LEGISLATIVE AUDIT COMMISSION

Review of
Department of Employment Security
Two Years Ended June 30, 2011

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REVIEW: 4384
DEPARTMENT OF EMPLOYMENT SECURITY
TWO YEARS ENDED JUNE 30, 2011

FINDINGS/RECOMMENDATIONS - 7

ACCEPTED - 4
IMPLEMENTED - 2
UNDER STUDY - 1

REPEATED RECOMMENDATIONS - 4

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 7

This review summarizes an audit of the Department of Employment Security for the two years ended June 30, 2011, filed with the Legislative Audit Commission February 28, 2012. The auditors performed a financial audit and compliance examination in accordance with State law and *Government Auditing Standards.* The auditors stated the financial statements were fairly presented.

The Department of Employment Security is a cabinet-level State government agency. The Department operates three major programs: Unemployment Insurance, Job Service, and Labor Market Information. Appendix A shows the number of unemployment insurance claims processed by the Department and the number of job placements provided by the Department in FY11-FY09.

The Director of the Department of Employment Security during most of the two-year audit period was Maureen O'Donnell who became Director of IDES on August 25, 2008. Theresa Larkin served as Acting Director from May 7, 2011 through June 5, 2011. Jay Rowel was appointed director effective June 6, 2011 and he still serves in that position. Director Rowell was not previously employed by IDES.

The average number of employees is summarized in the table appearing below.

	2011	**2010**	**2009**
Central Administration	135	146	130
Financial & Administration	267	261	263
Workforce Development	1,486	1,524	1,360
TOTAL	**1,888**	**1,931**	**1,753**

Presented on the following page is a summary of the State and national unemployment rates by quarter:

	Rate by Quarter (calendar year)			
	1st	**2nd**	**3rd**	**4th**
2009 - National	8.2	9.3	9.7	10.0
State	8.9	9.9	10.6	11.9
2010 - National	9.8	9.6	9.6	9.6
State	11.1	10.5	10.1	9.7
2011 - National	8.9	9.1	9.1	8.7
State	9.3	9.7	10.1	9.8

Expenditures From Appropriations

The General Assembly appropriated a total of $412,649,300 to the Department for FY11. Almost 79.4% of Department funds are federal funds that are appropriated by the State while the remaining come from the Unemployment Compensation Special Administration Account Fund, GRF, the Road Fund, and the IMSA Income Fund. Total appropriations increased from $352 million in FY10 to $412.6 million in FY11. Appendix B summarizes these appropriations and expenditures for FY11 through FY09.

Overall expenditures increased from $294.7 million in FY10 to $331.2 million in FY11. In FY11, expenditures from GRF increased $54 million due to the increase in claims paid to former State employees and payment of $26 million in FY10 expenditures. Total expenditures from the Social Security and Employment Services Fund were $272.3 million in FY10 compared to $254.9 in FY11, a decrease of $17.4 million, or 6.4%, primarily due to a decrease in contractual services for finance and administration. Lapse period expenditures were almost $32.5 million, or 9.8% in FY11.

Cash Receipts

Appendix C provides a summary of the Department's cash receipts for FY11 through FY09. Total cash receipts decreased from $277 million in FY10 to $263 million in FY11. The decrease in cash receipts was due to decreased federal funding through the Department of Labor and the Federal Stimulus Package.

Accounts Receivable

Appendix D provides information on the accounts receivable for the Department's Unemployment Compensation Trust Fund. For financial reporting purposes, the Department classified its accounts receivable in the following categories for the Trust Fund, a proprietary fund:

- Taxes receivable are unemployment taxes owed by private and nongovernmental employers to the Illinois Unemployment Compensation Trust Fund. Taxes receivable totaled more than $764.8 million as of June 30, 2011 with $138 million recorded as an allowance for uncollectible accounts, for a net receivable of $626.8 million;

- Intergovernmental receivables represent reimbursements due from other state and local 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 and temporary emergency unemployment compensation. Intergovernmental receivables totaled $72.7 million in FY11 and $133.7 million for FY10; and

- Other receivables represent amounts due from claimants who received benefits, which exceeded the allowable amounts, totaling $192,783,000 at June 30, 2011. The allowance for uncollectible accounts totaled 412,985,000, or almost 68.2%, and is calculated using historical collection data.

Property and Equipment

Changes in State property, solely represented by equipment, for the two-year period are presented in Appendix E. The balance as of July 1, 2009 totaled $23,913,391, compared to the balance at June 30, 2011 which totaled $21,638,103.

Unemployment Compensation Trust Fund

Employer contributions received and benefits paid are accounted for in the Unemployment Compensation Trust Fund, a locally held fund. This Fund is not subject to General Assembly appropriation control. Appendix F provides a summary of revenues and expenditures as of June 30, 2011 and June 30, 2010. Total deficit increased from $1.13 billion in FY10 to $1.19 billion in FY11.

The Illinois Unemployment Compensation Trust Fund, from which funds are drawn to pay unemployment benefits to claimants, was depleted in July 2009 due to extended high unemployment rates during the course of the recent national recession and tax revenues that have not yet matched the increased level of unemployment benefit payments. This led the Department to borrow from the federal government to fulfill its mandate to pay benefits as required by law. On July 14, 2009, the State of Illinois began taking advances from the federal government. Under current federal law, these loans were interest free through the end of 2010. Interest is due and payable to the federal government each September 30th and may not be paid from the State's unemployment fund or from federal funds. The interest rate is approximately 4.09%. As of June 30, 2011, Illinois' loan balance with the federal government including interest and repayments was $2,188,549,000.

Accountants' Findings and Recommendations

Condensed below are the seven findings and recommendations presented in the audit report. There were four repeated recommendations. The following recommendations are classified on the basis of updated information provided by the Department and received via electronic mail on January 17, 2013.

Accepted or Implemented

1. Allocate the resources necessary to correct day-to-day transactional and applications related information systems problems without compromising the security of those systems by over utilizing Super ID access rights. Additionally, restrict the use of the Super ID to emergency cases only. Also, implement additional compensating controls until the current practices are terminated. Additionally,

- **Revise the approval process to include approvals by non-IS business application owner/manager to ensure proper separation of duties.**
- **Provide a more meaningful transaction log that shows the nature of changes made in using the Super ID. Perform, document and retain review and approval of the transaction logs. (Repeated-2008)**

Finding: The Department of Employment Security (Department) had inadequate controls over the security and use of Super IDs.

A Super ID is a user ID that gives the user full access to all files, programs, tables and databases in all environments (Development, Test and Production). The Department had issued five Super IDs. Four Super IDs were assigned to the Applications Manager who supports the Human Resources, Finance, and Revenue systems, and one Super ID was assigned to the Applications Manager who supports the Benefits system. The ISD managers allow their programmers to use the Super IDs by sharing the password.

Auditors noted that the Information Services Division (ISD) programmers were sharing and using Super IDs almost daily, on a non-emergency basis in the Production environment for resolving transactional or application-related problems that occurred during the regular day or at night's batch processing. Since the Super IDs were shared, the individual accountability over its use was limited. In addition, the use of Super IDs to resolve transactional or application-related problems bypassed normal application specific controls and audit trails.

According to the Department, production control staff were not always available to follow the normal process for fixing errors that occurred when converting transactions from the Benefit Information System (BIS) to the Benefit Charging System (BCS).

The Department found it more efficient and expeditious for the programming staff to use system utilities to correct the data so the BCS could correctly process the transactions.

There was still a large volume of BIS data that needed to be cleaned up in July and August of 2010 prior to the conversion to IBIS.

Response: Accepted. Since July of 2011, after the time of these findings, the Department has worked to reduce our reliance on Super IDs. We have restricted the use of these IDs to emergency cases, which occur outside of regular business hours. Additionally, in August of 2010, we launched our new Unemployment Insurance system, IBIS. All of the data from our old system, BIS, was converted at that time and we are currently working on a plan to decommission the BIS application. Therefore, issues surrounding the use of Super IDs to correct BIS data are no longer relevant.

Our goal is to eliminate the use of Super IDs completely by increasing the skill level of Department employees working in Information Services Bureau's (ISB) Support Services. We will work with our ISB staff to ensure Super ID forms provide a more meaningful description showing the nature of the changes made using the Super ID, including the actual transaction codes that were executed, or the tables or files that were accessed. All of this documentation will continue to be reviewed on a weekly basis and retained by ISB's Support Services manager.

Finally, in order to ensure we keep a better audit trail of Super ID usage, we will implement a new policy that only night shift Computer Room supervisors have access to Super ID passwords. Staff needing to use a Super ID will need to call the Computer Room supervisor for the password before making any modifications. All calls to the Computer Room are currently logged and retained.

2. Review uncollectible accounts for compliance with procedures and re-evaluate the allowance for uncollectible accounts for other receivables for reasonableness.

Finding: The Department understated its allowance for uncollectible accounts for other receivables by $9.5 million. The Department established an allowance for uncollectible accounts for other receivables based on 4-year historical cycle. Other receivables represent benefit overpayments.

As of June 30, 2011, the Department had Other Receivables of $606 million and the allowance for other receivables at year-end was $413 million. Auditors noted during the audit that the Department identified on November 2010 uncollectible accounts of approximately $30 million for write-off. An allowance for uncollectible accounts percentage of approximately 68.18% based on historical cycle was applied instead of setting-up the allowance for the whole $30 million, resulting in an adjustment of $9.5 million. This amount was not material to the financial statements for the year and no adjustment was made to the financial statements.

Department officials stated that the transition to the new benefit system, IBIS, impacted the process for calculating the allowance and led to this understatement.

Accepted or Implemented - continued

<u>Updated Response:</u> Implemented. An adequate allowance for uncollectible accounts for other receivables has been recorded and the uncollectible accounts noted have been reviewed and await approval for write-off.

3. Continue with corrective actions in promoting the Earnfare Program and establish Local Employment Assistance Fund, or seek legislative remedy. Adopt rules within the timeframe set by statute.

<u>Finding:</u> The Department did not comply with the Unemployment Insurance Act. During testing, auditors noted the following:

- The Department has identified Earnfare Program in its website with a brief description of the program and provides a hyperlink to the Department of Human Services' website which provides more details. However, the Department did not promote the Earnfare Program to employers and recruit public and private employers to participate.
- The Department did not establish Local Employment Assistance Fund.
- The Department still has not complied with the mandate to promulgate rules for eligibility and the prevention of fraud within 90 days after the effective date of the mandate, which was June 30, 2009.

<u>Updated Response:</u> 1) **Under Study.** The Department is exploring amending the statutory requirement regarding the Earnfare Program as the Department of Human Services has significantly reduced this program. 2) **Accepted.** The Department is seeking legislative remedy to remove this section of the Act. The agency does not plan to establish the Employment Assistance Fund with the Illinois Comptroller without a funding source pending the change in the Act. 3) **Implemented.** In the future, the agency will work to ensure that any legislation establishing a deadline for the adoption of rulemaking allows sufficient time for the collaborative process by which the Department adopts rulemaking and that the deadline is met.

4. Ensure the timely completion and submission of employee performance evaluations and assign responsibility for its monitoring for compliance with the applicable law. (Repeated-2003)

<u>Finding:</u> The Department did not complete performance evaluations timely. During an examination of 172 personnel files, auditors noted 56 employees (33%) whose performance evaluations were completed untimely. The evaluations were completed from one to 336 days late. In addition, five employees did not have current performance evaluations on file.
Department officials stated that the issue was aggravated during this audit period because of the unusually high increase in the unemployment rate. Field staff (which make up 89% of the

sample examined) were stretched to their limits as the Illinois Unemployment rate reached its peak of 11.2% in January 2010.

Response: 1) **Accepted**. Ensure the timely completion and submission of employee performance evaluations. 2) **Implemented**. Assign responsibility for its monitoring for compliance with applicable law.

5. Improve process for timely executing intergovernmental agreements. (Repeated-2005)

Finding: The Department did not execute its intergovernmental agreements with other State agencies in a timely manner.

During a detailed review of 17 interagency agreements, auditors noted that 15 of the intergovernmental agreements (88%) had contract terms prior to the completion of an executed agreement. The agreements were signed between 32 and 214 days late.

Department officials stated that the Intergovernmental Agreements for Utilization of Leased Space (IGAs) are based upon Cost Allocation Plans that are developed each year as a requirement under the Workforce Investment Act (Act). The Act requires that Memorandum of Understanding (MOUs) be drawn up among partner agencies. The Cost Allocation Plans are included in the MOUs and form the basis for the rental amounts in the IGAs. The MOU approval process is subject to the approval of the local Workforce Investment Boards and can cause delays in signing the IGAs.

Response: Accepted. The Department is continuing to improve the approval process by beginning the MOU approvals earlier in the year and meeting regularly to speed up the approval process. As a result, nine of the agreements cited in the finding were executed timely in FY12.

6. Implement procedures to ensure all eligibility determinations are made within the prescribed timeframes. (Repeated-2009)

Finding: The Department did not issue eligibility determinations within the prescribed timeframe. During the fiscal year, auditors noted the Department did not meet the acceptable coverage of at least 80% for timely non-monetary determinations for three of four quarters.

Department officials stated that an increased workload due to the prolonged recession has had a significant impact on timeliness.

Updated Response: Accepted. Through load-balancing and revised operations procedures, the determination completion timeframes significantly improved in FY 2012, with nonmonetary determination timeliness of 84% exceeding the ETA requirement of 80%. However, recent quarters show a decline in part due to staff reductions.

Accepted or Implemented - concluded

7. Verify new claimants' social security numbers.

<u>Finding:</u> The Department did not verify social security numbers of new claimants. During the year, the Department made benefit payments of approximately $2.9 million to claimants with SSNs reported as potentially invalid by the Social Security Administration (SSA).

Department officials stated that when the new Unemployment Insurance Benefit Payment System was implemented on August 30, 2010, the online verification interface with the SSA Unemployment Insurance Query (UIQ) was not implemented.

<u>Updated Response:</u> Implemented. IDES has Policy and Procedure (P&P) 5085.10 in place regarding the verification of claimant social security numbers. The batch process to verify new claimant's social security numbers for our Unemployment Insurance system, IBIS, was reinstituted on May 24, 2011. In December of 2012, IDES began real-time social security number verification with the Social Security Administration. This brought IDES in full compliance with P&P 5085.10.

Emergency Purchases

The Illinois Procurement Code (30 ILCS 500/) states, "It is declared to be the policy of the State that the principles of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts...." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption when there exists a threat to public health or public safety, or when immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage to State Property, to prevent or minimize serious disruption in critical State services that affect health, safety, or collection of substantial State revenues, or to ensure the integrity of State records; provided, however that the term of the emergency purchase shall not exceed 90 days. A contract may be extended beyond 90 days if the chief procurement officer determines additional time is necessary and that the contract scope and duration are limited to the emergency. Prior to the execution of the extension, the chief procurement officer must hold a public hearing and provide written justification for all emergency contracts. Members of the public may present testimony.

Notice of all emergency procurement shall be provided to the Procurement Policy Board and published in the online electronic Bulletin no later than 3 business days after the contract is awarded. Notice of intent to extend an emergency contract shall be provided to the Procurement Policy Board and published in the online electronic Bulletin at least 14 days before the public hearing.

A chief procurement officer making such emergency purchases is required to file an affidavit with the Procurement Policy Board and the Auditor General. The affidavit is to set forth the circumstance requiring the emergency purchase. The Legislative Audit Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY10, the Department filed two emergency purchase affidavits totaling $138,413.93 as follows:

- $95,837.10 to upgrade the TeleServe system; and
- $42,576.83 to assist in notifying claimants by mail of upcoming changes in the claim system following the introduction of the new computer system (IBIS).

In FY11, the Department filed no affidavits for emergency purchases.

Headquarters Designations

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time.

The Department of Employment Security indicated in July 2011 that there were 14 employees assigned to locations other than official headquarters.