

Review: 4563
Statewide Single Audit
Year Ended June 30, 2021
Illinois Department of Employment Security

FINDINGS/RECOMMENDATIONS – 6

Repeated – 5

Implemented – 0

Partially Implemented – 6

Accepted – 6

2021-30. With the end of the PUA program in September 2021, auditors recommend IDES issue supplemental payments for all the impacted individuals as a result of the incorrect workflow elections and use of the outdated WBA payment chart.

Finding: *(Inadequate Process over Determining Appropriate Benefit Amounts for the Pandemic Unemployment Assistance Program) – First reported 2020, last reported 2021*

Condition Found:

IDES inaccurately calculated the weekly benefit amount (WBA) for certain claimants of the Pandemic Unemployment Assistance (PUA) program during the year ended June 30, 2021. In addition, IDES did not establish adequate internal controls over its third-party service organization who administered the Unemployment Framework for Automated Claim & Tax Services (uFACTS) system used to determine eligibility for the PUA program.

The PUA program was established by the Coronavirus Aid, Relief, and Economic Security Act (CARES) enacted on March 27, 2020. The main provisions of the PUA program include providing up to 39 weeks of benefits to qualifying individuals who were otherwise able to work and available for work within the meaning of applicable state law, except that they were unemployed, partially unemployed, or unable or unavailable to work due to COVID-19 related reasons, as defined in the CARES Act. Benefit payments under PUA were retroactive, for weeks of unemployment, partial unemployment, or inability to work due to COVID-19 reasons starting on or after January 27, 2020 and through December 26, 2020. The Continued Assistance Act, enacted on December 27, 2020, provided an additional 11 weeks of benefits to qualifying individuals (increasing the duration from 39 to 50 weeks). Further, the American Rescue Plan Act (ARP), enacted on March 11, 2021, provided an additional 29 weeks of benefits to qualifying individuals, increasing the duration from 50 to 79 weeks.

Given the segregation of duties issues identified in finding 2021-031, uFACTS was not able to be relied on for control testing of PUA transactions. IDES has automated controls within uFACTS to validate weekly self-certifications for unemployment and monitoring of period of performance, including cutoff when maximum benefits have been issued. Therefore, controls over eligibility for PUA were not able to be tested.

During their compliance testing of 70 claimants receiving PUA beneficiary payments, auditors noted that for the last six months of the fiscal year (January 1, 2021 – June 30, 2021), IDES used an outdated WBA pay chart table to calculate the WBA for PUA claimants, resulting in underpayments to some PUA claimants. Specifically, on January 1, 2021, IDES continued to use the calendar year 2020 WBA pay chart table, when the calendar year 2021 WBA pay chart table should have been used, which increased the WBA amounts for those claimants receiving a WBA of \$484 and above as of December 31, 2020. Two sampled items had a WBA of \$484 on January 1, 2021 which should have been adjusted to \$505.

In addition, during their testing auditors identified 3 data entry errors in the PUA system which resulted in the incorrect WBA being calculated and paid to PUA claimants. The data entry errors were caused by the case worker selecting an incorrect workflow which noted “Claimant sent only proof of employment. Assign minimum PUA WBA.” Specifically, 3 claimants had monetary wages in the PUA system which would suggest a higher WBA, ranging from \$235 to \$400 instead of the minimum \$198 WBA that each claimant received. As a result of these errors, IDES performed an internal review and determined that a total of 181 claimants had their WBA calculated incorrectly (and thus were underpaid) due to incorrect monetary workflow selections.

Cause:

In discussing these conditions with IDES officials, they stated the reason for incorrect workflow elections was a result of data entry error by case workers, the use of an outdated WBA payment chart after January 1, 2021 was an oversight to update the PUA system, and the uFACTS inadequate system design was a result of the expedited timeframe of the PUA program implementation in order to provide beneficiary payments to claimants as quickly as possible during the pandemic.

Possible Asserted Effect:

Failure to establish adequate processes and internal controls may result in noncompliance with program regulations, payments to ineligible recipients, and under/over payments to eligible recipients.

Views of IDES Officials:

The WBA maximum increase has been successfully programmed, tested and claimants have been paid as of January 14, 2022. The incorrect workflow choice issue was found to have affected slightly more than 180 claimants, all of whom have been identified. Discussions are ongoing between IDES and the contractor to put a correction in place.

IDES has completed a corrective action plan from the FY20 audit finding. The plan includes developing appropriate business controls and requiring the third-party contractor to develop and document appropriate IT controls, along with proving segregation of duties with developers unable to migrate changes into production.

Due to the timing of the FY20 audit process, these improvements were not in place for the duration of the current audit year. In addition to the changes mentioned, a contract is

in place for the third-party provider to have a SOC 1, type 2 covering the FY22 usage of the program.

2021-31. The auditors recommend IDES review its current procedures and consider any changes necessary to ensure adequate monitoring internal controls are established and implemented relating to the PUA program, including oversight controls over its third-party service organization to address adequate segregation of duties over uFACTS.

Finding: *(Inadequate Controls over Determining Eligibility for the Pandemic Unemployment Assistance Program) – First reported 2020, last reported 2021*

Condition Found:

IDES did not establish adequate internal controls over its third-party service organization who administered the Unemployment Framework for Automated Claim & Tax Services (uFACTS) system used to determine eligibility for claimants under the Pandemic Unemployment Assistance (PUA) program.

The PUA program was established by the Coronavirus Aid, Relief, and Economic Security Act (CARES) enacted on March 27, 2020. The main provisions of the PUA program include providing up to 39 weeks of benefits to qualifying individuals who were otherwise able to work and available for work within the meaning of applicable state law, except that they were unemployed, partially unemployed, or unable or unavailable to work due to COVID-19 related reasons, as defined in the CARES Act. Benefit payments under PUA were retroactive, for weeks of unemployment, partial unemployment, or inability to work due to COVID-19 reasons starting on or after January 27, 2020 and through December 26, 2020. The Continued Assistance Act, enacted on December 27, 2020, provided an additional 11 weeks of benefits to qualifying individuals (increasing the duration from 39 to 50 weeks). Further, the American Rescue Plan Act (ARP), enacted on March 11, 2021, provided an additional 29 weeks of benefits to qualifying individuals, increasing the duration from 50 to 79 weeks.

IDES hired a third-party service organization to administer the uFACTS system. Specifically, the following was noted with regard to general information technology controls (GITC):

Segregation of Duties (SOD) – Controls were not in place to restrict access to migrate program or configuration changes into the production environment for the PUA system. For application changes, auditors were unable to determine that SOD was enforced on the application level and no supporting evidence was available to demonstrate segregation of duties.

Given the segregation of duties issues identified above, no further testing of the GITC environment was performed and uFACTS was not able to be relied on for control or compliance testing of PUA transactions.

Cause:

In discussing these conditions with IDES officials, they stated the reason for the uFACTS inadequate system design was a result of the expedited timeframe of the PUA program implementation in order to provide beneficiary payments to claimants as quickly as possible during the pandemic.

Possible Asserted Effect:

Failure to establish adequate processes and internal controls may result in noncompliance with program regulations and payments to ineligible recipients.

Views of IDES Officials:

IDES accepts the repeat audit finding and has completed a corrective action plan from the FY20 audit finding. The plan includes developing appropriate business controls and requiring the third-party contractor to develop and document appropriate IT controls, along with proving segregation of duties with developers unable to migrate changes into production.

Due to the timing of the FY20 audit process, these improvements were not in place for the duration of the current audit year. In addition to the changes mentioned, a contract is in place for the third-party provider to have a SOC 1, type 2 covering the FY22 usage of the program.

2021-32. The auditors recommend IDES review its procedures for preparing special reports required for the UI program and implement analytical and any other procedures considered necessary to ensure the reports are accurate prior to submission to the USDOL.

Finding: *(Inadequate Process for Preparing ETA 2208A Special Report) - New*

Condition Found:

IDES does not have an adequate process in place to ensure the ETA 2208A special reports prepared for the Unemployment Insurance (UI) program are complete and accurate.

On a quarterly basis, IDES is required to report information on staff years worked and paid by program category on the *ETA 2208A – Quarterly UI Above-Base* (ETA 2208A) report. The information required to be reported includes UI program staff year usage (Section A), regular contingency entitlement certification (Section B), trade above-base entitlement certification (Section C), and additional benefits above-base entitlement certification (Section D). Key line items required for testing include items one through seven in Section A.

During their test work of two quarterly ETA 2208A reports, auditors noted the June 30, 2021 report included inaccurate amounts reported for a key line item in Section A.

Specifically, the amount reported in the Claims Activity program category (line item 1) for the 6/21 QTD PE column was reported as \$470.47 when the amount that should have been reported was \$472.47. As a result of this error, the net dollar entitlement was overstated by \$54,696 as the reported amount was \$14,026,213 when the amount should have been \$12,971,517. As of September 29, 2021, IDES had not revised the report with the USDOL.

Cause:

In discussing these conditions with IDES officials, they stated the discrepancies are a result of a currently manual process to compile the reports with data from multiple systems.

Possible Asserted Effect:

Failure to establish adequate reporting controls may result in inaccurate reports which prevents the USDOL from effectively monitoring the UI program.

Views of IDES Officials:

IDES accepts this audit finding and will implement an audit procedure to address the accuracy of the report.

2021-33. The auditors recommend IDES develop and implement written procedures to improve UI program integrity and reduce overpayments that incorporate the required monetary penalty on fraud overpayments and prohibit providing relief to employers who fail to provide timely and adequate responses to information requests.

Finding: *(Failure to Implement UI Program Integrity and Overpayment Reduction Requirements) – First reported 2015, last reported 2021*

Condition Found:

IDES did not implement Federal requirements to improve program integrity and reduce overpayments.

The State is required to establish written procedures for: (1) identifying overpayments, (2) classifying overpayments into categories based on the reason the overpayment occurred (i.e., employer error, non-response from employers, beneficiary fraud, etc.), and (3) establishing appropriate methods for following up on each category of overpayment. In establishing these procedures, the State is required to enter into three agreements prior to commencing recoveries. The first agreement permits the State to offset State unemployment insurance (UI) from Federal UI overpayments (Cross Program Offset and Recovery Agreement). The second agreement permits the State to recover overpayments from benefits being administered by another State (Interstate Reciprocal Overpayment Recovery Agreement). The third agreement permits the State to utilize the Treasury Offset Program to recover overpayments that remain uncollected one year after the debt

was determined to be due. Additionally, the State is (1) required to impose a monetary penalty (not less than 15 percent) on claimants whose fraudulent acts resulted in overpayments, and (2) prohibited from providing relief from charges to an employer's UI account when overpayments are the result of the employer's failure to respond timely or adequately to a request for information.

During their test work, auditors noted that while IDES has developed the written procedures relative to overpayments and has entered into the required agreements described in the previous paragraph, the written procedures did not address the requirement to impose a monetary penalty on fraud overpayments. Additionally, auditors noted the policies do not address the prohibition of providing employers relief resulting from an employer failing to provide timely or adequate information.

Cause:

In discussing these conditions with IDES officials, they stated although the 15% fraud penalty was implemented and is supported by Illinois statute, the fraud penalty was not incorporated into existing overpayment procedures due to oversight. Also, IDES had identified a process to implement the prohibition on non-charging due to employer fault and was scheduled to roll it out beginning in fiscal year 2021, but the roll-out was deferred by historic claim surges due to the pandemic.

Possible Asserted Effect:

Failure to implement federal requirements could result in noncompliance with laws, regulations, and the grant agreement.

Views of IDES Officials:

IDES accepts this finding. Written procedures regarding the 15% penalty have been incorporated into established procedure(s) covering overpayments. In 2023, IDES will implement its identified process on the prohibition of non-charging due to employer fault.

2021-34. The auditors recommend IDES review its procedures for completing BAM case file reviews to ensure they are completed in accordance with program regulations. Effective internal controls should include establishing and maintaining adequate controls to ensure the BAM case file reviews are completed in accordance with required timeframes established by USDOL.

Finding: *(Failure to Complete UI BAM Case File Reviews) – First reported 2020, last reported 2021*

Condition Found:

IDES did not complete the Benefit Accuracy Measurement (BAM) case file reviews in accordance with USDOL requirements for the Unemployment Insurance (UI) program.

During their test work of paid claims, auditors noted that IDES did not achieve the required percentage of case reviews within the required timeframes. Specifically, for batch range 202027 – 202126, IDES failed to meet the 60-day time lapse standard of 70 percent complete as only 48.43 percent of case reviews were complete. Additionally, IDES failed to meet the 90-day time lapse standard of 95 percent complete as only 58.66 percent of case reviews were complete. Further, auditors noted that IDES did not notify USDOL of the failed case completion percentage requirements nor receive a waiver of the requirements from USDOL. Lastly, IDES did not meet the 480 completed case requirement, as only 479 cases were completed during the calendar year.

Cause:

In discussing these conditions with IDES officials, they noted there are only two BAM investigators who are responsible for most of the case reviews. Due to time constraints, leaves of absence, and competing priorities, the investigators were not able to complete the reviews within the required timeframe.

Possible Asserted Effect:

Failure to complete BAM case file reviews timely prevents the USDOL from effectively monitoring the State of Illinois UI program and results in noncompliance with program regulations.

Views of IDES Officials:

IDES accept this finding and has instituted plans to change how auditors ask for and receive the information. For some time, auditors have conducted the claimant interview by phone. This helps to limit rebuttals and allows us to get accurate information that may be missing upon sending the questionnaire. Gathering information from the employers has proved to be a challenge at times. We have changed our process to rely more on emails to employers to obtain the required forms. This has proven successful. IDES has created a way for the investigators to show in real time how their case is developing. The use of share point was put in place, but its use was not being enforced. Enforcement began in late 2020.

2021-35. With the end of the LWA program in September 2020 and the PUA program in September 2021, auditors recommend IDES continue to work with FEMA to finalize the LWA program.

Finding: *(Inadequate Controls over Determining Eligibility for Lost Wages Assistance Payments) – New*

Condition Found:

IDES did not establish adequate internal controls over its third-party service organization who administered the Unemployment Framework for Automated Claim & Tax Services (uFACTS) system used to determine eligibility for the Pandemic Unemployment Assistance (PUA) program. Eligibility for PUA also determined eligibility for the

Presidential Declared Disaster Assistance to Individuals and Households – Other Needs Program known as Lost Wages Assistance (LWA).

The LWA program was a supplemental Federal Emergency Management Agency (FEMA) program effective from August 1, 2020 to September 5, 2020. Eligible recipients were those who received a weekly PUA payment in excess of \$100.

Given the segregation of duties issues identified in finding 2021-031, uFACTS was not able to be relied on for control testing of PUA transactions. IDES has automated controls within uFACTS to validate weekly self-certifications for unemployment and monitoring of period of performance, including cutoff when maximum benefits have been issued. Therefore, controls over allowability, eligibility, and period of performance for LWA were not able to be tested. For compliance, 31 PUA participants were tested and no noncompliance was noted with regard to their eligibility to receive an additional LWA payment.

Cause:

In discussing these conditions with IDES officials, they stated the reason for the uFACTS inadequate system design was a result of the expedited timeframe of the PUA program implementation in order to provide beneficiary payments to claimants as quickly as possible during the pandemic.

Possible Asserted Effect:

Failure to establish adequate internal controls may result in noncompliance with program regulations and payments to ineligible recipients.

Views of IDES Officials:

The finding regarding uFACTS design has been discussed in the specific finding 2021-031 on that issue.