemployment Assistance (PUA)	426,080
Contributions - Federal Pandemic Unemployment Compensation (FPUC) associated with Pandemic Unemployment Assistance (PUA)	833,690
Interest and investment income	41,590
Other revenue	49,837
Total nonoperating revenues	<u>6,131,629</u>
Loss before transfers	(2,128,303)
Transfers out	<u>(15,638)</u>
Change in net position	(2,143,941)
Net position, July 1, 2019	<u>2,467,322</u>
Net position, June 30, 2020	<u>\$ 323,381</u>

See Notes to Financial Statements.

**State of Illinois
Department of Employment Security**

**Unemployment Compensation Trust Fund
Statement of Cash Flows
Year Ended June 30, 2020
(Amounts in \$000's)**

	Unemployment Compensation Trust Fund
Cash flows from operating activities	
Contributions - Unemployment taxes received	\$ 1,619,749
Unemployment benefits paid - other unemployment insurance and related programs	(8,413,209)
Unemployment benefits paid - Pandemic Unemployment Assistance (PUA)	(378,420)
Unemployment benefits paid - Federal Pandemic Unemployment Compensation (FPUC) associated with Pandemic Unemployment Assistance (PUA)	<u>(732,547)</u>
Net cash used in operating activities	<u>(7,904,427)</u>
Cash flows from noncapital financing activities	
Contributions - other unemployment insurance and related programs	4,604,630
Contributions - Pandemic Unemployment Assistance (PUA)	378,520
Contributions - Federal Pandemic Unemployment Compensation (FPUC) associated with Pandemic Unemployment Assistance (PUA)	732,547
Miscellaneous receipts - FUTA credit	49,841
Transfers out	(13,339)
Transfer in	11
Short-term notes payable - loan from Federal government	<u>236,939</u>
Net cash provided by noncapital financing activities	<u>5,989,149</u>
Cash flows from investing activity	
Interest and investment income	<u>41,590</u>
Net cash provided by investing activity	<u>41,590</u>
Net decrease in cash and cash equivalents	(1,873,688)
Cash and cash equivalents, July 1, 2019	<u>2,133,018</u>
Cash and cash equivalents, June 30, 2020	<u>\$ 259,330</u>

(Continued)

**State of Illinois
Department of Employment Security**

**Unemployment Compensation Trust Fund
Statement of Cash Flows (Continued)
Year Ended June 30, 2020
(Amounts in \$000's)**

	Unemployment Compensation Trust Fund
<hr/>	
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (8,259,932)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Provision for uncollectible accounts	(118,029)
Changes in assets and liabilities:	
Taxes and other receivables	144,061
Intergovernmental receivables - other unemployment insurance and related programs	(27,208)
Due from State funds	(10,171)
Due from component units	(297)
Benefit payments payable - other unemployment insurance and related programs	213,249
Benefit payments payable - Pandemic Unemployment Assistance (PUA)	47,660
Benefit payments payable - Federal Pandemic Unemployment Compensation (FPUC) associated with Pandemic Unemployment Assistance (PUA)	101,270
Intergovernmental payables	4,970
Net cash used in operating activities	<u>\$ (7,904,427)</u>

See Notes to Financial Statements.

**State of Illinois
Department of Employment Security**

**Unemployment Compensation Trust Fund
Notes to Financial Statements
June 30, 2020
(Amounts in \$000's)**

Note 1. Description of Funds

The State of Illinois, Department of Employment Security (Department) administers the nonshared proprietary (enterprise) 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 for which the principal and income may be expended in the course of the UCTF's designated operations. The UCTF, 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. As a result of the COVID-19 pandemic, a number of new federally mandated benefit programs were added to the UCTF; most significantly, the Pandemic Unemployment Assistance (PUA) program and the Federal Pandemic Unemployment Compensation (FPUC) program. The PUA program provides up to 39 weeks of temporary unemployment benefits for individuals who have exhausted their entitlement to regular unemployment compensation (UC) as well as those who are not eligible for regular UC, individuals who are self-employed or have limited recent work history. The FPUC program provides a temporary emergency increase of \$600 dollars per week in unemployment compensation benefits to eligible individuals.

The UCTF is not appropriated by the General Assembly and is intended to be self-supporting; however, increased unemployment as a result of the pandemic has exhausted the UCTF, resulting in a loan from the Federal Government. Refer to Note 11 for more information.

Note 2. Summary of Significant Accounting Policies

The financial statements of the UCTF 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 UCTF 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, 2020 nor changes in its financial position or cash flows for the year then ended in conformity with GAAP.

**State of Illinois
Department of Employment Security**

**Unemployment Compensation Trust Fund
Notes to Financial Statements (Continued)
June 30, 2020
(Amounts in \$000's)**

Note 2. Summary of Significant Accounting Policies (Continued)

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 equity, 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 UCTF administered by the Department.

The UCTF is an enterprise fund. 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 UCTF 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 Department 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 to the UCTF 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. Historically in the State of Illinois, when the UCTF has been in deficit status, representatives from the business and labor communities meet and reach agreement, through what is commonly referred to as the agreed bill process, on solutions to restore the UCTF to solvency through legislative change.

Operating revenues are comprised of collections of unemployment tax contributions from employers and 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. Nonoperating revenues are comprised of Federal contributions (grants) for federally mandated programs including programs established as a result of the COVID-19 pandemic, as well as investment earnings. These revenues result from nonexchange transactions or ancillary activities.

**State of Illinois
Department of Employment Security**

**Unemployment Compensation Trust Fund
Notes to Financial Statements (Continued)
June 30, 2020
(Amounts in \$000's)**

Note 2. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

The UCTF 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.

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 UCTF 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. Nonoperating Contribution Revenues

Details of the reported balance of contributions from the Federal government 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 contribution receipts.

**State of Illinois
Department of Employment Security**

**Unemployment Compensation Trust Fund
Notes to Financial Statements (Continued)
June 30, 2020
(Amounts in \$000's)**

Note 2. Summary of Significant Accounting Policies (Continued)

F. Nonoperating Contribution Revenues (Continued)

Program	Revenue
Unemployment Compensation for Federal Employees	\$8,946
Unemployment Compensation for Ex-service members	4,728
Temporary Extended Unemployment Compensation	(68)
Emergency Unemployment Compensation 2008 (General Revenue funded)	4,576
Emergency Unemployment Compensation 2008 (FUTA funded)	(107)
Federal Additional Compensation	(782)
Extended Benefits	(380)
Emergency Unemployment Compensation 2008 (Non-General Revenue)	(593)
Federal Pandemic Unemployment Compensation	5,477,743
Pandemic Emergency Unemployment Compensation	120,059
Pandemic Unemployment Assistance	426,080
Total Nonoperating Contribution Revenue	\$6,040,202

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, 2020, cash and cash equivalents for the locally held UCTF had a carrying amount in the accompanying financial statements of \$200,355 and a bank balance of \$202,786.

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, 2020, 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**

**Unemployment Compensation Trust Fund
Notes to Financial Statements (Continued)
June 30, 2020
(Amounts in \$000's)**

Note 3. Deposits and Investments (Continued)

Investments held by the Federal government totaled \$58,975 as of June 30, 2020 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, 2020, 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, 2020, are as follows:

Unemployment taxes	\$ 496,809
Interest and penalties receivables on taxes	<u>150,525</u>
Total taxes receivable	647,334
Less allowance for uncollectible taxes	<u>(316,272)</u>
Taxes receivable, net	<u><u>\$ 331,062</u></u>

Note 5. Intergovernmental Receivables

Intergovernmental receivables represent reimbursements due from other State and local governments (\$41,684) for unemployment benefits paid to those governments' ex-employees and receivables due from the Federal government (\$324,871) for regular Unemployment Compensation, Pandemic Unemployment Assistance (PUA) and Federal Pandemic Unemployment Compensation (FPUC) associated with PUA. The \$324,871 due from the Federal government consists of \$175,941 for regular Unemployment Compensation, \$47,660 for PUA and \$101,270 for FPUC associated with PUA at June 30, 2020.

**State of Illinois
Department of Employment Security**

**Unemployment Compensation Trust Fund
Notes to Financial Statements (Continued)
June 30, 2020
(Amounts in \$000's)**

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, 2020 are as follows:

Other receivables	\$ 307,112
Less allowance for uncollectible receivables	<u>(230,234)</u>
Other receivable, net	<u><u>\$ 76,878</u></u>

Note 7. Interfund Balances and Activities

(a) Balances Due to and from Other Funds

The following balances at June 30, 2020 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	\$ 13,566	\$ -
Due from Title III Social Security and Employment Services Fund for reimbursement of unemployment benefits paid	6	-
Due from the Department of Transportation (DOT) for reimbursement of unemployment benefits to former employees of DOT	1,288	-
Due to Operating Fund for discretionary transfers of penalties and interests	-	3,390
Due to Operating Fund for discretionary transfers of nonsufficient funds (NSF) fees	-	6
Totals	<u><u>\$ 14,860</u></u>	<u><u>\$ 3,396</u></u>

Due from component units of the State of Illinois balance at June 30, 2020 of \$443 represents reimbursement of unemployment benefits paid to employees of State universities.

**State of Illinois
Department of Employment Security**

**Unemployment Compensation Trust Fund
Notes to Financial Statements (Continued)
June 30, 2020
(Amounts in \$000's)**

Note 7. Interfund Balances and Activities (Continued)

(b) Transfers

Interfund transfers out to other Department funds for the year ended June 30, 2020, were as follows:

Description/Purpose	Transfer Out to Other Fund
Discretionary transfers of penalties and interests to Operating Fund	\$ 15
Discretionary transfers of NSF fees to Operating Fund	<u>15,623</u>
Totals	<u><u>\$ 15,638</u></u>

Note 8. Intergovernmental Payables

Intergovernmental payables of \$8,051 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 UCTF financial statements.

Note 10. COVID/PUA/Overpayment

On March 11, 2020, the World Health Organization declared the coronavirus outbreak a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantine in certain areas and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread have had, and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Department operates.

In response to the pandemic, on March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security (CARES) Act which includes the Relief for Workers Affected by Coronavirus Act set out in Title II, Subtitle A. The CARES Act created new temporary programs to mitigate the economic effects of the pandemic. These new programs included but are not limited to:

- 1) Pandemic Unemployment Assistance (PUA): PUA provides up to 39 weeks of unemployment benefits to individuals who have exhausted their entitlement to regular unemployment compensation (UC) as well as coverage for individuals who are not eligible for regular UC such as individuals who are self-employed or who have limited recent work history.

**State of Illinois
Department of Employment Security**

**Unemployment Compensation Trust Fund
Notes to Financial Statements (Continued)
June 30, 2020
(Amounts in \$000's)**

Note 10. COVID/PUA/Overpayment (Continued)

- 2) Federal Pandemic Unemployment Compensation (FPUC): FPUC provides an emergency increase in unemployment compensation (UC). This program provides an additional \$600 dollars per week to weekly benefits for eligible individuals.
- 3) Pandemic Emergency Unemployment Compensation (PEUC): PEUC provides up to 13 weeks of additional unemployment compensation (UC) to individuals who have exhausted their regular unemployment benefits.

Under normal circumstances, individuals who are self-employed or have limited recent work history are not eligible to collect unemployment benefits. As the result of the CARES Act, the Department had to implement a new system for the Pandemic Unemployment Assistance (PUA) program. The new system went online May 14, 2020. The Department paid out \$378,520 in PUA benefits and \$732,547 in FPUC benefits associated with PUA from May 14, 2020 to June 30, 2020.

As of June 30, 2020, the Department recorded a liability for PUA related benefit claims amounting to \$148,930 that were submitted as of that date, but were not paid until after year end. An associated receivable from the Federal Government was also recorded for the same amount.

The Department has identified issues in its PUA program (including related FPUC) implementation. Slightly over 114,000 claimants were in paid status at the end of the fiscal year. This type of volume within a new program presents a risk. With any UI program, there are overpayments and there is expected to be overpayments in the PUA program. Overpayments exist both from implementation misunderstandings within the Department and claimant misunderstandings. There is also the inherent risk of fraud within any benefit program. Since there is no database of earnings and wages supporting this program, there are unique and pervasive opportunities for fraud.

With only six weeks experience with the PUA program prior to the end of the fiscal year, the Department had not developed any reasonable or reliable estimates relative to overpayments in the PUA program. Department management cannot establish a claim against a PUA program recipient until their claim is reviewed and a notification is sent to the claimant. In this case, there has not been enough time elapsed to provide both due process to the claimant or time for the limited Department staff to investigate specific claims. Once the period of investigation and due process is complete, the amount of overpayments could be material to the UCTF financial statements and collectability of the amount could be low.

Note 11. Title XII Federal Loan

Pursuant to the provisions of Title XII of the Social Security Act, as amended by the Emergency Unemployment Insurance Stabilization and Access Act of 2020, the Department received advances from the Federal Government. The UCTF was depleted due to extensive unemployment as a result of the COVID-19 pandemic. As a result, the Department began borrowing from the Federal Government to fulfill its mandate to pay benefits required by law. On June 23, 2020, the Department started taking advances from the Federal Government, and the total borrowing for fiscal year 2020 was \$236,939.

**State of Illinois
Department of Employment Security**

**Unemployment Compensation Trust Fund
Notes to Financial Statements (Continued)
June 30, 2020
(Amounts in \$000's)**

Note 11. Title XII Federal Loan (Continued)

Under the amended Emergency Unemployment Insurance Stabilization and Access Act of 2020, these loans are interest free through September 6, 2021, with interest accruing beginning on September 7, 2021. The Department projects that borrowing for the State will continue through at least calendar year 2021. The interest rate charged for a given calendar year is the earnings yield on the UCTF for the quarter ending December 31, of the previous calendar year, which is 2.2777%. Interest is due and payable to the Federal Government each September 30 and may not be paid from the UCTF or from federal funds. The Department's estimate of interest due on September 30, 2021, is approximately \$10,000. There is no explicit repayment schedule established for the advances to date.

Note 12. Subsequent Events

On March 11, 2021, President Biden signed the American Rescue Plan Act of 2021 (ARPA) into law. This Act amends certain provisions of the Emergency Unemployment Insurance Stabilization and Access Act (EUISAA) and the CARES Act, as amended, which are now extended, with some modifications, beyond their current expiration date of March 14, 2021, to September 6, 2021. Following is a summary of the amendments to the major Unemployment Insurance programs:

- a. Pandemic Unemployment Assistance (PUA) – PUA was extended, without interruption, to weeks of unemployment ending on or before September 6, 2021. The maximum number of weeks of PUA benefits was increased from 50 weeks to 79 weeks.
- b. Federal Pandemic Unemployment Compensation (FPUC) – The FPUC program, which expired July 31, 2020, was reauthorized to provide \$300 per week in supplemental benefits for the period from December 26, 2020, to September 6, 2021.
- c. Pandemic Emergency Unemployment Compensation (PEUC) – The end of the period of applicability for the PEUC program was extended, without interruption, to weeks of unemployment ending on or before September 6, 2021.

ARPA also created a new program - Mixed Earners Unemployment Compensation (MEUC). The MEUC program was created beginning January 2, 2021, to provide an additional \$100 supplemental weekly payment to eligible individuals, was extended, without interruption, through the week ending September 6, 2021.

**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***

RSM US LLP

Independent Auditor's Report

Honorable Frank J. Mautino
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, 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, 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, 2020, and the related notes to the financial statements, which collectively comprise the Trust Fund's financial statements, and have issued our report thereon dated July 15, 2021. That report contained a qualified opinion due to material weaknesses in internal control over a new benefit system, for which we were unable to obtain sufficient appropriate audit evidence to conclude whether Pandemic Unemployment Assistance (PUA) and Federal Pandemic Unemployment Compensation (FPUC) benefit programs' payables, receivables, revenues and expenses were free of material misstatement.

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 financial statements. 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 2020-001 through 2020-007.

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) as a basis for designing 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 Department's 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 have not been identified. However, as described in the accompanying Schedule of Findings, we did identify certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

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 2020-001 through 2020-006 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 deficiency described in the accompanying Schedule of Findings as item 2020-007 to be a significant deficiency.

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
July 15, 2021

**State of Illinois
Department of Employment Security**

**Schedule of Findings
For the Year Ended June 30, 2020**

Current Findings – Government Auditing Standards

**Finding 2020-001 Failure to Implement General Information Technology Controls over the
Pandemic Unemployment Assistance System**

The Department of Employment Security (Department) failed to implement general Information Technology (IT) controls over the Pandemic Unemployment Assistance (PUA) System (system).

In April 2020, the Department contracted with a service provider to provide the system as a Software as a Service (SaaS) and to provide hosting services for the system. The service provider maintained full control over the system. As of June 30, 2020, the Department had issued \$1.1 billion in Pandemic Unemployment Assistance through the system.

In order to determine if the general IT controls were suitably designed and operating effectively over the system, we requested the Department provide a System and Organization Controls (SOC) report for the service provider. However, the Department could not provide a SOC report, as the contract did not require the service provider to undergo a SOC examination. Therefore, we conducted testing over the general IT controls of the system. Our testing noted:

Change Control

We requested the Department provide a population of changes made to the system during the period of May 11, 2020 through June 30, 2020. Although the Department provided a population, the Department did not provide documentation demonstrating the population was complete and accurate. Due to these conditions, we were unable to conclude the Department's population of changes to the system were sufficiently precise and detailed under the Audit Standards promulgated by the American Institute of Certified Public Accountants (AU-C § 330, AU-C § 530). Additionally, we could not determine if there were potentially other changes made to the system.

Despite the population limitations noted above, we performed testing on a sample of the changes provided.

During our audit of system change control, we noted documented change control procedures did not address requirements for prioritization, approvals, testing and post implementation reviews. Even with the weaknesses identified, out of a population of 30 system changes, we selected a sample of five (17%) to determine if they were approved prior to being moved to the production environment and whether proper segregation of duties existed. The results of our testing showed documentation could not be provided demonstrating the changes were approved prior to being moved into the production environment. Additionally, documentation could not be provided demonstrating programmers' access to the production environment was restricted.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2020**

Current Finding – Government Auditing Standards

**Finding 2020-001 Failure to Implement General Information Technology Controls over the
Pandemic Unemployment Assistance System (Continued)**

Security

In order to test security controls over the system, we requested the Department provide populations of users granted and terminated access during the audit period. Although the Department provided the populations, they did not provide documentation demonstrating the completeness and accuracy of the populations. Due to these conditions, we were unable to conclude the Department's populations were sufficiently precise and detailed under the Audit Standards promulgated by the American Institute of Certified Public Accountants (AU-C § 330, AU-C § 530). As such, we could not determine if there were potentially other individuals who had access to the system.

Despite the populations limitations noted above, we performed testing of the security controls.

Our testing of the security controls noted:

- The Department had not implemented formal access provisioning policies.
- The Department could not provide documentation demonstrating access and the applicable access roles were properly and timely approved.
- The Department could not provide documentation demonstrating the users' access was timely terminated.
- Seven of 36 (19%) terminated accounts were terminated due to duplicated user accounts.
- The Department had not conducted a review of access rights to the system during the audit period.

Disaster Recovery

The Department had not developed a disaster recovery plan in order to recover the system in the event of a disaster.

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 funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation and maintain accountability over the State's resources.

The *Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology (NIST), Maintenance and System and Service Acquisition sections, requires entities outsourcing their IT environment or operations to obtain assurance over the entities' internal controls related to the services provided. Such assurance may be obtained via System and Organization Control reports or independent reviews. In addition, the Access Control section sanctions the appropriateness of access rights, timely termination, and periodic review of access rights to ensure appropriateness. The Configuration Management section also enforces logical restrictions with changes to systems. Furthermore, the Contingency Planning section makes compulsory the development of a detailed disaster recovery plan.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2020**

Current Finding – Government Auditing Standards

**Finding 2020-001 Failure to Implement General Information Technology Controls over the
Pandemic Unemployment Assistance System (Continued)**

Department management stated the implementation of multiple new pandemic-related federal Unemployment Insurance programs resulted in significant strain on outdated information technology systems and insufficient skilled staffing resources.

As a result of the Department's failure to obtain a SOC report or ensure the general IT controls were suitably designed and operating effectively over the system, we were unable to rely on the system with respect to claimant eligibility and whether benefit payments made were in accordance with federal requirements. (Finding Code No. 2020-001)

Recommendation

We recommend the Department ensure the contract with the service provider includes requirements for independent review of internal controls, such as a SOC Report.

Additionally, we recommend the Department develop internal controls to maintain documentation demonstrating populations of changes and system user access are complete and accurate.

We also recommend the Department:

- Develop detailed policies and procedures documenting internal controls over changes and security access provisioning.
- Ensure all system changes are properly approved.
- Ensure proper segregation of duties over changes.
- Ensure documentation of user access approval is maintained.
- Ensure users' access is timely terminated and documentation is maintained.
- Ensure user access reviews are conducted at least annually.

Further, we recommend the Department work with the service provider to develop a detailed disaster recovery plan for the recovery of the system and the claimants' data.

Department Response

The Department accepts the audit finding. Although it is too late for the current audit year, contractual arrangements are being made to secure a SOC 1, type 2 report for the PUA program. The Department has also worked with the service provider for the PUA program to document existing internal controls over PUA and develop controls where there were missing gaps. These controls address the items listed in the finding recommendation along with adding other needed controls and/or documentation.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2020**

Current Finding – Government Auditing Standards

Finding 2020-002 Failure to Accurately Determine Claimants’ Eligibility for Pandemic Unemployment Assistance

The Department of Employment Security (Department) failed to ensure Pandemic Unemployment Assistance claimants met eligibility requirements.

On March 27, the President of the United States signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act which provided states the ability to provide unemployment insurance to individuals affected by the pandemic, including those who would not normally be eligible for unemployment.

The CARES Act created three temporary unemployment programs:

- Pandemic Unemployment Assistance (PUA) Program - provided benefits to individuals who were self-employed, seeking part-time work, or did not qualify for regular Unemployment Insurance (UI). Benefits may be retroactive to January 27, 2020, if the individual was unable to obtain work or full-time work due to COVID-19, through December 31, 2020.
- Pandemic Emergency Unemployment Compensation (PEUC) Program - provided an additional 13 weeks of unemployment benefits for regular UI claimants.
- Federal Pandemic Unemployment Compensation (FPUC) Program - additional federal benefits (\$600 weekly) were provided to individuals who were collecting certain regular UI benefits.

In order to obtain PUA benefits, a claimant was required to complete an application within the service provider’s PUA system. As part of the application process, the claimant had to complete the identity verification, self-attest they met the COVID-19 related reasons for lack of employment, and if attempting to receive more than the minimum payment, complete the wage verification information. The Department was then required to verify the wage information in order to determine if the claimant was eligible for more than the \$198 minimum weekly PUA benefit. Claimants who were eligible for PUA benefits were also automatically eligible to receive the additional \$600 in weekly FPUC benefits. As of June 30, 2020, 114,984 claimants had received PUA and FPUC benefits totaling \$1,110,958,318.

Although our testing determined the Department failed to implement general information technology controls over the PUA system (see Finding 2020-001), we conducted various data analyses to conclude if claimants were eligible to receive PUA and FPUC benefits through June 30, 2020.

The specific errors noted include:

- The Department did not validate the wages of all claimants receiving more than the minimum weekly payment amount of \$198. The total amount paid for PUA above the minimum was \$96,931,104.
- 4,579 claimants’ identities were not validated. Additionally, the Department had not completed follow up actions to verify the identities of these claimants. The total PUA and FPUC benefits paid to these claimants was \$41,697,272.
- 638 claimants receiving PUA and FPUC benefits also received regular UI benefits. These claimants received UI benefits totaling \$3,933,331 and PUA and FPUC benefits totaling \$4,315,648.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2020**

Current Finding – Government Auditing Standards

**Finding 2020-002 Failure to Accurately Determine Claimants’ Eligibility for Pandemic
Unemployment Assistance (Continued)**

- 1,176 claimants had an active UI claim during the period in which they were also receiving PUA and FPUC benefits; however, no UI benefits were paid. The claimants received PUA and FPUC benefits totaling \$8,950,394.
- 266 claimants received PUA and FPUC benefits totaling \$2,668,266; however, the claimants’ birthdays were the same day or later than the date of the claim. The birthdate of the claimants ranged from the same day as the application for benefits to 2029.
- 35 claimants were deceased at the time of receiving PUA and FPUC benefits. This was determined by matching the Social Security number on the application with records maintained by the Social Security Administration. The claimants were paid PUA and FPUC benefits totaling \$343,670.

The United States Code (15 U. S. Code § 9021 (h)) documents the relationship between Pandemic Unemployment Assistance and Disaster Unemployment Assistance (DUA). Except as otherwise provided in this section or to the extent there is a conflict between this section and section 625 of title 20, Code of Federal Regulations, such section 625 shall apply to this section as if-

- (1) the term “COVID-19 public health emergency” were substituted for the term “major disaster” each place it appears in such section 625; and
- (2) the term “pandemic” were substituted for the term “disaster” each place it appears in section 625.

The Code of Federal Regulations (Code) (20 C. F. R. 625.6 (e)) states the State agency shall immediately determine, upon filing of an initial application for DUA, a weekly amount under the provisions of paragraphs (a) through (d) of this section, as the case may be, based on the individual’s statement of employment or self-employment preceding the individual’s unemployment that was a direct result of the major disaster, and wages earned or paid for such employment or self-employment. An immediate determination of a weekly amount shall also be made where, in conjunction with the file of the initial application for DUA, the individual submits documentation substantiating employment or self-employment and wages earned or paid for such employment or self-employment, or in the absence of documentation, where any State agency records of employment or self-employment and wages earned or paid for such employment or self-employment, justify the determination of a weekly amount.

- (1) In the case of a weekly amount determined in accordance with paragraph (e) of this section, based only on the individual’s statement of earnings, the individual shall furnish documentation to substantiate the employment or self-employment or wages earned from or paid for such employment or self-employment or documentation to support that the individual was to commence employment or self-employment on or after the date of the major disaster began. In either case, documentation shall be submitted within 21 calendar days of the filing of the initial application for DUA.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2020**

Current Finding – Government Auditing Standards

**Finding 2020-002 Failure to Accurately Determine Claimants’ Eligibility for Pandemic
Unemployment Assistance (Continued)**

- (2) Any individual who fails to submit documentation to substantiate employment or self-employment in accordance with paragraph (e)(1) of this section, shall be determined ineligible for the payment of DUA for any week of unemployment due to the disaster. Any weeks for which DUA was already paid on the application prior to the date of the determination of ineligibility under this paragraph (e)(2) are overpaid and a determination shall be issued in accordance with § 625.14(a). In addition, the State agency shall consider whether the individual is subject to disqualification for fraud in accordance with the provisions set forth in § 625.14(i).

The United States Department of Labor, Unemployment Insurance Program Letter (UIPL) No. 16-20, dated April 5, 2020, requires states to:

- Maintain Program Integrity. Specifically, the programs and provisions in the CARES Act operate in tandem with the fundamental eligibility requirements of the Federal-State UI program and must be adhered to. In addition, some of the CARES Act programs include new eligibility requirements in which states will need to apply. These requirements include that individuals are only entitled to benefits if they are no longer working through no fault of their own and that individuals must be able and available to work.

Further, the states play a fundamental role in ensuring the integrity of the UI program, while having some flexibility as a result of COVID-19. States must ensure that individuals only receive benefits in accordance with these statutory provisions.

- Properly establish eligibility. Section 2102 of the CARES Act provides for payment of PUA to “covered individuals”. “Covered individuals” are those individuals not qualified for regular unemployment compensation, extended benefits under state or Federal law, or pandemic emergency unemployment (PEUC), including those who have exhausted all rights to such benefits. “Covered individuals” include self-employed, individuals seeking part time employment, individuals lacking sufficient work history, or those otherwise not qualified for regular unemployment compensation, extended benefits under state or federal law, or PEUC.

Further, in processing claims for PUA, states must verify that individuals have no regular UI entitlement. If the individual is not eligible for regular UI because there are insufficient covered wages or the individual has an active UI claim with a definite or indefinite disqualification, then a state does not need to require the individual to file a regular UI initial claim. However, the state must have an established process whereby the individual’s ineligibility for regular UI is documented on the application.

UIPL 16-20, Change 1, dated April 27, 2020, further clarified states must also determine whether the individual is eligible for regular Unemployment Compensation in another state.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2020**

Current Finding – Government Auditing Standards

**Finding 2020-002 Failure to Accurately Determine Claimants’ Eligibility for Pandemic
Unemployment Assistance (Continued)**

Department management stated the implementation of multiple new pandemic-related federal UI programs resulted in significant strain on outdated information technology systems and insufficient skilled staffing resources.

Failure to accurately document PUA eligibility resulted in potentially ineligible claimants receiving benefits totaling \$154,906,354. Noncompliance with federal laws and regulations could lead to sanctions and/or loss of future federal funding. Due to the absence of adequate information to support the eligibility of paid claimants as described above, the amounts recorded could not be audited. Accordingly, the auditor’s opinion on the financial statements of the Unemployment Compensation Trust Fund was qualified. This qualification will continue until the Department can provide auditable evidence in support of the PUA claimant eligibility as it relates to the issues noted above. (Finding Code No. 2020-002)

Recommendation

We recommend the Department implement controls to ensure individuals are eligible to receive benefits prior to payment. Additionally, we recommend the Department ensure all staff are trained on the requirements to ensure eligibility is properly and timely determined.

Department Response

The Department accepts the recommendation. The Department has been engaged in an ongoing effort to quickly implement the PUA program accurately as well as respond to additional information and program changes issued by the USDOL in subsequent UIPLs. When subsequent UIPLs have been issued, including those outside of this audit period, appropriate controls are being established and staff receive updated training.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2020**

Current Finding – Government Auditing Standards

Finding 2020-003 Inadequate Controls over Pandemic Unemployment Assistance Program Processes

The Department of Employment Security (Department) did not implement adequate controls over the Pandemic Unemployment Assistance (PUA) program processes.

On March 27, the President of the United States signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act which provided states the ability to provide unemployment insurance to individuals affected by the pandemic, including those who would not normally be eligible for unemployment.

Although our testing determined the Department failed to implement general information technology controls over the PUA system (see Finding 2020-001), we conducted testing over the Department's process to administer the PUA program. Our testing noted:

- The PUA system process did not have edits in place to flag questionable claims. Specifically, we noted:
 - 63 claimants, who were 90 years or older, were receiving benefits. The claimants' benefits totaled \$658,008.
 - 164 claimants, who were between the ages of birth to 13 years of age, were receiving benefits. The claimants' benefits totaled \$1,500,309.
 - 31 claimants had multiple Social Security numbers and multiple claimant IDs. The claimants' benefits totaled \$578,415.
- The PUA system did not have a process to provide the Department with a report of identified claimants who were noted to have a potential issue with their eligibility.
- The PUA system did not have the ability to create 'Notices of Overpayment' to be provided to the claimants.

The *Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology (NIST), Audit and Accountability section, sanctions development of processes to ensure problems and errors are recorded, analyzed and resolved. Further, the System and Information Integrity section endorses the development of processes to identify, report and correct system flaws.

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 funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation and maintain accountability over the State's resources.

Department management stated the implementation of multiple new pandemic-related federal Unemployment Insurance programs resulted in significant strain on outdated information technology systems and insufficient skilled staffing resources.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2020**

Current Finding – *Government Auditing Standards*

Finding 2020-003 Inadequate Controls over Pandemic Unemployment Assistance Program Processes (Continued)

Failure to implement adequate controls over the PUA program processes has resulted in claimants receiving questionable benefits and the system limitations hinder the Department's ability to properly and timely communicate with claimants. (Finding Code No. 2020-003)

Recommendation

We recommend the Department implement controls to ensure the PUA system has adequate business edits in place and the ability to produce reports documenting eligibility issues and correspondence in a timely manner.

Department Response

The Department accepts the audit finding. As mentioned in the previous response, during the audit period, the Department has been engaged in ongoing efforts to quickly implement the PUA program accurately as well as respond to additional information and program changes issued by the USDOL in subsequent UIPLs. In October 2020, the Department had the service provider perform edit checks and post eligibility issues on claimants with dates of birth prior to 1940. In March of 2021, the service provider added the Identity Element Notification (IEN) tool to the Experian Identity Verification process. This tool detects if the characteristics of the individual appear in multiple locations. The Department also tasked the service provider with implementing new edits and changes to the program as of July 1, 2021 to improve aspects of claimant eligibility issue findings. The edits implemented involve flagging questionable claims identified during the identity verification process and creating and posting an issue. The issue prompts the appropriate correspondence to be generated informing the claimant of the pending issues and the required information to resolve the issue. The necessary correspondence for providing claimants notice of overpayments has been in place since December 2020.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2020**

Current Finding – Government Auditing Standards

Finding 2020-004 Failure to Perform Timely Cash Reconciliations

The Department of Employment Security (Department) did not prepare monthly bank reconciliations for October 2019 through June 2020 timely.

As part of our audit, we requested copies of monthly bank reconciliations pertaining to the fiscal year. The reconciliation is between cash as recorded in the Department's general ledger, and cash as reported by the bank for each account. As of December 2020, the month of September 2019 was the last monthly bank reconciliation that was completed. Beginning in January 2021, the Department began completing the late reconciliations. We received the final version of the June 2020 reconciliation on April 13, 2021. After completing the reconciliations, adjustments to the general ledger were recorded to increase cash by \$10.7 million.

The timely reconciliation of cash accounts is a basic control procedure that should occur every month to determine the recorded amount of cash is accurate. Normally this procedure is performed shortly after the end of the month upon receipt of the bank statement. Most organizations have a regular monthly accounting schedule whereby the monthly general ledger cannot be closed without the preparation of the cash reconciliation.

Concepts Statement No. 1 of the Governmental Accounting Standards Board, Objectives of Financial Reporting (GASBCS 1, paragraph 64), states, "Financial reporting should be reliable; that is, the information presented should be verifiable and free from bias and should faithfully represent what it purports to represent. To be reliable, financial reporting needs to be comprehensive." The reconciliation of cash accounts is a basic control to ensure the accuracy and reliability of financial reports.

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. This includes the timely performance of bank reconciliations.

Department management indicated the weaknesses were due to turnover in personnel and the inability to quickly move employees into this area to perform this function.

Since the Department has numerous cash transactions every month, the risk of error due to misapplied cash transactions is significant. Monthly there can be over \$1 billion that flows through the Department's various cash accounts. Monthly and annual financial statements could be materially misstated due to the lack of timely bank reconciliations. Failure to properly complete timely bank reconciliations could also result in a misuse or misappropriation of cash that could go undetected. (Finding Code No. 2020-004)

Recommendation

The Department should prepare a monthly reconciliation for every cash account, reconciling the bank and general ledger balances. Each monthly bank reconciliation should be timely completed and reviewed and approved by a supervisor.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2020**

Current Finding – *Government Auditing Standards*

Finding 2020-004 Failure to Perform Timely Cash Reconciliations (Continued)

Department Response

The Department accepts this finding. Absent adequate staffing levels to address this internally, the Department has engaged an outside accounting firm to provide the services of qualified accounting personnel to assist in performing timely cash reconciliations and to help in establishing more efficient and improved processes. We are also pursuing the hiring of full-time additional staff to fill vacancies in the accounting services division and as of July 1, 2021, we have posted seven (7) of the eleven (11) vacancies and hired 2 additional accounting support staff, while working through our new HCM recruiting guidelines to post an additional four (4) vacancies in the accounting services division.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2020**

Current Finding – Government Auditing Standards

Finding 2020-005 Inadequate Controls over Accruals

The Department of Employment Security (Department) did not have sufficient internal control over the determination of accruals for payments related to both the Unemployment Insurance program (UI) and the Pandemic Unemployment Assistance Program (PUA).

The Department initially recorded both the UI and PUA accruals based on the week covered, regardless of when the claimant became eligible to receive the benefit. An entry was recorded in the amount of \$1.08 billion to reverse these accruals as the accrual criteria used was not appropriate.

To correct the error, the Department recorded an adjustment for \$264 million to record the UI payable based on claimants who certified their eligibility prior to year-end, but were paid after year-end. As certification is the final step of the eligibility determination for UI, this was determined to be the appropriate criteria for determining the liability for benefits owed to claimants at year-end.

In evaluating the PUA accrual, management was unable to determine when claimants met all eligibility requirements as limitations within the system did not track all necessary data for this analysis. Additionally, there was a large backlog of unprocessed paperwork filed by claimants which would need to be considered to determine when a claimant became eligible. The large increase in volume of claims led to this backlog not being processed timely, compounding the issue. Despite these limitations, management recorded their best estimate of amounts owed at year-end (\$149 million).

GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, states providers should recognize liabilities and expenses from voluntary nonexchange transactions when all applicable eligibility requirements, including time requirements, are met. As a provider, the Department provides benefits to claimants. As a recipient of federal awards pertaining to the PUA program, Statement No. 33 states recipients should recognize receivables and revenues when all applicable eligibility requirements, including time requirements, are met. As a recipient, the Department receives federal funding pertaining to the PUA program.

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 funds 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.

Department management indicated the weaknesses were due to oversight, lack of adequate communication, and the extreme increase in volume due to the need for pandemic unemployment assistance.

As a result of the lack of internal control in this area, the Department's draft financial statements were materially misstated. Due to the absence of adequate information to support the eligibility of accrued claimants, the amount of the accrual could not be audited. Accordingly, the auditor's opinion on the financial statements of the Unemployment Compensation Trust Fund was qualified. This qualification will continue until the Department can provide auditable evidence in support of the PUA claimant accrual. (Finding Code No. 2020-005)

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2020**

Current Finding – *Government Auditing Standards*

Finding 2020-005 *Inadequate Controls over Accruals (Continued)*

Recommendation

We recommend the Department develop a process to capture required data to determine which claimants met eligibility requirements prior to year-end. In addition, manual documents received from claimants need to be worked on a more timely basis so that claimants that are due funds are paid in the proper period.

Department Response

The Department accepts this audit finding. The Department's Accounting and IT divisions, including the service provider contracted to implement the PUA program, are meeting to discuss the process needed to capture the required data to determine which claimants met the eligibility requirements as of year-end.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2020**

Current Finding – Government Auditing Standards

Finding 2020-006 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 for benefit overpayments and the related allowance for doubtful accounts, we noted the allowance decreased significantly from the prior year. When management was asked to explain the cause of this condition, they initially communicated to us that increased collection efforts and the recent implementation of GenTax contributed to the decrease. However, upon further testing, we determined the methodology employed by the Department did not account for the impact of the pandemic and the expected reduction in future collections of benefit overpayments from beneficiaries. The Department later revised and updated its methodology to determine a more accurate allowance which resulted in an increase to the allowance of approximately \$123 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 funds 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's lack of consideration of the pandemic on the expected future collection of overpayment receivables.

Recording an allowance for doubtful accounts that is not reflective of all known events and conditions has and will continue to result in misstatements of accounts receivable. (Finding Code No. 2020-006, 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 this audit finding. Given the Department staff shortages and increased workload due to the pandemic, the Department has engaged an outside accounting firm to help with the backlog of work to enable examination of assumptions, estimates, and processes to calculate a reasonable allowance for bad debt for the financial statements.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2020**

Current Finding – Government Auditing Standards

Finding 2020-007 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 testing of GenTax security, we noted:

- 2 of 8 (25%) individuals tested did not have a completed Request for Access to Illinois Department of Revenue System (CSB-154) signed by an authorized supervisor.
- 1 of 8 (13%) individuals tested completed safeguard training after access was granted to GenTax.
- The Department could not provide documentation demonstrating access for 4 of 7 (57%) terminated individuals had been revoked.

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

Additionally, the GenTax Security Request Procedures states in order to obtain access to GenTax the employee's supervisor is to submit:

- Information documenting completion of the Safeguard Training,
- Completed CSB-154, Request for Access to Illinois Department of Revenue Systems, and Completed User Profile Template.

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 systems.

Furthermore, 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.

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

Failure to properly complete all required training, approved access requests, and disable users' access in a timely manner put the Department at risk of unauthorized access to GenTax. (Finding Code No. 2020-007, 2019-005, 2018-008)

Recommendation

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

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2020**

Current Finding – *Government Auditing Standards*

Finding 2020-007 *Inadequate Controls over GenTax Access (Continued)*

Department Response

The Department accepts the findings and has developed procedures to track, control and monitor GenTax access. The Department conducted a comprehensive GenTax access review in November 2020 that evaluated security rights and removed access for users that no longer needed GenTax to perform their duties.

State of Illinois

Department of Employment Security

**Schedule of Prior Year Findings
For the Year Ended June 30, 2020**

Prior Findings Not Repeated – *Government Auditing Standards*

A. Inaccurate Refunds Payable

During the previous audit, 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 the current audit, we noted the Department appropriately adjusted refunds payable for uncashed checks. We selected a sample of refunds payable and found no errors in our testing. (Finding Code 2019-002)

B. Inadequate Controls over Penalty and Interest Receivables

During the previous audit, 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 the current audit, we selected a sample of penalty and interest receivables and found no errors in our testing. (Finding Code 2019-003)

C. Inadequate Controls over Write Offs

During the previous audit, the Department of Employment Security (Department) conducted write offs prior to obtaining the required Attorney General Approval.

During the current audit, our sample testing did not indicate any errors relating to the approval and recording of write offs. (Finding Code 2019-004)