STATE OF ILLINOIS
DEPARTMENT OF EMPLOYMENT SECURITY

COMPLIANCE EXAMINATION
FOR THE TWO YEARS ENDED JUNE 30, 2015

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

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

State of Illinois
Department of Employment Security

Compliance Examination
For the Two Years Ended June 30, 2015

Table of Contents | **Page**

Financial Statement Report:

The Department's financial statement report for the year ended June 30, 2015, which includes Independent Auditors' Report, Basic Financial Statements and Notes to Financial Statements, and the Independent Auditors' 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* has been issued separately.

Table of Contents (Continued)

Agency Officials

Director	Mr. Jeffrey D. Mays
Chief of Staff	Ms. James McDonough
Deputy Director Service Delivery Bureau	Ms. Trina Taylor
Deputy Director Business Services Bureau	Ms. Dolores Simon
Chief Legal Counsel	Mr. Joseph P. Mueller
Chief Financial Officer	Ms. Linda DeMore
Chief Internal Auditor	Mr. Rex Crossland
Chief Information Officer	Ms. Monica Carranza
Chief Technology Officer	Mr. Thomas Revane
Equal Employment Opportunity Officer	Ms. Ana D'Ascenzo
Manager, Accounting Services Division	Mr. L. Briant Coombs
Manager, Economic Information and Analysis Division	Ms. Evelina Loescher, PhD
Manager, Revenue Division	Ms. Lois Cuevas
Statewide Manager, Field Operations	Ms. Janice Taylor Brown
Statewide Manager, Unemployment Insurance Programs	Mr. Justin Brissette

The Department's Administrative offices are located at:

33 South State Street	607 East Adams Street, 9th floor
Chicago, IL 60603-2802	Springfield, IL 62701-1606

ILLINOIS DEPARTMENT OF EMPLOYMENT SECURITY

Bruce Rauner
Governor

Jeffrey D. Mays
Director

April 25, 2016

RSM US LLP
Certified Public Accountants
20 N. Martingale Road
Schaumburg, Illinois 60173

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Illinois Department of Employment Security (Department). We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements, except as disclosed to the auditors during the engagement. We have performed an evaluation of the Department's compliance with the following assertions during the two-year period ended June 30, 2015. Based on this evaluation, we assert that during the years ended June 30, 2015 and June 30, 2014, the Agency has materially complied with the assertions below.

A. The Department has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The Department has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. The Department has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. State revenues and receipts collected by the Department are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

E. Money or negotiable securities or similar assets handled by the Department on behalf of the State or held in trust by the Department have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours truly,

Illinois Department of Employment Security

Jeffrey D Mays

Jeffrey Mays, Director

Linda DeMore, Chief Financial Officer

Joseph Mueller, General Counsel

COMPLIANCE REPORT

SUMMARY

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

ACCOUNTANTS' REPORT

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

Number of	Current Report	Prior Report
Findings	9	7
Repeated findings	5	4
Prior recommendations implemented or not repeated	2	3

SCHEDULE OF FINDINGS

Item No.	Page	Description	Finding Type
		FINDINGS (*GOVERNMENT AUDITING STANDARDS*)	
2015-001	10	Inadequate Controls over Tax Rate Information Used to Calculate Employer Contributions	Material Weakness
		FINDINGS (STATE COMPLIANCE)	
2015-002	11	Noncompliance with Unemployment Insurance Act	Noncompliance and Significant Deficiency
2015-003	13	Performance Evaluation Not Completed Timely	Noncompliance and Significant Deficiency
2015-004	15	Untimely Issuance of Eligibility Determinations	Noncompliance and Significant Deficiency
2015-005	17	Noncompliance with Statutes and Regulation on Internal Auditing	Noncompliance and Significant Deficiency
2015-006	19	Inadequate Controls Over Travel Reimbursements	Noncompliance and Significant Deficiency
2015-007	21	Inadequate Controls Over Telecommunication Devices	Noncompliance and Significant Deficiency
2015-008	23	Inadequate Controls Over Property and Equipment Records	Noncompliance and Significant Deficiency
2015-009	26	Noncompliance with the Veterans' Employment Representative Act	Noncompliance and Significant Deficiency

SCHEDULE OF FINDINGS (CONTINUED)

In addition, the following finding which is reported as current findings relating to *Government Auditing Standards* also meets the reporting requirements for State Compliance.

2015-001	Inadequate Controls over Tax Rate Information Used to Calculate Employer Contributions	Material Noncompliance and Material Weakness

PRIOR FINDING NOT REPEATED

A	28	Inadequate Controls Over Financial Close and Reporting
B	28	Interagency Agreement Not Executed in a Timely Manner

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference conducted on April 14, 2016. Attending were:

<u>Illinois Department of Employment Security</u>
Jeffrey D. Mays, Director
Joseph P. Mueller, Legal Counsel
Linda DeMore, Chief Financial Officer
Rex Crossland, Chief Internal Auditor
Monica Carranza, Chief Information Officer
Jared Thornley, Chief Administrative Officer
Justin Brissette, Unemployment Insurance Program Manager
Trina Taylor, Department Director of Benefit Services
Richard Wuthrich, Statewide Manager of Veterans Program
James M. Schreiber, Audit Liaison
L. Briant Coombs, Manager, Accounting Services
Elba Accevado, Manager of Accounting and Reporting

<u>Office of the Auditor General</u>
Kathleen Devitt, Senior Audit Manager
Thomas Kizziah, Audit Manager
Daniel J. Nugent, Audit Manager

<u>RSM US LLP</u>
Joseph Evans, Partner
Sean Hickey, Senior Manager

Responses to the recommendations were provided by James M. Schreiber, Audit Liaison, in correspondence dated April 19, 2016.

RSM US LLP

Independent Accountants' Report on State Compliance,
on Internal Control Over Compliance and on
Supplementary Information for State Compliance Purposes

Honorable Frank J. Mautino
Auditor General
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the Illinois Department of Employment Security's (Department) compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the two years ended June 30, 2015. The management of the Department is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Department's compliance based on our examination.

A. The Department has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The Department has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. The Department has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. State revenues and receipts collected by the Department are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

E. Money or negotiable securities or similar assets handled by the Department on behalf of the State or held in trust by the Department have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Department's compliance with those requirements listed in the first paragraph (items A through E) of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Department's compliance with specified requirements.

As described in item 2015-001 in the accompanying schedule of findings, the Department did not comply with requirements regarding applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations (requirement C). Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements listed in the first paragraph of this report.

In our opinion, except for the noncompliance described in the preceding paragraph, the Department complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the two years ended June 30, 2015. However, the results of our procedures disclosed other instances of noncompliance with the requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as items 2015-002 to 2015-009.

Internal Control

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the Department's internal control over compliance with the requirements listed in the first paragraph of this report to determine the examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2015-001 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2015-002 to 2015-009 to be significant deficiencies.

As required by the Audit Guide, immaterial findings excluded from this report have been reported in a separate letter to your office.

The Department's responses to the findings identified in our examination are described in the accompanying schedule of findings. We did not examine the Department's responses and, accordingly, we express no opinion on the responses.

Supplementary Information for State Compliance Purposes

Our examination was conducted for the purpose of forming an opinion on compliance with the requirements listed in the first paragraph of this report. The accompanying supplementary information for the years ended June 30, 2015 and June 30, 2014 in Schedules 1 through 13 and the Analysis of Operations Section is presented for purposes of additional analysis. We have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the June 30, 2015 and June 30, 2014 accompanying supplementary information in Schedules 1 through 13. However, we do not express an opinion on the accompanying supplementary information.

We have not applied procedures to the June 30, 2013 accompanying supplementary information in Schedules 3 to 4, Schedule 7, Schedules 9 to 10, and Schedule 12 in the Analysis of Operations Section, and accordingly, we do not express an opinion or provide any assurance on it.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, agency 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.

RSM US LLP

Schaumburg, Illinois
April 25, 2016

Independent Auditors' 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 (Individual Nonshared Proprietary Funds) of the State of Illinois, Department of Employment Security (Department), as of and for the year ended June 30, 2015, and the related notes to the financial statements for the year ended June 30, 2015, and have issued our report thereon dated January 29, 2016.

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 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 were not identified. However, as described in the accompanying schedule of finding, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 deficiency described in the accompanying schedule of finding as item 2015-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Individual Nonshared Proprietary Funds of the Department'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Department's Response to Finding

The Department's response to the finding identified in our audit is described in the accompanying schedule of finding. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and 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.

RSM US LLP

Schaumburg, Illinois
January 29, 2016

Current Finding - *Government Auditing Standards*

2015-001 Inadequate Controls over Tax Rate Information Used to Calculate Employer Contributions

The Illinois Department of Employment Security (IDES) erroneously overcharged tax contributions for new employers in 2013 through 2015.

During our audit, Department management notified us that during their routine preparation of tax rates for calendar year 2016, the Department discovered calculation errors in its system program that erroneously inflated average industry tax rates for 2013 through 2015, impacting employers in the administrative, support/waste management, construction, company management, manufacturing, mining, information, transportation/warehousing, and unclassified industries. An adjusting entry in the amount of $21.8 million consisting of $14.9 million in employer tax contribution revenue and $6.9 million in interest revenue was recorded in the financial statements to correct for the error.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires IDES to establish and maintain a system, or systems, of internal fiscal and administrative controls which shall provide assurance that tax rates charged to employers comply with State Statutes.

According to IDES management, the cause of the deficiency occurred because the internally generated report that the Department relies on to calculate the rates by the North American Industry Classification System (NAICS) codes had been modified without documentation of the modification and was not done as part of a production job. This allowed for the programmer to make changes to the report without proper approval.

Failure to have proper change management controls over the information used to calculate rates for employer contributions resulted in an overstatement of revenues. (Finding Code No. 2015-001)

Recommendation

We recommend that IDES implement procedures to review and test specifications of system generated information used to calculate tax rates to mitigate the risk of errors.

Department Response

The agency accepts the recommendation and has corrected all NAICS-rated employers in the Benefit Funding System (BFS) for calendar years 2013, 2014 and 2015. It has reallocated credits to any outstanding debt and will apply credits towards future contributions. The program that calculates NAICS rates is now part of the Department's regular schedule of production jobs and cannot be modified without documentation of the change. The report will now require more than one individual to review to ensure separate levels of data verification. The Department is systematically reviewing all rate components and testing the detail.

Current Findings - State Compliance (Continued)

2015-002 Noncompliance with Unemployment Insurance Act

The Illinois Department of Employment Security (Department) did not fully comply with the Unemployment Insurance Act (Act).

During our examination, we noted the following:

- For the most recent calendar year, the Department did not provide a list of individuals or entities that report to them as paying wages to workers to the Department of Financial and Professional Regulation (DFPR).

- Based on our examination of the Department's requirements related to the Economic Data Task Force, the Department:
  a. had only appointed four out of five members to the task force;
  b. held only one of at least three required public hearings;
  c. had not reported its findings and recommendations to the Governor and General Assembly by June 30, 2013; and
  d. had not designated each member of the Task Force and each Department employee as an agent of Bureau of Labor Statistics (BLS) pursuant to the federal Confidential Information Protection and Statistical Efficiency Act of 2002.

The Act (820 ILCS 405/1900(P)) requires the Department to provide to the DFPR a list of individuals or entities that, for the most recently completed calendar year, report to the Department as paying wages to workers. The list shall be deemed confidential and may not be disclosed to any other person.

The Act (820 ILCS 405/1900.2(a) thru (e)) also requires the Director to appoint five members, one from the employee class, one from the employer class, two academic researchers, and one employee from the United States Bureau of Labor to the Economic Data Task Force by March 2, 2013, or 60 days after the effective date of January 1, 2013. The Task Force shall report its findings and recommendations to the Governor and the General Assembly no later than June 30, 2013, and shall be dissolved upon submission of the report. Each member of the Task Force and each Department employee must be designated as an agent of BLS pursuant to the federal Confidential Information Protection and Statistical Efficiency Act of 2002, as a condition of being able to participate in any activities of the Task Force.

The Department stated that they currently do not have a Shared Data Agreement with the DFPR. The DFPR has not requested data nor did the Department provide any.

Failure to submit the required list to the DFPR resulted in noncompliance with the Act. Failure to timely appoint members and hold the required public hearings of the Economic Data Task Force contributed to the delay in the submission of required reports. Failure to submit recommendations to the Governor timely precludes the Governor's Office from performing oversight functions and results in noncompliance with the statute. In addition, failure to designate each member of the Economic Data Task Force as an agent of BLS results in noncompliance with the statute. (Finding Code Nos. 2015-002, 2013-002, 11-3)

Current Findings - State Compliance (Continued)

2015-002 Noncompliance with Unemployment Insurance Act (Continued)

Recommendation

We recommend the Department comply with the Act by fulfilling the requirements of the task force and execute a new Shared Data Agreement and submit the required listings to the DFPR or seek legislative remedy.

Department Response

Regarding Section 1900P, federal confidentiality requirements would prohibit the Department of Employment Security (IDES) from simply sending the Department of Financial and Professional Regulation (DFPR) the information described in Section 1900P, absent a shared data agreement that spelled out DFPR's responsibility to safeguard it. *See,* 20 CFR 603.10. Section 1900N of the Unemployment Insurance Act allows the Department to require an entity to enter into a shared data agreement as a condition of receiving information protected by Section 1900. Given that DFPR apparently does not need the information covered by Section 1900P, IDES has not pursued the multiple administrative steps that would be required to grant DFPR access to the information. The Department is seeking legislation to remove Section 1900P from the Act.

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

Current Findings - State Compliance (Continued)

2015-003 Performance Evaluation Not Completed Timely

The Illinois Department of Employment Security (Department) did not complete or timely complete employee performance evaluations.

During our examination of a sample of 59 employee personnel files, we noted the following:

- Three (5%) employees did not have a performance evaluation completed for fiscal year 2015.
- Forty-four (75%) employees' performance evaluations were completed after the due date. The evaluations were performed between 10 and 722 days after they were due, 20 for fiscal year 2014 and 24 for fiscal year 2015.
- Two (3%) performance evaluations did not have the proper documentation to support when HR received the evaluation and that the evaluation was reviewed by the Agency Head.
- The three-month performance evaluation of one (2%) newly hired employee was not completed.

The Illinois Administrative Code (80 Ill. Admin. Code 302.270(d)) requires that, for a certified employee, each agency shall prepare an employee performance evaluation not less often than annually. The Illinois Administrative Code (80 Ill. Admin. Code 310.450(c)) also requires that evaluations be completed prior to when annual merit increases are awarded. In addition, the Department's personnel manual requires the Department to complete performance evaluations for newly appointed employees upon completion of the first probationary period (3 months) and 15 days prior to the completion of the final probationary period (6 months). Further, the Department Procedures Manual 2020.30 states that performance evaluations should be processed sufficiently in advance so that they are normally received by Department's HRM at least two weeks prior to the date they are due. Upon review, the HRM should affix the Department Director's signature.

Department management stated that due to staff shortage, there was not adequate oversight in terms of sending notices to managers regarding due dates and past due evaluations. Furthermore, the current procedures do not offer a reasonable time period for completion as they are due before the end of the reporting period.

Employee performance evaluations are a systematic and uniform approach used for the development of employees and to communicate performance expectations. The evaluation measures actual work performance against the performance criteria established at the beginning of the appraisal period. Without timely completion of an employee's performance evaluation, the employee will not be provided with formal feedback, which could lead to continued poor performance. (Finding Code Nos. 2015-003, 2013-003, 11-4, 09-7, 07-03, 05-5 and 03-2)

Current Findings - State Compliance (Continued)

2015-003 Performance Evaluation Not Completed Timely (Continued)

Recommendation

We recommend the Department evaluate its procedures for monitoring performance evaluations to enable them to be in compliance with the requirements.

Department Response

We accept the recommendation and continue to be committed to eliminating this finding. We have hired additional staff in the area responsible for processing evaluations and notices continue to be sent to supervisors regarding current and past due evaluations. The Labor Relations Division has also been planning to provide training for managers on how to complete evaluations.

Current Findings - State Compliance (Continued)

2015-004 Untimely Issuance of Eligibility Determinations

The Illinois Department of Employment Security (Department) did not issue eligibility determinations within the designated timeframe.

The Department did not meet the acceptable coverage of at least 80% for timely non-monetary eligibility determinations within the required 21 days. The Department's quarterly performance was between 45% and 69% in fiscal year 2014 and between 62% and 72% in fiscal year 2015. During our examination of a sample of 25 claimants, we noted that the Department failed to make a determination within 21 days for 14 claimants (56%). The determinations were made 1 to 71 days late.

The Code of Federal Regulation (20 CFR Part 640.3) requires that a State law include provisions for methods of administration that will reasonably ensure the full payment of unemployment benefits for eligible claimants will be made with the greatest promptness that is administratively feasible.

Unemployment Insurance Program letter No. 14-05 issued by the Employment and Training Administration (ETA) Advisory System of the U.S. Department of Labor states that non-monetary determinations made within 21 days of issue-detection date are considered timely, and ETA considers a State's performance to be acceptable if 80 percent of all non-monetary determinations are completed within 21 days.

Department management stated there are a number of factors that have contributed to the Department's failure to issue timely determinations. The most significant factors include: the closure and consolidation of many field offices which has resulted in an uneven distribution of the adjudication workload throughout the state; the significant reduction in both the management and adjudication staff; the decrease in administrative funding received by the Federal Government which will not allow for the hiring of any additional staff to assist in these efforts; and the implementation of a number of integrity efforts which has increased the number of adjudication issues.

Failure to issue eligibility determinations within the prescribed timeframes could result in improper payment or a delay in paying unemployment compensation. (Finding Code Nos. 2015-004, 2013-005, 11-6, 09-6)

Recommendation

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

Current Findings - State Compliance (Continued)

2015-004 Untimely Issuance of Eligibility Determinations (Continued)

Department Response

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

Current Findings - State Compliance (Continued)

2015-005 Noncompliance with Statutes and Regulation on Internal Auditing

The Illinois Department of Employment Security (Department) did not have its internal auditing program in full compliance with the requirements of the Fiscal Control and Internal Auditing Act (FCIAA) and International Standards for the Professional Practice of Internal Audit.

During our examination, we noted the following:

- The Department's Internal Audit Plan for fiscal years 2014 and 2015 was not approved by the Director.
- The former Chief Internal Auditor did not report to the Department's Director as required.
- Based on our review of five internal audit reports, one did not have the supporting documentation for the report's findings.
- One of four (25%) reports did not have the supporting documentation to show that appropriate action was taken and that the Internal Audit Department performed a follow-up to determine that the corrective action plan was completed.
- The Internal Audit Department did not perform audits of grants to determine that the grants were monitored, administered, and accounted for in accordance with applicable laws and regulations.
- The position of Information Technology auditor is vacant.
- Continuing Professional Education hours of the Internal Audit Department were not updated for fiscal years 2014 and 2015.

The Fiscal Control and Internal Auditing Act (FCIAA) (30 ILCS 10/2002(b)) states that the chief internal auditor shall report directly to the chief executive officer and shall have direct communications with the chief executive officer in the exercise of auditing activities.

The FCIAA (30 ILCS 10/2003) also states that the chief executive officer of each designated State agency shall ensure that the internal auditing program includes:

(1) A two-year plan identifying audits scheduled for the pending fiscal year, approved by the chief executive officer before the beginning of the fiscal year. By September 30 of each year, the chief internal auditor shall submit to the chief executive officer a written report detailing how the audit plan for that year was carried out, the significant findings, and the extent to which recommended changes were implemented.

(2) Audits of major systems of internal accounting and administrative control conducted on a periodic basis so that all major systems are reviewed at least once every two years. The audits must include testing of:

  (A) the obligation, expenditure, receipt, and use of public funds of the State and of funds held in trust to determine whether those activities are in accordance with applicable laws and regulations; and

  (B) grants received or made by the designated State agency to determine that the grants are monitored, administered, and accounted for in accordance with applicable laws and regulations.

(3) Reviews of the design of major new electronic data processing systems and major modifications of those systems before their installation to ensure the systems provide for adequate audit trails and accountability.

Current Findings - State Compliance (Continued)

2015-005 Noncompliance with Statutes and Regulation on Internal Auditing (Continued)

The International Standards for the Professional Practice of Internal Auditing (Section 2500) states that the chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management. The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

Department management stated that while they accept the findings as representative of the state of the internal audit function for FY14 and FY15, the situation happened with previous employees under the previous administration. Department management cannot speculate on the causes for the actions they took.

Failure to have an approved internal audit plan hinders the Director from assessing areas of risks within the organization. Failure to report to the Director and to perform audits as required by FCIAA is noncompliance of the Act. A lack of formal procedures to monitor audit recommendations may result in untimely implementation of corrective actions. (Finding Code Nos. 2015-005, 2013-006)

Recommendation

We recommend the Department comply with the requirements of the FCIAA and International Standards for the Professional Practice of Internal Audit by:

- Having the two-year audit plan approved by the Director;
- Maintaining organizational independence by making sure the Chief Internal Auditor reports directly to the Director;
- Maintaining supporting audit documentation;
- Establishing formal procedures to monitor the implementation of audit recommendations;
- Performing audits of grants received or made by the Department;
- Ensure its internal audit function review major EDP initiatives; and
- Implement procedures to make sure CPE hours for the Internal Audit department are updated annually.

Department Response

The Department accepts the finding. The Internal Audit Plan for fiscal years 2016 and 2017 is in place and approved. The current Chief Internal Auditor (CIA) reports to the Director as required and has regular access to the Director. Steps have been taken to improve supporting documentation for all audits. Some items could not be located from searches of the previous CIA's electronic files. The current CIA is in regular contact with the Department Audit Liaison regarding appropriate follow up to findings and recommendations. A development process is in place to create a SharePoint site to make this process more transparent to involved parties. Grant Management will be a priority for FY17 Audit Plans. Although the Department does not have an Information Technology Auditor, the CIA has begun pre-implementation reviews of IT developments based on recently released SIAAB guidance for audit shops without an IT trained auditor. The first project reviewed is Gen-Tax. Continuing Professional Education records are currently up to date.

Current Findings - State Compliance (Continued)

2015-006 Inadequate Controls Over Travel Reimbursements

The Illinois Department of Employment Security (Department) did not have adequate controls over travel reimbursements to employees.

During our review of a sample of 25 travel vouchers totaling $33,110, we noted the following:

- One voucher (4%) included a parking fee of $20 which was charged to the wrong object code.
- One voucher (4%) did not indicate the place of arrival.
- We noted three In-State Travel Authorization Forms (Form FI-02a) totaling $1,780 were not approved by the traveler's supervisor/manager at least 24 hours before the travel date. The forms were approved between 1 to 32 days late.
- One Form FI-02a totaling $628 was not approved and another Form FI-02a totaling $461 was not dated by the supervisor/manager of the traveler.

The Governor's Travel Control Board Rules (Rules) (80 Ill. Admin. Code 2800.240) states that all claims for the reimbursement of travel expenses shall be submitted on authorized reimbursement forms (Form C-10) and shall be itemized accordingly. When applicable, the travel voucher shall show in the space provided the dates and times of travel, the points of departure and destination, the mode of transportation, the cost of the transportation secured, lodging, meals per diem and other expenses.

Department Procedures Manual Section 3001.35, states that in order to monitor and control the amount of travel expenses incurred by the Department, all staff and management are required to complete an In-State Travel Authorization Form (Form FI-02a), for all in-State travel costs greater than $50. Travelers must submit a completed and signed In-State Travel Authorization to their immediate supervisor or manager for approval. The Director has expressly delegated the approval/signature of the form FI-02a to the supervisor/manager of the traveler. Requests should be submitted at least 24 hours in advance of the travel date. Any requests for travel submitted less than 24 hours in advance must include an additional explanation for the late submission.

Department management stated travel rules are very complex and need to be adhered to by the traveler and reviewed carefully by the approving manager and accounts payable. Mistakes can readily be made without adequate training and attention to detail.

Inadequate documentation and late submission/approval of travel vouchers may result in payment of unauthorized travel expenditures and noncompliance with the Travel Regulation Council rules, the Governor's Travel Control Board Rules and Department's Procedures. (Finding Code Nos. 2015-006, 2013-007)

Current Findings - State Compliance (Continued)

2015-006 Inadequate Controls Over Travel Reimbursements (Continued)

Recommendation

We recommend the Department monitor their procedures for processing travel reimbursements in order to comply with the Travel Regulation Council rules, Governor's Travel Control Board Rules and the Department's Procedures.

Department Response

We concur with the finding. The Accounts Payable unit responsible for reviewing and submitting travel reimbursement requests to the Comptroller will publish training segments on IDES' Intranet highlighting the issues reported in the finding and offer face-to-face group training for staff as requested by division and regional managers. The travel procedures have been updated and changes made in the requirement for completion of FI-2A. These employees will no longer need to submit FI-2a – In-State Travel Authorization form.

Current Findings - State Compliance (Continued)

2015-007 Inadequate Controls Over Telecommunication Devices

The Illinois Department of Employment Security (Department) did not have adequate controls over the issuance and cancellation of wireless communication devices.

During our sample testing of 10 wireless communication device additions, we noted all 10 devices did not have the proper form signed by the Director or his designee.

During our sample testing of 15 wireless communication device deletions, we noted the following:

- One (7%) wireless device cancelled or returned by an employee did not have the supporting documentation that it was physically returned to the Department.
- Nine (60%) wireless devices were deactivated 6 to 1,244 days after the employee separated from the Department and one (7%) wireless device was deactivated 14 days after it was stolen.
- The Department could not determine the cost incurred for ten devices from the date the device was no longer being used through the date the device was disconnected from service.

In addition, based on our review of the listing of deleted wireless devices 71 of 142 (50%) devices did not clearly identify the name of employee, description of the device, etc.

Department Procedures Manual (1113.3035) states that, when ordering a cellular telephone, cost center managers shall complete and submit a Cellular Phone Application (application) form, with written justification to the regional/division manager for approval. When approved, the regional/division manager shall send the application to Information Services Telecom (IS Telecom). IS Telecom will obtain the Director's or designee's signature on the application and submit it to Department of Central Management Services (DCMS) Telecom to order the equipment and establish service. When the cellular telephone is received, IS Telecom will notify the requester. The requester will sign the receipt section of the application and return it to IS Telecom.

Department Procedures Manual (1113.403) also states that, when cancelling and returning other equipment/service, the cost center managers shall ensure that employees who separated from the State service or transfer out of the cost center, return any pagers, cellular telephones, telephone credit cards, or other equipment/services assigned to them before they leave.

Current Findings - State Compliance (Continued)

2015-007 Inadequate Controls Over Telecommunication Devices (Continued)

The DCMS Wireless Communication Device Policy states that each agency is responsible for (a) documenting an employee's need for a wireless communication device (WCD), (b) maintaining an inventory of inactive WCD available for reassignment, (c) ensuring the accuracy of all WCD service requests, (d) reviewing billing invoices, usage records, and ensure WCDs are being utilized for official State business purposes; and (e) designating an Agency Telecommunications Coordinator. The Agency Telecommunication Coordinator is responsible for (a) managing the agency's supply of WCD, including the following: determining whether a WCD is available for reuse from the agency's existing inventory; regularly reviewing WCD invoices to ensure the WCD is assigned to the proper user(s) and is placed on the correct service plan based on usage; and, forwarding approved and complete service requests to the DCMS Customer Service Center, including the name of the WCD user; and (b) securing the return of the WCD issued to an employee who no longer has a need for the WCD.

Department management stated that the previous full-time telecom coordinator and supporting staff (4 total) left the Department in April 2013. The telecom coordinator position was filled on a part-time/temporary basis but is currently vacant.

Inadequate controls over issuance and cancellation of WCD could result in unnecessary expenditures for the Department, as well as inappropriate use of State funds. (Finding Code No. 2015-007)

Recommendation

We recommend the Department strengthen controls over wireless communication devices by following policies and procedures regarding the issuance and revocation of wireless communication devices and the timely disconnection of services after the termination and separation of an employee. Further, inventory of devices should be maintained in accordance with DCMS policy.

Department Response

We concur and appreciate your guidance. The Department has strengthened the Controls over wireless communication devices. The telecom division is in the process of reviewing the policy and procedures regarding the issuance and revocation of WCD. The Department has procedures that must be completed when an employee is separated from the Department; part of the new policy is to turn in all WCD to the Telecom-coordinator. The coordinator contacts DCMS to disconnect the WCD. The Department is working with DCMS on inventory of WCD at this time.

Current Findings - State Compliance (Continued)

2015-008 Inadequate Controls Over Property and Equipment Records

The Illinois Department of Employment Security (Department) did not have adequate controls over its property and equipment records.

We examined the Department's property inventory certifications as of December 31, 2013 and December 31, 2014 that were submitted to the Department of Central Management Services (DCMS). The inventory certification as of December 31, 2013 reported 57 items totaling $81,323 of equipment that could not be located by the Department. The inventory certification as of December 31, 2014 reported 10 items totaling $7,485 of equipment that could not be located by the Department. These assets were acquired by the Department during the current and past fiscal years. Included in the equipment that was reported as "unlocated" were 15 computers/laptops. The Department could not determine what type of data or whether confidential information was stored on the missing computers.

In addition we noted the following:

- The Department did not properly update their property and equipment records. Thirteen of 60 (22%) items selected for physical inspection, with a value of $347,329, did not have the proper documentation to support the current location of the asset. In addition, 3 of the 13 (23%) did not have the supporting Authorization for Equipment Transfer Forms (OS-5).
- Six of 25 (24%) pieces of equipment tested, totaling $3,673, were removed from the Department's property control records without the OS-5 form completed.
- Two pieces of equipment, totaling $1,556, were not properly tagged.
- Twenty-three pieces of equipment listed as unused/surplus property were held in the warehouse for more than 12 months. Also, there were two pieces of equipment listed as surplus items that were missing and could not be located. As of June 30, 2015, a total of 3,827 pieces of equipment are listed as unused/surplus items totaling $784,917 and were being held in a warehouse.
- There was an error in the completion of the Agency Report of State Property (C-15 Report). Thirty-five items totaling $17,416 were erroneously included in the report as restored but the items were transferred from the Department to DCMS, resulting in an overstatement on each of the quarterly reports for fiscal year 2015. In addition, two items transferred to DCMS totaling $733 were entered in the system twice. Further, one of eight (12%) C-15 Reports was filed eight days late.

Department Procedures Manual (1101.52) states the Property Control Officer and the managers of Information Services and General Services have the authority to transfer property to DCMS or other state agencies and to accept property transfers. Department managers use the OS-5 to transfer property out. In addition, for disposal of Electronic Data Processing (EDP) Equipment, the Manual (1101.80.801) requires the relinquishing cost center manager to prepare, sign the OS-5 and give the OS-5 with an attached scan list of disposals to the driver who picks up the items. The relinquishing cost center manager is also required to retain the relinquishing copy of the OS-5 and a copy of the scan list for the cost center files.

Current Findings - State Compliance (Continued)

2015-008 Inadequate Controls Over Property and Equipment Records (Continued)

DCMS Property Rules (44 Illinois Administrative Code Section 5010.210: Marking of State-Owned Equipment) requires each piece of equipment to be marked with a unique six-digit identification number. The identification number may be applied by using the agency's inventory decal or by indelibly marking the number on the property.

Department Procedures Manual (1101.60.604) states that for transfers of EDP property to the warehouse, the relinquishing cost center manager shall prepare an Enterprise Service Request and submit, by e-mail, to the Chief Information Officer requesting transfer of property to the warehouse (i.e., considered surplus), detailing the specific items, including bar code numbers.

The Illinois Procurement Code (30 ILCS 500/50-55) states that every State agency shall inventory or stock no more than a 12-month supply of equipment, supplies, commodities, articles, and other items, except as otherwise authorized by the State agency's regulations. Every State agency shall periodically review its inventory to ensure compliance with this Section. If, upon review, an agency determines it has more than a 12-month supply of any equipment, supplies, commodities, or other items, the agency shall undertake transfers of the oversupplied items or other action necessary to maintain compliance with this Section.

State Property Control Act (30 ILCS 605/7.3) states that the Administrator shall have charge of all transferable property and shall have authority to take possession and control of such property in order to transfer or assign any such property to any other State agency that has need or use for such property or to dispose of said property. The Act further states responsible officers shall periodically report all transferable property at locations under their jurisdictions to the Administrator. The Administrator shall review such reports and arrange for physical examination of said property, if necessary, to determine if said items of transferable property should be transferred to another State agency, transferred to a central warehouse, or disposed of. The Administrator shall advise responsible officers of the results of these reviews as necessary.

Department Procedures Manual (1101.80) states that one principle of sound warehouse management dictates that only useable and useful items be maintained in storage to keep space costs at a minimum. In order to use space efficiently, the Department must periodically review all property to determine its continued value to the Department and to dispose of or recycle that property in accordance with applicable DCMS rules.

Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) states that State agencies establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that resources are utilized efficiently, effectively, and in compliance with applicable law; and that funds, property, and other assets and resources, are safeguarded against waste, loss, unauthorized use, and misappropriation.

The Personal Information Protection Act (815 ILCS 530/30) states that any State agency that collects personal data that is no longer needed or stored at the agency shall dispose of the personal data or written material in such a manner as to ensure the security and confidentiality of the material.

Current Findings - State Compliance (Continued)

2015-008 Inadequate Controls Over Property and Equipment Records (Continued)

Department management indicated the errors were due to management oversight, staffing reductions, human error and laptops that were missing from poor record keeping over 10 years ago.

Inaccurate property reporting reduces the reliability of the Department's capital asset information and results in incorrect accounting information that could cause unnecessary equipment expenditures and inaccurate financial reporting for the State. Failure to follow-up on missing computer equipment increases the risks associated with the potential exposure of confidential information. (Finding Code No. 2015-008)

Recommendation

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

Department Response

We concur with the finding. The statewide ERP project to implement SAP beginning October 2016 for a few participating pilot agencies (including IDES) will replace the Department's current Administrative Accounting System (AAS) and eventually CMS' Inventory System which rely on multipart forms to manually update the location of asset items. The SAP assets module will enable the tracking of property and equipment electronically to better maintain records for reporting purposes and to manage surplus/unused items.

Current Findings - State Compliance (Continued)

2015-009 Noncompliance with the Veterans' Employment Representative Act

The Illinois Department of Employment Security (Department) did not fully comply with the requirements of the Veterans' Employment Representative Act (Act).

The Department does not have at a minimum one full time Veterans' Employment Representative assigned to each full service office.

The Act (330 ILCS 50/1) requires the Department to assign at least one full-time Veterans' Employment Representative to each full service office of the employment service, to work exclusively in job counseling, training, and placement of veterans.

Department management stated the current funding levels only support twenty Veterans Employment Representative staff and further maintains that the Act was amended in 2013 to permit assigning one Veterans Representative to multiple offices to deal with the funding limitations.

Failure to assign at least one full time Veterans' Employment Representative to each full service office could deny veterans the services and assistance in obtaining employment and results in noncompliance with the Act. (Finding Code No. 2015-009)

Recommendation

We recommend the Department comply with the Act by having one full time Veterans' Employment Representative at each full service office or seek legislative remedy.

Department Response

The Department disagrees with the finding, which is based on a reading of Section 1 of the Veterans Employment Representative Act as requiring the agency to assign one veterans employment representative exclusively to each of the agency's full service employment service offices. Prior to July 23, 2013, Section 1 was interpreted by some as imposing such a requirement; it provided, "Each full service [employment service] office… shall assign at least one full time Veterans Employment Representative…." In 2013, PA 98-107 – a Department initiative – amended Section 1 to account for the lack of resources to comply with such a requirement. The language regarding each office assigning a Representative was removed, and Section 1 now provides, "The Department shall assign at least one full time Veterans Employment Representative… to each full service office… to work exclusively in job counseling, training, and placement of veterans." While the General Assembly clearly intended that the representative work exclusively on services for veterans, it did not require that a representative be assigned exclusively to each office – i.e., one representative can be assigned to more than one office. Moreover, Section 2 of the Act expressly provides that the State can rely solely on federal funding for veterans services under the Act, lending further support to a reading of Section 1 as permitting assignment of a representative to more than one office if federal fund limitations so require. The Department acknowledges that it did not point out the 2013 law change until relatively late in the audit process. However, based on the law change, the Department maintains it has assigned a veterans employment representative to each full service employment service office, in compliance with the statute.

Current Findings - State Compliance (Continued)

2015-009 Noncompliance with the Veterans' Employment Representative Act (Continued)

Auditor Comment

The law states "[t]he Department of Employment Security shall assign at least one full time Veterans' Employment Representative. . .to each full service office of the employment service, to work exclusively in job counseling, training, and placement of veterans." 30 ILCS 50/1. The issue is whether the law requires each full service office to have a Veterans' Employment Representative present full-time to provide job counseling, training and placement services to veterans, or whether the law simply requires the Department to employ a full-time Veterans' Employment Representative whose hours may be spread across multiple full service offices.

The auditors believe the plain reading of the statute requires a full time Veterans' Employment Representative to be present full-time at each full service office. Additionally, a press release issued by the Governor's Office on July 23, 2013, states of House Bill 3125 (which became Public Act 98-107) that, among other things, "[t]he bill also requires IDES to have a veteran's employment representative at each of its full employment services offices."

If the Department continues to disagree with the auditor's interpretation, we recommend it seek a formal, written opinion from the Attorney General's Office as to the meaning of the statute, or seek a legislative clarification.

Prior Findings Not Repeated
For the Two Years Ended June 30, 2015

A. Inadequate Controls Over Financial Close and Reporting

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

During our audit we noted that the Department implemented controls to help prevent or detect financial statement errors in a timely manner except as noted above in finding 2015-001. (Finding Code. No. 2014-001)

B. Interagency Agreement Not Executed in a Timely Manner

The Department of Employment Security (Department) did not execute its intergovernmental agreements for utilization of leased space with other State agencies in a timely manner.

Based on our sample testing of interagency agreements, we noted lease agreements were signed timely. (Finding Code Nos. 2013-004, 11-05, 09-4, 07-2 and 05-8)

Supplementary Information for State Compliance Purposes

Summary

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:
  - Schedule of Appropriations, Expenditures and Lapsed Balances
    - Fiscal Year Ended June 30, 2015
    - Fiscal Year Ended June 30, 2014
  - Notes to Schedules of Appropriations, Expenditures and Lapsed Balances
  - Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
  - Comparative Schedule of Receipts, Disbursements and Fund Balance (Cash Basis) – Locally Held Funds
  - Schedule of Changes in State Property
  - Comparative Schedule of Cash Receipts
  - Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller
  - Analysis of Significant Variations in Expenditures
  - Analysis of Significant Variations in Receipts
  - Analysis of Significant Lapse Period Spending
  - Analysis of Significant Account Balances
  - Analysis of Accounts Receivable

- Analysis of Operations (Not Examined):
  - Agency Functions and Planning Program (Not Examined)
  - Average Number of Employees (Not Examined)
  - Annual Cost Statistics (Not Examined)
  - Emergency Purchases (Not Examined)
  - Service Efforts and Accomplishments (Not Examined)
  - Unemployment Rates (Not Examined)

The Accountants' Report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states the accountants have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the June 30, 2015 and June 30, 2014 in Schedules 1 through 13. However, the accountants do not express an opinion on the supplementary information. The accountants' report also states that they have not applied procedures to the Analysis of Operations Section, and accordingly, they do not express an opinion or provide any assurance on it.

State of Illinois **Schedule 1**
Department of Employment Security

Schedule of Appropriations, Expenditures and Lapsed Balances
Appropriations for Fiscal Year Ended June 30, 2015
Fourteen Months Ended August 31, 2015

	Final Appropriations (Note 1)	Expenditures through June 30	Lapse Period Expenditures 07/01/15 - 08/31/15	Total Expenditures	Lapsed Balances
TITLE III SOCIAL SECURITY AND EMPLOYMENT SERVICES FUND - 052					
Workforce Development	$ 285,102,400	$ 182,843,727	$ 12,077,822	$ 194,921,549	$ 90,180,851
Trust Fund Unit	1,734,300	32,658	20,595	53,253	1,681,047
Total	286,836,700	182,876,385	12,098,417	194,974,802	91,861,898
UNEMPLOYMENT COMPENSATION SPECIAL ADMINISTRATION FUND - 055					
Workforce Development	37,100,000	10,882,298	101,657	10,983,955	26,116,045
GENERAL REVENUE FUND - 001					
Trust Fund Unit	24,000,000	14,449,705	6,179,831	20,629,536	3,370,464
ROAD FUND - 011					
Trust Fund Unit	1,900,000	1,900,000	-	1,900,000	-
NON-DEPARTMENT FUND					
IMSA Income Fund - 768	16,700	-	-	-	16,700
Total Appropriated	$ 349,853,400	$ 210,108,388	$ 18,379,905	$ 228,488,293	$ 121,365,107
Grand Total - ALL FUNDS		$ 210,108,388	$ 18,379,905	$ 228,488,293	

See Notes to Schedules of Appropriations, Expenditures and Lapsed Balances.

State of Illinois **Schedule 2**
Department of Employment Security

Schedule of Appropriations, Expenditures and Lapsed Balances
Appropriations for Fiscal Year Ended June 30, 2014
Fourteen Months Ended August 31, 2014

	Final Appropriations (Note 2)	Expenditures through June 30	Lapse Period Expenditures 07/01/14 - 8/31/14	Total Expenditures	Lapsed Balances
TITLE III SOCIAL SECURITY AND EMPLOYMENT SERVICES FUND - 052					
Workforce Development	$ 307,432,700	$ 211,149,560	$ 12,110,502	$ 223,260,062	$ 84,172,638
Trust Fund Unit	1,734,300	603,810	52,499	656,309	1,077,991
Total	309,167,000	211,753,370	12,163,001	223,916,371	85,250,629
UNEMPLOYMENT COMPENSATION SPECIAL ADMINISTRATION FUND - 055					
Workforce Development	27,850,000	26,868,750	150,426	27,019,176	830,824
GENERAL REVENUE FUND - 001					
Trust Fund Unit	24,000,000	19,620,516	4,379,484	24,000,000	-
ROAD FUND - 011					
Trust Fund Unit	1,900,000	1,826,875	73,125	1,900,000	-
NON-DEPARTMENT FUND					
IMSA Income Fund - 768	16,700	-	-	-	16,700
Total Appropriated	$ 362,933,700	$ 260,069,511	$ 16,766,036	$ 276,835,547	$ 86,098,153
Grand Total - ALL FUNDS		$ 260,069,511	$ 16,766,036	$ 276,835,547	

See Notes to Schedules of Appropriations, Expenditures and Lapsed Balances.

State of Illinois
Department of Employment Security

Compliance Examination
For the Two Years Ended June 30, 2015

Notes to Schedules of Appropriations, Expenditures and Lapsed Balances

1. Appropriation Authorization, Fiscal Year 2015

Appropriation amounts were authorized by Public Act 98-0679, as approved by the Governor on June 30, 2014 pursuant to Article IV, Section 9(d) of the Illinois Constitution of 1970. Pursuant to Section 13.2 of the State Finance Act (Act), the sum of allowable transfers per line item appropriations shall not exceed 4% of the aggregate appropriation. Based on the Office of the Comptroller (Comptroller) records, the Department's transfer appropriation during the year did not exceed this ceiling.

2. Appropriation Authorization, Fiscal Year 2014

Appropriation amounts were authorized by Public Act 98-0064, as approved by the Governor on July 10, 2013 pursuant to Article IV, Section 9(d) of the Illinois Constitution of 1970. Pursuant to Section 13.2 of the State Finance Act (Act), the sum of transfers amount line item appropriations shall not exceed 2% of the aggregate appropriation. Based on the Office of the Comptroller (Comptroller) records, the Department's transfer appropriation during the year did not exceed this ceiling. Beginning in Fiscal Year 2014, the Agency's appropriation type in Fund 052 were scaled back to one major appropriation category from four pervious categories allowing for an ease in the reconciliation process.

3. Basis of Accounting

Data contained in these schedules has been taken from the Department's financial statements.

The Comptroller's Statewide Accounting Management System (SAMS) controls expenditure as established in approved appropriation bills. Budgets are essentially on the cash basis, modified for expenditures during the lapse period. Expenditures include automatic transfers from Title III Social Security and Employment Services Fund 052 to the Unemployment Compensation Special Administration Fund 055.

The Director's and Board of Review salaries are paid by the Comptroller under Title III Funds.

4. Non-Department Funds

Funds under this title are not controlled by the Department. However, State appropriation laws pertaining to these funds give the Department authority to appropriate monies for unemployment benefits claimed by employees of these funds.

Notes to Schedules of Appropriations, Expenditures and Lapsed Balances (Continued)

5. Directors and Board of Review Salaries Paid from Title III Social Security and Employment Services Fund

The Department directly pays its Director and Board of Review from the Title III Social Security and Employment Services Fund appropriations. The appropriations and expenditures are as follows for the fiscal year ended June 30:

	Director	Board of Review	Total
2015			
Appropriation	$ 143,033	$ 75,657	$ 218,690
Expenditures	132,734	75,657	208,391
Lapse	$ 10,299	$ -	$ 10,299
2014			
Appropriation	$ 142,200	$ 75,000	$ 217,200
Expenditures	135,449	70,575	206,024
Lapse	$ 6,751	$ 4,425	$ 11,176
2013			
Appropriation	$ 142,200	$ 75,000	$ 217,200
Expenditures	142,339	69,654	211,993
Lapse	$ (139)	$ 5,346	$ 5,207

State of Illinois **Schedule 4**
Department of Employment Security

Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
For the Fiscal Years Ended June 30, 2015, 2014 and 2013

	2015 Total Appropriation	2014 Total Appropriation	2013 Total Appropriation	2015 Total Expenditures	2014 Total Expenditures	2013 Total Expenditures
TITLE III SOCIAL SECURITY AND EMPLOYMENT SERVICES FUND - 052	$ 286,836,700	$ 309,167,000	$ 328,135,800	$ 194,921,549	$ 223,260,062	$ 239,963,981
Total	286,836,700	309,167,000	328,135,800	194,921,549	223,260,062	239,963,981
UNEMPLOYMENT COMPENSATION SPECIAL ADMINISTRATION FUND - 055						
Workforce Development	37,100,000	27,850,000	27,850,000	10,983,955	27,019,176	27,776,176
GENERAL REVENUE FUND - 001						
Trust Fund Unit	24,000,000	24,000,000	24,000,000	20,629,536	24,000,000	19,868,163
ROAD FUND - 011						
Trust Fund Unit	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000
NON-DEPARTMENT FUND						
IMSA Income Fund - 768	16,700	16,700	16,700	-	-	-
Total Appropriated	349,853,400	362,933,700	381,902,500	228,435,040	276,179,238	289,508,320
Grand Total - ALL FUNDS	$ 349,853,400	$ 362,933,700	$ 381,902,500	$ 228,435,040	$ 276,179,238	$ 289,508,320

See Notes to Schedules of Appropriations, Expenditures and Lapsed Balances.

Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances (Continued)
For the Fiscal Years Ended June 30, 2015, 2014 and 2013

	Fiscal Year Ended June 30		
	2015	2014	2013
Title III Social Security and Employment Services Fund:			
Appropriations (net of transfers)	$ 286,836,700	$ 309,167,000	$ 328,135,800
Expenditures:			
Personal services	89,057,526	90,744,765	102,556,861
Contribution to State Employee's Retirement System	37,426,691	36,150,622	39,008,000
Contribution to Social Security	6,479,885	6,557,281	7,563,746
Contributions to group insurance	21,245,996	23,665,271	33,749,761
Contractual services	35,023,097	58,309,394	47,266,178
Travel	441,374	351,502	478,760
Commodities	390,804	699,609	145,835
Equipment	383,576	83,977	28,133
Telecommunications services	3,285,793	6,608,873	8,136,590
Awards and grants	1,628,361	750,116	10,051
Tort claims	400	-	93,428
Refunds	1,120	282,613	-
Printing	-	-	877,081
Operation of automotive equipment	-	-	49,557
Total Expenditures	195,364,623	224,204,023	239,963,981
Appropriation Lapsed Balances	$ 91,472,077	$ 84,962,977	$ 88,171,819
Unemployment Compensation Special Administration Fund:			
Appropriations (net of transfers)	$ 37,100,000	$ 27,750,000	$ 27,850,000
Expenditures:			
Legal assistance required by law	880,852	1,118,750	2,026,073
For deposit into Title III Social Security and	20,500,000	25,750,000	-
Employment Services Fund	-	-	25,750,000
Interest penalty	1,446	-	103
Total Expenditures	21,382,298	26,868,750	27,776,176
Appropriation Lapsed Balances	$ 15,717,702	$ 881,250	$ 73,824
TOTAL WORKFORCE DEVELOPMENT			
Appropriations (net of transfers)	$ 323,936,700	$ 336,917,000	$ 355,985,800
Expenditures	216,746,921	251,072,773	267,740,157
Lapsed Balances	$ 107,189,779	$ 85,844,227	$ 88,245,643

(Continued)

State of Illinois **Schedule 4**

Department of Employment Security

Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances (Continued)
For the Fiscal Years Ended June 30, 2015, 2014 and 2013

	Fiscal Year Ended June 30		
	2015	2014	2013
TRUST FUND UNIT			
General Revenue Fund:			
Appropriations (net of transfers)	$ 24,000,000	$ 24,000,000	$ 24,000,000
Expenditures:			
Unemployment compensation benefits to former	-	-	-
State employees	20,629,536	24,000,000	19,868,163
Governors' discretionary appropriation	-	-	-
Operational expenses	-	-	-
Total Expenditures	20,629,536	24,000,000	19,868,163
Appropriation Lapsed Balances	$ 3,370,464	$ -	$ 4,131,837
Road Fund:			
Appropriations (net of transfers)	$ 1,900,000	$ 1,900,000	$ 1,900,000
Expenditures:			
Unemployment compensation benefits to			
Department of Transportation employees	1,900,000	1,900,000	1,900,000
Appropriation Lapsed Balances	$ -	$ -	$ -
Title III Social Security and Employment Services Fund:			
Appropriations (net of transfers)	$ 1,734,300	$ 1,734,300	$ 1,734,300
Expenditures:			
Unemployment compensation benefits to former			
State employees	53,253	656,309	1,526,421
Appropriation Lapsed Balances	$ 1,681,047	$ 1,077,991	$ 207,879
Illinois Math and Science Academy Income Fund:			
Appropriations (net of transfers)	$ 16,700	$ 16,700	$ 16,700
Expenditures:			
Unemployment compensation benefits to former			
State employees	-	-	-
Appropriation Lapsed Balances	$ 16,700	$ 16,700	$ 16,700

(Continued)

State of Illinois **Schedule 4**
Department of Employment Security

Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances (Continued)
For the Fiscal Years Ended June 30, 2015, 2014 and 2013

	Fiscal Year Ended June 30		
	2015	2014	2013
TOTAL TRUST FUND UNIT			
Appropriations (net of transfers)	$ 27,651,000	$ 27,651,000	$ 27,651,000
Expenditures	22,582,789	26,556,309	23,294,584
Appropriation Lapsed Balances	$ 5,068,211	$ 1,094,691	$ 4,356,416
GRAND TOTALS - ALL DIVISIONS			
Appropriations (net of transfers)	$ 351,587,700	$ 364,568,000	$ 383,636,800
Expenditures	239,329,710	277,629,082	291,034,741
Appropriation Lapsed Balances	$ 112,257,990	$ 86,938,918	$ 92,602,059
SUMMARY BY FUND - Expenditures			
General Revenue Fund	$ 20,629,536	$ 24,000,000	$ 19,868,163
Title III Social Security and Employment Services Fund	195,417,876	224,860,332	241,490,402
Unemployment Compensation Special Administration Fund	21,382,298	26,868,750	27,776,176
Road Fund	1,900,000	1,900,000	1,900,000
Total Expenditures	$ 239,329,710	$ 277,629,082	$ 291,034,741

State of Illinois **Schedule 5**

Department of Employment Security

Comparative Schedule of Receipts, Disbursements and Fund Balance (Cash Basis)

Locally Held Funds for Special Programs

For the Fiscal Years Ended June 30, 2015 and 2014

	Fiscal Year Ended June 30, 2015			
	Cash Balance July 1, 2014	Cash Receipts	Cash Disbursements	Cash Balance June 30, 2015
Trade Readjustment Act	$ -	$ 7,572,313	$ 7,629,976	$ (57,663)
Disaster Unemployment Assistance	-			-
Alternative Trade Adjustment Act	-	515,986	517,130	(1,144)
Total Special Program Fund	**$ -**	**$ 8,088,299**	**$ 8,147,106**	**$ (58,807)**

	Fiscal Year Ended June 30, 2014			
	Cash Balance July 1, 2013	Cash Receipts	Cash Disbursements	Cash Balance June 30, 2014
Trade Readjustment Act	$ (2,316)	$ 5,665,382	$ 5,663,066	$ -
Disaster Unemployment Assistance	-	32,867	32,867	-
Alternative Trade Adjustment Act	(41,226)	923,259	882,033	-
Total Special Program Fund	**$ (43,542)**	**$ 6,621,508**	**$ 6,577,966**	**$ -**

Note: The negative cash balance is due to the timing of federal drawdown. The drawdowns were based on direct deposits and debit cards issued in FY 2015 and FY 2014.

State of Illinois **Schedule 6**

Department of Employment Security

Schedule of Changes in State Property

For the Fiscal Years Ended June 30, 2015 and 2014

	Fiscal Year Ended June 30, 2015				
	Balance July 1, 2014	Additions	Deletions	Net Transfers	Balance June 30, 2015
Equipment	$ 17,970,858	$ 177,605	$ (30,593)	$ (2,863,128)	$ 15,254,742

	Fiscal Year Ended June 30, 2014				
	Balance July 1, 2013	Additions	Deletions	Net Transfers	Balance June 30, 2014
Equipment	$ 17,461,623	$ 52,295	$ -	$ 456,940	$ 17,970,858

Note: Additions and deletions were reconciled to the C-15 Reports (Agency Report of State Property) submitted to the Office of the Comptroller (Comptroller) by the Department. The positive FY 2015 deletion represents corrections of previously deleted items. This summary schedule was prepared using State property records required by the Illinois Administrative Code (Code). The capitalization policy in the Code is different than the capitalization policy established by the Comptroller for financial reporting in accordance with generally accepted accounting principles.

State of Illinois **Schedule 7**

Department of Employment Security

Comparative Schedule of Cash Receipts

For the Fiscal Years Ended June 30, 2015, 2014 and 2013

	Fiscal Year Ended June 30		
Descriptions of Receipts	2015	2014	2013
TITLE III SOCIAL SECURITY AND EMPLOYMENT SERVICES FUND - 052			
U. S. Department of Labor	$ 188,089,341	$ 200,529,487	$ 228,127,896
Fund transfers - Unemployment Compensation Special Administration Fund	20,500,000	39,600,000	11,900,000
Miscellaneous	615,008	72,430	123,706
State of Illinois		282,613	2,000,000
Health Care and Family Services	4,884	4,884	4,884
Capital Development Board	-	3,000,000	
Other states	30,000	50,000	35,000
Fines, penalties or violations	10,226	13,653	11,281
Returned petty cash fund	1,150	2,000	-
Subscriptions and publications			180
One stop participants	140,390	289,308	370,961
Reimbursement/Jury duty and recoveries	8,026	5,978	4,494
General Revenue Fund			
Copy fees	3,803	3,815	4,409
Shared data access fees	45,700	24,200	-
Labor market information	5,158	1,700	2,778
Commerce and Economic Opportunity	496,327	683,889	36,249
Investment income repurchase agreements	3,201	2,124	5,291
Prior year refunds	11,392	1,273	5,329
Total Fund (052)	$ 209,964,606	$ 244,567,354	$ 242,632,458
UNEMPLOYMENT COMPENSATION SPECIAL ADMINISTRATION FUND - 055			
Employer tax contribution penalties	$ 25,099,607	$ 32,392,533	$ 16,482,040
Unemployment insurance	-	190,649	1,332,723
Judgement interest/UI claim	129,283	188,208	206,728
IPTIP UC special administration	1,270	774	3,862
PY Refund Fund 55	15,830	2,911	-
Total Fund (055)	$ 25,245,990	$ 32,775,075	$ 18,025,353

Reconciliation Schedule of Cash Receipts to
Deposits Remitted to the State Comptroller
For the Fiscal Years Ended June 30, 2015 and 2014

	2015	2014
Title III Social Security and Employment Services Fund - 052		
Cash receipts per Department	$ 209,964,606	$ 244,567,354
Less: Investment income	(3,201)	(2,124)
Deposits remitted to the State Comptroller	$ 209,961,405	$ 244,565,230

	2015	2014
Unemployment Compensation Administration Fund - 055		
Cash receipts per Department	$ 25,245,990	$ 32,775,075
Less: Investment income	(1,270)	(774)
Deposits remitted to the State Comptroller	$ 25,244,720	$ 32,774,301

Note: To avoid deposits in transit, monies are requested from the federal government no more than three business days before disbursement.

Schedule 9

State of Illinois
Department of Employment Security

Analysis of Significant Variations in Expenditures
For the Fiscal Years Ended June 30, 2015, 2014 and 2013
(Amounts Expressed in Thousands)

Pages 42 and 43 present comparative balances based on the audited financial statements. The explanation for significant fluctuations (greater than or equal to 20% and $1,000) in expenditures is as follows:

INDIVIDUAL NONSHARED GOVERNMENTAL FUNDS

SPECIAL PROGRAMS FUND

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2015	2014	Amount	%
Employment and economic development	$ 8,102	$ 6,661	$ 1,441	22%

The increase in employment and economic development expenditures was due to more individuals being eligible and collecting Trade Readjustment Act and Alternative Trade Adjustment Assistance benefits.

INDIVIDUAL NONSHARED PROPRIETARY FUNDS

UNEMPLOYMENT COMPENSATION TRUST FUND

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2015	2014	Amount	%
Benefit payments and refunds	$ 1,838,231	$ 2,736,614	$ (898,383)	-33%

The decrease in benefit payments and refunds expense was a result of a decrease in unemployment benefit paid because of the Federal Emergency Compensation (EUC08) benefit program ending halfway through State fiscal year 2014 (December 31, 2013).

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2014	2013	Amount	%
Benefit payments and refunds	$ 2,736,614	$ 3,560,948	$ (824,334)	-23%

The decrease in benefit payments and refunds expense was a result of a decrease in unemployment benefit paid because of the Federal Emergency Compensation (EUC08) benefit program ending halfway through State fiscal year 2014 (December 31, 2013).

MASTER BOND FUND

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2015	2014	Amount	%
Interest expense, nonoperating	$ 3,132	$ 22,078	$ (18,946)	-86%

The operating expense decreased each year due to bonds being redeemed.

State of Illinois
Department of Employment Security

Analysis of Significant Variations in Expenditures (Continued)
For the Fiscal Years Ended June 30, 2015, 2014 and 2013
(Amounts Expressed in Thousands)

MASTER BOND FUND (CONTINUED)

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2014	2013	Amount	%
Transfers out	$ 7	$1,545,003	$(1,544,996)	-100%

The decrease in transfer out was because most of the proceeds of the initial bond issue on July 31, 2012 were transferred to the Unemployment Trust Fund. Only nominal transfer will occur in years subsequent to FY 2013.

State of Illinois
Department of Employment Security

Analysis of Significant Variations in Receipts
For the Fiscal Years Ended June 30, 2015, 2014 and 2013
(Amounts Expressed in Thousands)

Pages 44 and 45 present comparative balances based on the audited financial statements. The Department's explanations for significant fluctuations (greater than or equal 20 percent and $1,000) in receipts are as follows:

INDIVIDUAL NONSHARED GOVERNMENTAL FUNDS

OPERATING FUND

Account Description	Fiscal Year Ended June 30 2015	Fiscal Year Ended June 30 2014	Increase (Decrease) Amount	Increase (Decrease) %
Other revenues	$ 702	$ 3,876	$ (3,174)	-82%
Transfers in	24,372	31,737	(7,365)	-23%

The decrease in other revenues was due to a grant from the Capital Development Board in FY 2014 in the amount of $3,000.

The decrease in transfers in was due to a reduction in the amount of unemployment insurance penalties earned from employers.

Account Description	Fiscal Year Ended June 30 2014	Fiscal Year Ended June 30 2013	Increase (Decrease) Amount	Increase (Decrease) %
Other revenues	$ 3,876	$ 589	$ 3,287	558%

The increase in other revenues was due to grant from the Capital Development Board in FY 2014 in the amount of $3,000.

SPECIAL PROGRAMS FUND

Account Description	Fiscal Year Ended June 30 2015	Fiscal Year Ended June 30 2014	Increase (Decrease) Amount	Increase (Decrease) %
Revenues - federal governments	$ 8,102	$ 6,661	$ 1,441	22%

The increase in revenues - federal government was due to more individuals being eligible and collecting Trade Readjustment Act and Alternative Trade Adjustment Assistance benefits.

State of Illinois
Department of Employment Security

Analysis of Significant Variations in Receipts (Continued)
For the Fiscal Years Ended June 30, 2015, 2014 and 2013
(Amounts Expressed in Thousands)

INDIVIDUAL NONSHARED PROPRIETARY FUNDS

UNEMPLOYMENT COMPENSATION TRUST FUND

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2015	2014	Amount	%
Federal government	$ (1,061)	$ 574,093	$ (575,154)	-100%
Nonoperating interest and investment	32,146	25,356	6,790	27%

The decrease in federal government receipts was a result of a decrease in unemployment benefit paid because of the Federal Emergency Compensation (EUC08) benefit program ending halfway through State fiscal year 2014 (December 31, 2013).

The increase in nonoperating interest and investment was due to an increase in interest earnings as a result of an increase in the cash balance in the unemployment insurance trust fund.

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2014	2013	Amount	%
Federal government	$ 574,093	$ 1,440,204	$ (866,111)	-60%
Nonoperating interest and investment	25,349	15,419	9,930	64%
Transfers in	7	1,545,003	(1,544,996)	-100%

The decrease in federal government receipts was a result of a decrease in unemployment benefit aid because of the Federal Emergency Compensation (EUC08) benefit program ending halfway through State fiscal year 2014 (December 31, 2013).

The increase in other nonoperating interest and investment revenue is attributable to an increase in interesting earnings as a result of an increase in the Unemployment Insurance Trust Fund's cash balance.

The decrease in transfers in was due to transfers in the previous year being related to bond issuance. Decrease is due to only small amounts of Master Bond Funds being transferred back to the Unemployment Insurance Trust Fund as excess receipts.

State of Illinois
Department of Employment Security

Analysis of Significant Lapse Period Spending
For the Fiscal Years Ended June 30, 2015 and 2014

Lapse period spending totaling 20% or more of total expenditures were considered significant.

July 1, 2015 to August 31, 2015
In FY 2015, there was no significant lapse period spending in any fund.

July 1, 2014 to November 31, 2014
In FY 2014, there was no significant lapse period spending in any fund.

State of Illinois
Department of Employment Security

Analysis of Significant Account Balances
For the Fiscal Years Ended June 30, 2015, 2014 and 2013
(Amounts Expressed in Thousands)

Pages 47 through 50 present comparative account balances based on the audited financial statements. The explanation for significant fluctuations (greater than or equal to 20% and $1,000) in expenditures is as follows:

INDIVIDUAL NONSHARED GOVERNMENTAL FUNDS

OPERATING FUND

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2015	2014	Amount	%
Cash and cash equivalents	$ 33,549	$ 15,345	$ 18,204	119%
Intergovernmental receivables	20,690	12,135	8,555	70%
Unavailable grant revenues	3,003	1,407	1,596	113%
Fund balance, restricted	34,379	12,960	21,419	165%

The increase in cash and cash equivalents was primarily due to increase in Special Administrative Account (SAA) cash from penalty and interest.

The increase in intergovernmental receivables and unavailable grant revenues was primarily a timing issue due to grant expenditures associated with federal grants that were not reimbursed until the subsequent year.

The increase in unavailable grant revenues was due to expenses incurred in FY 2015 that were anticipated to be received after the lapse period from the federal government.

The increase in fund balance, restricted was due to interests and penalties from employers earned during the year.

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2014	2013	Amount	%
Intergovernmental receivables	$ 12,135	$ 22,079	$ (9,944)	-45%
Due from other State funds	2,322	3,369	(1,047)	-31%
Accounts payable and accrued liabilities	5,504	8,362	(2,858)	-34%

The decrease in intergovernmental receivables and unavailable grant revenue was primarily due to grant expenditures associated with federal grants that were not anticipated to be reimbursed since the timing of the cash payment incurred in FY 2014 that were anticipated to be received after June 30, 2014 from the federal government.

The decrease in due from other State funds was due to a decrease in collections.

The decrease in accounts payable and accrued liabilities was due to decreased spending during the 2014 lapse period.

State of Illinois
Department of Employment Security

Analysis of Significant Account Balances (Continued)
For the Fiscal Years Ended June 30, 2015, 2014 and 2013
(Amounts Expressed in Thousands)

INDIVIDUAL NONSHARED PROPRIETARY FUNDS

UNEMPLOYMENT COMPENSATION TRUST FUND

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2015	2014	Amount	%
Deposits held by federal government	$1,634,610	$1,341,107	$ 293,503	22%
Receivables, net - other	159,281	211,366	(52,085)	-25%

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2015	2014	Amount	%
Intergovernmental payables	$ 8,358	$ 4,803	$ 3,555	74%

The increase in deposits held by federal government is due to a decrease of benefits paid as a result of Federal Emergency Compensation (EUC08) benefit program ending.

The decrease in receivable, net – other, which represents claimant benefit overpayments, is due to a reduction in benefit payment and therefore, less overpayments being established.

The increase in intergovernmental payables was due to monies received for the short-time compensation grant that was not utilized and is now due back to the federal government.

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2014	2013	Amount	%
Receivables, net - intergovernmental	$ 19,865	$ 63,280	$ (43,415)	-69%
Due from State funds	5,786	7,192	(1,406)	-20%
Benefit payments payable	128,829	164,231	(35,402)	-22%

The decrease in intergovernmental receivable was due to a 97% decrease in due from federal government for benefits paid which is a result of Federal Emergency Compensation (EUC08) benefit program ending.

The decrease in due from State funds is because of the Department of Employment Security (funded by Fund 052) had a layoff in Fiscal Year 2013 and there were no layoffs in Fiscal Year 2014), therefore reducing the amount due from other fund (Fund 052).

The decrease in benefit payments payable is due to a decrease in unemployment benefit paid because of the Federal Emergency Compensation (EUC08) benefit program ending halfway through State Fiscal Year 2014 (December 31, 2013).

State of Illinois
Department of Employment Security

Analysis of Significant Account Balances (Continued)
For the Fiscal Years Ended June 30, 2015, 2014 and 2013
(Amounts Expressed in Thousands)

MASTER BOND FUND 2015 and 2014

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2015	2014	Amount	%
Cash and cash equivalents	$ 27,099	$ 95,268	$ (68,169)	-72%
Revenue bonds payable, noncurrent	459,652	935,909	(476,257)	-51%
Net assets, unrestricted	(576,236)	(976,767)	400,531	-41%

The decrease in cash and cash equivalents is due to optional redemptions taken in the current year being significantly greater than prior year.

The revenue bonds payable will decrease each year with bond redemptions.

The decrease in net assets is due to optional redemptions taken in the current year being significantly greater than the prior year.

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2015	2014	Amount	%
Interest expense	$ (3,132)	$ 22,078	$ (25,210)	-114%

Interest expense decreases each year due to bonds redemption.

MASTER BOND FUND 2014 and 2013

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2014	2013	Amount	%
Cash and cash equivalents	$ 95,268	$ 27,108	$ 68,160	251%
Revenue bonds payable, noncurrent	935,909	1,190,409	(254,500)	-21%
Net assets, unrestricted	(976,767)	(1,295,854)	319,087	-25%

The increase in cash and cash equivalents is due to increase in fund building receipts required for bond scheduled debt services

Revenue bonds payable, noncurrent decreases each year with scheduled redemptions.

Net assets increases as bonds are redeemed.

State of Illinois
Department of Employment Security

Analysis of Significant Account Balances (Continued)
For the Fiscal Years Ended June 30, 2015, 2014 and 2013
(Amounts Expressed in Thousands)

	Fiscal Year Ended June 30		Increase (Decrease)	
Account Description	2014	2013	Amount	%
Transfer out	$ 7	$1,545,003	$ (1,544,996)	-100%

The decrease in transfer out was because most of the proceeds of the initial bond issue on July 31, 2012 were transferred to the Unemployment Trust Fund. Only nominal transfer will occur in years subsequent to FY 2013.

State of Illinois
Department of Employment Security

Analysis of Accounts Receivable
June 30, 2015 and 2014
(Amounts Expressed in Thousands)

For financial reporting purposes for fiscal years 2015 and 2014, the Department classified its accounts receivable in the following categories:

INDIVIDUAL NONSHARED GOVERNMENTAL FUNDS

Intergovernmental Receivables

Intergovernmental receivables represent reimbursements due from federal government to reimburse the Department's administrative expenditures. Intergovernmental receivables totaled $20,997 at June 30, 2015 and $12,428 at June 30, 2014.

The Department does not calculate an allowance for uncollectible accounts for intergovernmental receivables as the amounts are due from other governmental entities and receipt is reasonably assured. In addition, the Department does not maintain records that age entirely the intergovernmental receivable balance. Therefore, an account receivable aging schedule for intergovernmental receivable has not been provided on the accompanying schedules.

NONSHARED PROPRIETARY FUND

Taxes Receivables

Taxes receivables represent unemployment taxes, known as contributions, owed by private, non-governmental employers to the Trust Fund. The Department records the receivable based on actual outstanding receivable plus estimate for the quarter ending June 30th based on the Budget's Trust Fund model including an allowance for uncollectible accounts. Taxes receivables, net of allowance for uncollectible accounts, totaled $581,791 at June 30, 2015 and $649,128 at June 30, 2014. Some of the methods used by the Department to collect these receivables include statements of account, telephone collections, determination and assessments, property liens, outside collection agencies, comptroller's offset, deferred payment agreements and bank levies.

See the following schedules for an aging of the taxes receivables balances.

Taxes Receivable at June 30, 2015

Receivable for the quarter ended June 30, 2015	Receivable from prior quarters	Total Taxes Receivable
515,043	411,748	$ 926,791
Less allowance for uncollectible accounts		(345,000)
		$ 581,791

State of Illinois
Department of Employment Security

Analysis of Accounts Receivable (Continued)
June 30, 2015 and 2014
(Amounts Expressed in Thousands)

NONSHARED PROPRIETARY FUND (CONTINUED)

Taxes Receivables (Continued)

Taxes Receivable at June 30, 2014

Receivable for the quarter ended June 30, 2014	Receivable from prior quarters	Total Taxes Receivable
562,187	382,496	$ 944,683
Less allowance for uncollectible accounts		(295,555)
		$ 649,128

Intergovernmental Receivables

Intergovernmental receivables represent reimbursements due from other State governments for unemployment benefits paid to those States' ex-employees by the Trust Fund. The receivables also include amounts due from the federal government, for ex-military and federal employees, emergency unemployment, and extended benefits compensation. Intergovernmental receivables totaled $17,767 at June 30, 2015 and $19,865 at June 30, 2014. For local and other State governments, the Department sends quarter billings or statements to collect the receivables. For ex-military and federal employees' claims, the Department draws the funds for the receivable due.

Other Receivables

Other receivables represent monies owed from claimants who received benefits which exceeded the allowable amounts. The Department records the receivable based on actual outstanding overpayment receivable plus an estimate of additional overpayments related to the period, and an allowance for uncollectible accounts is recorded based on historical collections. Other receivables, net of allowance for uncollectible accounts, totaled $159,281 at June 30, 2015 and $211,366 at June 30, 2014. Methods used to collect these receivables include recoupment from future benefits; use of the comptroller's offset system, referral to federal treasury offset program, statements of indebtedness, deferred payment agreements, and referral to the Illinois Attorney General. As of June 30, 2015 and June 30, 2014, the newly implemented Treasury Offset Program (TOPS) collected a total of $122,771 and $98,876, respectively.

Net Other Receivables Aging at June 30, 2015

2011 and Prior	2012	2013	2014	2015	Total Other Receivables
$ 275,974	$ 118,862	$ 101,378	$ 96,246	$ 178,203	$ 770,663
Less: allowance for uncollectible accounts					(611,382)
					$ 159,281

State of Illinois
Department of Employment Security

Analysis of Accounts Receivable (Continued)
June 30, 2015 and 2014
(Amounts Expressed in Thousands)

NONSHARED PROPRIETARY FUND (CONTINUED)

Other Receivables (Continued)

Net Other Receivables Aging at June 30, 2014

2010 and Prior	2011	2012	2013	2014	Total Other Receivables
$ 182,098	$ 106,764	$ 128,148	$ 115,236	$ 175,186	$ 707,432
Less allowance for uncollectible accounts					(496,066)
					$ 211,366

ANALYSIS OF OPERATIONS

Programs

The Illinois Department of Employment Security (Department) is a cabinet-level State government agency under the leadership of a Director who is responsible for both general policy and day-to-day agency management. The *Office of the Director* includes Chief of Staff, Equal Employment Opportunity/Affirmative Action and Internal Audit. Other functions are carried out by the following:

Financial Operations, headed by the Chief Financial Officer, administers the employer payroll tax assessed for the purpose of funding UI benefit payments; is responsible for audit and collections activity related to the UI tax, the processing of employers' tax reports and remittances, and providing customer service to employers with respect to their accounts with the Department.

Legal Services acts as the Department's legal counsel and monitors legislation and its effect on the Department. It also administers a two-stage appeals process - resident in the Appeals and Board of Review divisions - through which claimants and employers can appeal the decisions that the Department makes regarding unemployment insurance (UI).

Administration, under the direction of the Chief of Staff, is responsible for procurement, the provision of space, equipment and supplies, and the human resource and labor management functions. It conducts quality assurance and compliance reviews of benefits and tax functions and is responsible for the Department's plans and program analyses. In addition, it oversees the collection and dissemination of economic and labor market information.

Service Delivery employs the majority of the Department's staff. It is responsible for operating a statewide system of call centers, processing centers, regional and local offices for the programmatic administration of the Unemployment Insurance, Employment Service, and related programs.

Information Services plans, develops, implements, and maintains the Department's electronic systems, including hardware and software resources and databases, required for the smooth operation of all programmatic and administrative functions.

Business Services conducts an active employer outreach program to gather job openings for the Department's labor exchange system. Business Services ensures that the labor exchange system functions properly programmatically and creates accurate reports

The Department operates three major programs: Unemployment Insurance, the Employment Service, and Labor Market Information.

Programs (Continued)

Unemployment Insurance

The Unemployment Insurance (UI) program is designed to partially protect eligible workers against loss of income during periods of unemployment and to contribute to overall economic stability. Like any insurance system, UI is based on a reserve of funds. The reserve fund, the Unemployment Insurance Trust Fund, is maintained through contributions collected by the Department from employers defined as liable under the *Illinois Unemployment Insurance Act*. When a worker employed by a liable employer becomes unemployed, he/she can file a claim for unemployment insurance benefits. If the worker meets all the eligibility requirements set forth by the UI Act, he/she may receive benefits for the maximum number of weeks payable under the law.

Employment Service

The Employment Service (ES) program is operated under the authority of the federal Wagner-Peyser Act, as amended by the Workforce Investment Act of 1998, and is part of the nationwide labor exchange system. The central aim of ES is to speed re-employment through job matching and employability development services. The Department maintains close contacts with employers to locate job opportunities and to meet their labor needs as soon as possible with qualified job applicants. This is accomplished by matching workers' skills to employers' job requirements and referring applicants with the appropriate skills, experience and education or training for employment interviews. If there are no suitable job openings listed for an individual or group of applicants, the Department staff attempts to develop openings with employers known to use the skills these applicants possess.

Labor Market Information

The Labor Market Information (LMI) program is partially operated under the Wagner-Peyser Act which requires the Department to maintain a labor market program to monitor employment related conditions and trends, and through cooperative agreements with two U.S. Department of Labor (USDOL) agencies: the Bureau of Labor Statistics and the Employment and Training Administration. The LMI program staff collects, analyzes, and distributes labor force and economic information. Using direct surveys, administrative data, and related economic information, LMI describes past, monitors current, and projects future economic trends in terms of indicators such as population, civilian labor force, unemployment, employment by industry and occupation, wages, and hours worked. This information is distributed through regular publications, workshops and seminars, and by the statewide network of Labor Market Economists.

Plans

The Department prepares a number of compliance plans to obtain federal funding.

Federal program plans and reports are submitted to the regional office of the USDOL's Employment and Training Administration (ETA) or the Veterans Employment and Training Service (VETS). Plans cover one of two fiscal years: the federal fiscal year (FFY) which runs from October 1 through September 30; or the program year (PY) which covers July 1 through June 30, the same period as the State Fiscal Year (SFY).

The State Quality Service Plan (SQSP) is the vehicle for requesting federal funds to administer the UI program for the coming FFY. This plan is made up of four parts: a narrative, corrective action plans, an integrity plan, and budget information. The narrative portion includes a summary of current-year program activities, program directions and initiatives for the next year, plans to support ETA's Strategic Plan objectives under the Government Performance and Results Act (GPRA), and a discussion of program and program review deficiencies. The section on corrective action includes a plan for improvement for each area of the Department failing its respective federal performance measures; and the Integrity plan outlines strategies intended to improve UI program integrity in the next FFY(s). The budget portion of the plan includes worksheets detailing the Department's plan for distributing the funds (by function and quarter) that ETA estimates the Department will receive for the coming fiscal year. These estimates are based on preliminary federal budget requests. The budget request is made annually, whereas the written part of the plan is now submitted every two years.

ETA requires states to submit quarterly status reports to monitor the SQSP's corrective action and integrity plans. Focusing on action steps scheduled for completion during the report quarter, the narrative describes actions taken to complete the steps or reasons steps were not completed with alternate plans and/or completion dates.

Federal Wagner-Peyser funding represents another significant portion of the Department's budget. With the passage of the Workforce Investment Act (WIA) of 1998, the annual Wagner-Peyser planning process for basic labor exchange and labor market information services was incorporated into Illinois' comprehensive five-year strategic plan which treats the many aspects of workforce development. As the administrators of the Wagner-Peyser and WIA programs, Department and the Department of Commerce and Economic Opportunity prepare the plan jointly. In addition to the Departments' plans to deliver program services, the plan also includes the annual goals that each has negotiated with ETA Region V. Three such measures apply to the Department. The most recent plan was submitted in 2012. Each agency is responsible for submitting their own modifications to the State Plan, should their plans or programs change during the five-year period.

Plans (Continued)

Once a stand-alone plan, the annual Migrant and Seasonal Farmworkers (MSFW) Plan, also known as the Agricultural Outreach Plan, became part of the State Plan in 2012. Basically, the MSFW plan describes how the Department, with Wagner-Peyser funding, will make agricultural workers aware of and provide them with services that will improve their opportunities for more stable employment and will do so in a manner that is qualitatively equivalent and quantitatively proportionate to services provided to non-MSFWs. Elements of the outreach plan include the resources the Department will make available for outreach and how those outreach activities will be conducted. Since there is no discrete allocation for this program, the plan does not include a budget.

The Jobs for Veterans Act of 2002 requires states to submit to VETS five-year State Plans and annual Grant Modification Requests to support program administrators and the field staff (per approved VETS 501 Form) who provide direct labor exchange services to veterans. Field staff - Disabled Veterans Outreach Program (DVOP) specialists and Local Veterans Employment Representatives (LVER) - are assigned to Department offices throughout the State to ensure that veterans receive employment assistance and the priority of service in compliance with federal regulations. The State Plan includes a program plan and an annual budget plan and staffing directory. The program plan assesses the State's labor market and the representation of veterans in the civilian labor force; describes the manner in which the Department provides or facilitates the delivery of employment, training and placement services for veterans, and the role of DVOPs and LVERs in that effort; and discusses the Department's plan for serving special target groups e.g., disabled veterans, special disabled veterans, homeless veterans, female veterans, veterans transitioning from the military, etc.; and for implementing performance incentive awards for quality employment, training and placement services, should the State decide to do so. It also includes the annual performance goals the Department has negotiated with the Illinois VETS Director and the VETS regional administrator. The budget plan details the distribution of Illinois' projected allocation to staff positions, incentives, and any other expenditures planned to support or provide needed services to the State's veteran population. Only the budget plan is required for subsequent annual modifications, but the Department typically updates its program plan as well.

The completed State Plan and annual modification requests are submitted to the VETS National Office via the Illinois VETS Director and the VETS Regional Office. In 2015, the Department submitted its most recent five-year State Plan which covers FFY 2015-2019. The current State Plan has been modified for FFY 2016. The annual modification includes data/revisions to the five-year plan, the budget plan and staffing directory. The incentive award program is included in the plan.

State of Illinois
Department of Employment Security

Average Number of Employees
For the Fiscal Years Ended June 30, 2015, 2014 and 2013
(Not Examined)

The following table summarizes the average number of employees of the Department at June 30, 2015, 2014 and 2013.

Division	2015	2014	2013
Workforce Development	1,177	1,187	1,446
Total Employees	1,177	1,187	1,446

State of Illinois
Department of Employment Security

Annual Cost Statistics
For the Fiscal Years Ended June 30, 2015, 2014 and 2013
(Not Examined)

	Fiscal Year Ended June 30,		
	2015*	2014*	2013*
Cost per employer report processed	$ 18.53	$ 18.53	$ 18.53

** Estimated*

	Federal Fiscal Year Ended September 30,		
	2015	2014	2013
Average benefits paid per client	$ 3,024	$ 3,300	$ 3,071

State of Illinois
Department of Employment Security

Emergency Purchases
For the Fiscal Years Ended June 30, 2015 and 2014
(Not Examined)

Fiscal Year Ended 2015
In FY 2015, the Department had no emergency purchases.

Fiscal Year Ended 2014
In FY 2014, the Department had emergency purchases for programming and technical support services for the unemployment compensation benefit system totaling $583,040 to Diversified Services Network and Electronic Knowledge Interchange. In addition, the Department had emergency services for janitorial services totaling $209,447 to Janitorial Management Services.

State of Illinois
Department of Employment Security

Service Efforts and Accomplishments
For the Fiscal Years Ended June 30, 2015, 2014 and 2013
(Not Examined)
(Expressed In Thousands)

	Fiscal Year Year Ended June 30,		
	2015	2014	2013
Activities and Performance			
Unemployment Insurance [(1)]			
Initial claims	606.59	685.08	751.93
Job Placement [(2)]			
Entered employments	434.38	337.37	349.90
Job openings received	39.28	33.01	39.40

Notes:

(1) The Department provides temporary income assistance in the form of unemployment benefits to individuals who qualify under federal and state laws.

(2) The Department provides match assistance for employees and specialized assessment and referral services for job seekers.

State of Illinois
Department of Employment Security

Unemployment Rates
For the Years Ended June 30, 2015, 2014 and 2013
(Not Examined)

The funding for the administration of the Department's programs is provided by the federal government and is largely based upon State levels of unemployment. National and State unemployment rates by quarter for calendar years 2013 through 2015 as provided by the Bureau of Labor Statistics, are summarized below:

		Rate by Quarter			
		1st	2nd	3rd	4th
	2015				
	National	5.60 %	5.40 %	5.20 %	*
	State	6.00	6.00	5.60	*
	2014				
	National	6.60 %	6.20 %	6.10 %	5.70 %
	State	7.90	7.10	6.50	6.20
	2013				
	National	7.70 %	7.50 %	7.20 %	7.00 %
**	State	9.10	9.00	8.80	8.50

Notes: Rates are seasonally adjusted and subject to revision.

* Figures not available at time of report.

** Rates were revised in February 2014.