



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF EMPLOYMENT SECURITY

**Financial Audit
 For the Year Ended June 30, 2018**

Release Date: June 4, 2019

FINDINGS THIS AUDIT: 8				AGING SCHEDULE OF REPEATED FINDINGS			
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	<u>Repeated Since</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>
Category 1:	7	0	7	No Repeat Findings			
Category 2:	1	0	1				
Category 3:	0	0	0				
TOTAL	8	0	8				
FINDINGS LAST AUDIT: 1							

INTRODUCTION

This digest covers the Department of Employment Security's (Department) Financial Audit of the Unemployment Compensation Trust Fund for the year ended June 30, 2018.

SYNOPSIS

- **(18-1)** The Department did not have adequate controls over their taxes receivable.
- **(18-2)** The Department did not have adequate controls over their claimant overpayment receivables, which led to the draft financial statements including accounts which had been written off.
- **(18-3)** The Department did not have adequate controls over refunds.
- **(18-4)** The Department's refund payable account contained amounts that were already paid resulting in the draft financial statements being misstated.
- **(18-7)** The Department of Revenue and the Department did not maintain adequate controls over changes to the enterprise-wide system (GenTax).

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).
Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.
Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Financial information is summarized on next page.}

ILLINOIS DEPARTMENT OF EMPLOYMENT SECURITY
FINANCIAL AUDIT
For the Year Ended June 30, 2018

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION		
Unemployment Compensation Trust Fund (in thousands)	2018	2017
Operating Revenues		
Unemployment taxes.....	\$ 1,900,277	\$ 1,968,746
Federal government.....	6,901	5,293
Total Operating Revenues.....	<u>1,907,178</u>	<u>1,974,039</u>
Operating Expenses		
Benefit Payments and Refunds.....	<u>1,727,817</u>	<u>1,841,460</u>
Total Operating Expenses.....	<u>1,727,817</u>	<u>1,841,460</u>
Operating Income.....	179,361	132,579
Nonoperating revenues (expenses)		
Interest/investment income/interest expense and other	<u>36,956</u>	<u>36,620</u>
Income Before Transfers.....	216,317	169,199
Transfers In/(Out).....	<u>(23,259)</u>	<u>(21,208)</u>
Change in Net Position.....	193,058	147,991
Net Position, beginning of year.....	<u>2,126,361</u>	<u>1,978,370</u>
Net Position, end of year.....	<u>\$ 2,319,419</u>	<u>\$ 2,126,361</u>

STATEMENT OF NET POSITION		
Unemployment Compensation Trust Fund (in thousands)	2018	2017
Assets:		
Cash and cash equivalents.....	\$ 20,872	\$ 169,592
Deposits held by the federal government.....	1,939,194	1,535,405
Receivables, Net:		
Taxes.....	324,851	420,713
Intergovernmental.....	26,190	30,630
Other.....	111,586	77,154
Due from State Funds or component units.....	26,547	35,044
Total Assets.....	<u>2,449,240</u>	<u>2,268,538</u>
Liabilities:		
Benefit payments payable.....	124,127	135,791
Intergovernmental payables.....	3,394	5,081
Due to other State funds.....	<u>2,300</u>	<u>1,305</u>
Total Liabilities.....	<u>129,821</u>	<u>142,177</u>
Net Position:		
Restricted for payments of benefits.....	2,319,419	1,971,044
Unrestricted.....	-	155,317
Total Net Position.....	<u>\$ 2,319,419</u>	<u>\$ 2,126,361</u>

AGENCY DIRECTOR

During the Audit Period: Jeffrey Mays

Currently: Thomas Chan (Acting) (effective March 1, 2019)

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**INADEQUATE CONTROLS OVER TAXES
RECEIVABLE**

**\$10,323,207 adjustments made to
gross taxes receivable balance**

The Department did not have adequate controls over their taxes receivable, which caused a misstatement in the Department's draft financial statements. As a result of the inaccuracies noted during testing, the gross taxes receivable balance was adjusted by \$10,323,207.

**Department did not provide
documentation demonstrating the
completeness of the taxes receivable
population which required the
auditors to perform significant
additional procedures**

During testing of accounts receivable, we requested the Department provide their population of taxes receivable as part of our testing of the Department's financial statements. However, the Department did not provide documentation demonstrating the completeness of the population. Due to these conditions, we were unable to conclude the Department's population records were sufficiently precise and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AU-C § 330, AU-C § 530). As a result of this condition, the auditors had to perform significant additional procedures relating to the balance of taxes receivable.

**Department did not post \$1,711,049
of June 2018 interest**

Our testing specifically noted:

- The Department did not post interest to employer accounts for the month of June 2018. This resulted in the receivable being understated by \$1,711,049.

**\$3,406,515 of written off accounts
remained in taxes receivable balance**

- The Department included accounts which had been written off, but remained in the taxes receivable balance. This resulted in the receivable being overstated by \$3,406,515.

**\$3,798,901 in accounts were not
included in taxes receivable balance
due to incorrectly placed indicator**

- The Department incorrectly placed the Stop Debit Write Off indicator on employer accounts. This indicator stops the debit write off process for the account or period. These accounts should have been included in taxes receivable, causing it to be understated by \$3,798,901.

**Additional \$12,426,642 of written off
accounts remained in taxes
receivable balance as determined by
the Department**

- The Department determined there were accounts that should have been written off; however, they were not. As a result, taxes receivable was overstated by \$12,426,642. (Finding 1, pages 23-24)

We recommended the Department develop appropriate controls to ensure all transactions are properly recorded and presented in its financial statements.

**Department agrees with our
recommendation**

The Department accepted the finding and stated they have made corrections to address identified issues.

INADEQUATE CONTROLS OVER CLAIMANT OVERPAYMENT RECEIVABLES

\$312,486,000 adjustments made to gross account receivable balance, with net adjustment of \$20,545,000

The Department did not have adequate controls over their claimant overpayment receivables, which led to the draft financial statements including accounts which had been written off. As a result, the accounts receivable related to claimant overpayments was materially misstated. Due to the inaccuracies noted during testing, the gross accounts receivable balance was adjusted by \$312,486,000, with the net balance being adjusted by \$20,545,000.

Accounts receivable balance related to claimant overpayments included account that had been written off in prior years

During testing, we determined the Department's accounts receivable related to claimant overpayments included accounts that had been written off in prior years totaling \$312,486,000. An adjustment to the allowance was also recorded for these accounts. In addition, while reviewing the approved write offs in the Illinois Benefit Information System (IBIS), we noted there were no approved write-offs during the first and second quarters of calendar year 2018. (Finding 2, page 25)

Department agrees with our recommendation

We recommended the Department implement controls to ensure written off accounts are not reflected in the Department's accounts receivable.

The Department accepted the finding and stated corrections to IBIS have been made to address identified issues.

INADEQUATE CONTROLS OVER REFUND LIABILITIES

\$11,352,058 adjustments made to refund liabilities

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

\$13,108,555 from 51,180 accounts were past 3 year statute of limitation

During testing, we determined there were 51,180 accounts, totaling \$13,108,555, which were past the three-year statute of limitations at June 30, 2018. Upon review of the 51,180 accounts, the Department determined it had subsequently paid out erroneous refunds totaling \$1,756,497. (Finding 3, page 26)

\$1,756,497 erroneous refunds paid

We recommended the Department implement controls over refunds to prevent erroneous refunds and the proper accounting of refund liabilities.

Department agrees with our recommendation

The Department accepted the finding and stated they implemented corrections to ensure proper treatment of refunds.

INADEQUATE REFUNDS PAYABLE

\$15 million adjustment made to refunds payable

The Department's refunds payable account contained amounts that were already paid resulting in the Department's draft financial statements being misstated. As a result, refunds payable was adjusted by \$15 million.

Refunds payable account contained refunds for which the Department had already paid to the employer

During testing, it was determined the Department's refunds payable account contained refunds for which the Department had already paid the employer. The Department included these amounts in the refunds payable account erroneously due to the employer not cashing the refund. (Finding 4, page 27)

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

Department agrees with our recommendation

The Department accepted the finding and stated uncashed refund checks will not be included in refunds payable-applied for future financial statements.

INADEQUATE CONTROLS OVER CHANGES TO GENTAX

The Department of Revenue and the Department (collectively referred to as the "Departments") did not maintain adequate controls over changes to the enterprise-wide tax system (GenTax). During Fiscal Year 2018, GenTax processed over 15.3 million transactions and \$46.7 billion in payments from taxpayers.

Departments were unable to provide a listing of changes made to Gentax

As part of the audit process, we requested the Departments provide the population of changes to GenTax. In response, the Departments provided a listing of changes; however, during our testing we noted changes which were not applicable to GenTax.

Due to these conditions, we were unable to conclude the Departments' population of changes to GenTax were sufficiently precise and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AU-C § 330, AU-C §530, AT-C §205).

Even given the population limitations noted above, we performed testing and noted:

During the audit period, the Departments had four different change control procedures. In order to test the procedures for compliance, we selected a sample of 137 proposed changes to Gentax made by the Departments' personnel during the audit

period. Out of the 137 proposed changes, only 100 of them were deemed a required and necessary change to Gentax by the Departments' management and were subsequently made. Out of the 100 required changes to Gentax, we noted the following:

58% of changes sampled lacked adequate testing documentation

- 58 (58%) changes did not contain evidence that testing had been conducted or lacked testing documentation.
- 12 (12%) changes were not approved, or approval was by an unauthorized individual during the development stages or migration to the production environment.
- 2 (2%) changes did not follow the required change control process.

The Departments' varying iterations of change control procedures required that all changes be tested, with testing documented and approved by authorized individuals throughout the development process and migration. (Finding 7, pages 30-31)

We recommended the Department work with the Department of Revenue to utilize adequate internal controls over changes to GenTax and maintain documentation to support the processes and procedures utilized to mitigate the applicable risks related to system changes.

Departments accepted the auditor's recommendation

The Departments accepted the recommendation and stated change control procedures have been revised and an improved tracking solution has been implemented.

OTHER FINDINGS

The remaining findings pertain to failure to convert employer account detail during conversion process, lack of write off policies, and inadequate security over GenTax. We will review the Department's progress towards the implementation of our recommendations in our next financial audit.

AUDITOR'S OPINION

The auditors stated the financial statements of the Unemployment Compensation Trust Fund of the Department as of and for the year ended June 30, 2018 are fairly stated in all material respects.

This financial audit was conducted by RSM US LLP.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:JGR