

LEGISLATIVE AUDIT COMMISSION



Review of
Department of Employment Security
Two Years Ended June 30, 2019

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REVIEW: 4505
DEPARTMENT OF EMPLOYMENT SECURITY
TWO YEARS ENDED JUNE 30, 2019

FINDINGS/RECOMMENDATIONS - 15

IMPLEMENTED – 7
ACCEPTED and PARTIALLY IMPLEMENTED - 6
UNDER STUDY - 2

REPEATED RECOMMENDATIONS - 8

This review summarizes an audit of IDES for the two years ended June 30, 2019, filed with the Legislative Audit Commission on July 7, 2020. The auditors performed a financial audit and compliance examination in accordance with state law and *Government Auditing Standards*. The auditors stated the financial statements of the Unemployment Compensation Trust Fund as of and for the year ended June 30, 2019 are fairly stated in all material respects.

IDES is a cabinet-level State government agency that operates 3 major programs: Unemployment Insurance, Job Service, and Labor Market Information. Appendix A contains certain performance measures by program for the two years ended June 30, 2019.

The Director of the Department of Employment Security during most of the two-year audit period was Mr. Jeffrey D. Mays. He served from July 1, 2017 through February 28, 2019. Mr. Thomas Chan served as Acting Director from March 1, 2019 through July 8, 2020. Kristin Richards was appointed as Acting Director on July 9, 2020. Prior to taking over the Department, Ms. Richards worked as a Policy and Budget Director and Chief of Staff for the Senate President.

The average number of employees in the Workforce Development Division were 1,095 in FY17, 1,065 in FY18, and 1,142 in FY19.

The following is a summary of the State and national unemployment rates by quarter:

	Rate by Quarter (calendar year)			
	1 st	2 nd	3 rd	4 th
2017 - National	4.7	4.4	4.3	4.1
State	5.4	4.7	4.9	4.7
2018 - National	4.1	3.9	3.8	3.8
State	4.4	4.3	4.2	4.3
2019 - National	3.9	3.6	3.7	3.6
State	4.4	4.4	3.8	3.5
*Figures not available at time of Report				

Expenditures From Appropriations

The General Assembly appropriated a total of \$275 million to IDES in FY19 compared to \$293.7 million in FY18, a decrease of \$18.7 million, or 6.4%. This decrease was largely the result of the predetermined need for increased spending in FY18 to cover costs of the previous two fiscal years that went unpaid in the Trust Fund Unit as the result of the Budget Impasse. Notably, IDES did have increased spending of approximately \$7.2 million in FY19 to cover the costs of back pay wages. Almost 87.5% IDES funds are federal funds that are appropriated while the remaining are from:

The Unemployment Compensation Special Administration Account Fund (0.8%), GRF (10.2%), and the Road Fund (1.5%). Overall expenditures decreased \$15.1 million, or 6.4%, from \$236.5 million in FY18 to \$221.4 million in FY19. Lapse period expenditures were almost \$36.1 million, or 13.1% in FY19. Appendix B summarizes these appropriations and expenditures for FY17 through FY19.

Due to the Budget Impasse, Public Act 100-021 authorized IDES to pay its unpaid FY17 costs using either the FY17 or FY18 appropriations for non-payroll expenditures. IDES paid one invoice totaling \$2.5 million for FY17 expenditures using FY18 appropriations.

Cash Receipts

Appendix C provides a summary of IDES' cash receipts for FY17 - FY19. Total cash receipts decreased by \$21.8 million, or 9.9%, from \$221.1 million in FY18 to \$199.3 million in FY19. The decrease was due mostly to the decrease in the U.S. Department of Labor line item in the Title III Social Security & Employment Services Fund and in the employer tax contribution penalties in the Unemployment Compensation Special Administration Fund. Legislation passed in 2016 allowed for certain conditional waivers to the employer tax contribution penalties that reduced penalty collections.

Accounts Receivable

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

- Taxes receivable are unemployment taxes owed by private and non-governmental employers to the Illinois Unemployment Compensation Trust Fund. Taxes receivable totaled more than \$701.3 million as of June 30, 2019 with \$361.6 million recorded as an allowance for uncollectible accounts, for a net receivable of \$339.8 million;
- Intergovernmental receivables represent reimbursements due from other State and local governments and from the federal government for unemployment benefits paid to those governments' ex-employees. These totaled \$14.5 million and \$367 million, respectively, at June 30, 2019; and

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- Other receivables represent amounts due from claimants who received benefits that exceeded the allowable amounts, totaling \$397.2 million at June 30, 2019. The allowance for uncollectible accounts totaled \$303 million, or 76.3% of total other receivables.

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, 2017 totaled \$9.6 million compared to the balance at June 30, 2019 which totaled \$53.5 million. The majority of this increase occurred in FY18 as the additions to State property increased approximately \$45 million.

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, 2018 and June 30, 2019. Total deficit increased from \$2.3 billion in FY18 to \$2.5 billion in FY19.

Accountants' Findings and Recommendations

Condensed below are the 15 findings and recommendations presented in the audit report with 8 repeated findings. The following recommendations are classified on the basis of updated information provided IDES and received via electronic mail on February 17 and 24, 2021.

Recommendations

- 1. Implement controls to more closely review the allowance calculation, including all significant assumptions used in the calculation. (New)**

Finding: IDES did not have sufficient internal control over the estimation of the allowance for doubtful accounts recorded in its financial statements.

During audit testing of accounts receivable and the allowance for doubtful accounts, the allowance for the penalties and interest portion of the receivable was greater than the related receivable balance and determined the overstatement of the allowance was caused by clerical errors in the calculation along with assumptions used in the calculation that were not reflective of the current economy. IDES ultimately revised and updated its methodology to determine a more accurate allowance which resulted in an adjustment to reduce the allowance by approximately \$99 million.

Accepted or Implemented – continued

According to generally accepted accounting principles (GAAP), the allowance for uncollectible accounts should represent management's best estimate of the amount of receivables that will not be collected. The allowance for doubtful accounts is a significant estimate that requires proper analysis and evaluation of past and current events as well as the assumptions used.

IDES indicated the error was due to management calculating its allowance for bad debts by factoring in the Economic Information and Analysis Division's growth percentages from third-party economic forecasts, resulting in overly conservative estimates.

Recording an allowance for doubtful accounts that isn't reflective of all known events and conditions has and will continue to result in misstatements of accounts receivable. Additionally, failure to properly review the allowance calculation may result in the continuance of clerical errors.

Response: Accepted. IDES will re-examine its assumptions, estimates, and process to calculate a reasonable allowance for bad debts for financial reporting purposes.

Updated Response: Implemented. IDES re-examined assumptions and determined to exclude economic forecasts from the estimate of allowance for bad debts.

2. Implement controls to ensure that uncashed checks are not included in refunds payable. (Repeated-2018)

Finding: IDES did not have sufficient internal control over the determination of refunds payable. The refunds payable account contained amounts that were already paid resulting in the draft financial statements being misstated. As a result, refunds payable was adjusted by \$18.172 million.

During testing, the audit determined IDES refunds payable account contained refunds for which IDES had already paid the employers. IDES included these amounts in the refunds payable account erroneously due to the employers not cashing the refund.

A good system of internal control requires that management review all significant accounts and balances recorded in the financial statements for accuracy, which includes transactions related to the refunds payable account.

IDES indicated that the process to move the uncashed refunds back to the employer accounts required more time than anticipated for analysis and research from GenTax, IBIS and the Legacy systems, thus resulting in the carryover of the prior year findings to the current audit year.

As a result of including the refunds paid, IDES refunds payable account and draft financial statements were overstated.

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Response: Accepted. IDES will continue to work on moving the remaining uncashed refunds back to the employer accounts for completion before FY 20 year-end and to implement controls to ensure that uncashed checks are not included in refunds payable in the future.

Updated Response: Partially Implemented. Uncashed refunds are in the process of being moved back to employer accounts. Controls have been developed and implemented to ensure that uncashed checks are not included in refunds payable in the future.

3. Implement controls to ensure that the reports used to prepare estimates are accurate and are properly reviewed prior to recording the related entries. (New)

Finding: IDES did not have adequate controls over the penalty and interest receivable balance, which caused an overstatement in the draft financial statements of \$17.333 million.

During testing, auditors noted the query that was run to record the estimated fourth quarter penalty and interest amount was extracting incorrect data and included additional interest that was not part of the quarter.

A good system of internal control requires that management review all significant accounts and balances recorded in the financial statements for accuracy, which includes transactions and balances related to the penalty and interest receivable account.

IDES indicated that several key positions in Accounting & Reporting were recently vacated with transfers and retirements. The new employees filling these vacancies were unfamiliar with GAAP preparation, resulting in an oversight in reporting year-end receivables for Penalties and Interest.

As a result of utilizing an incorrect report, IDES' penalty and interest receivable account and draft financial statements were overstated.

Response: Accepted. The Accounting & Reporting subdivision will implement controls to ensure reports are reviewed for accuracy, provide additional training in GAAP preparation, and continue to request the filling of vacancies.

Updated Response: Implemented. Supervisors ensure correct reports are reviewed for accuracy and additional GAAP training has been given.

4. Obtain Attorney General approval prior to conducting any write offs which require such approval. (Repeated-2018)

Finding: IDES conducted write-offs prior to obtaining the required Attorney General approval.

Accepted or Implemented – continued

During the audit period, IDES wrote off \$14,936,755 prior to receiving approval from the Attorney General to do so. An adjustment was made to reverse this write-off as the approval was not obtained until after year-end.

The Statewide Accounting Management System (SAMS) Manual (Procedure 26.40.40) requires agencies to request approval from the Attorney General to certify claims which are greater than \$1,000 as uncollectible.

IDES indicated that, in anticipation of the Attorney General's timely approval, it commenced its internal process to write off uncollectible receivables in order to meet the fiscal year-end deadline and to avoid repeating the prior year finding regarding overstatement of gross receivables. Unfortunately, the Attorney General's approval was delayed pending remediation.

Writing off accounts without Attorney General approval represents noncompliance with State law and could result in an unauthorized account write-off.

Response: Accepted. The Department will only write off Uncollectible Taxes Receivable with the Attorney General approval.

Updated Response: Implemented. Instructions have been given to ensure that write-off of Uncollectible Taxes Receivable is only performed after approval from the Attorney General.

5. Implement controls over GenTax security, including those over terminated employees. Also, periodically conduct a review of all users and their associated access rights. (Repeated-2018)

Finding: IDES did not ensure adequate security over the enterprise-wide tax system (GenTax).

During our review of GenTax security, we noted for the 18 terminated employees:

- 3 (17%) individuals continued to have access to GenTax after their termination from the Department.
- 5 (28%) terminated individuals did not have their GenTax access timely deactivated. Their access was terminated 11 to 22 days after termination.

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

Additionally, generally accepted information technology guidance endorses the development of well-designed and well-managed controls to protect computer systems and data. Effective computer security controls provide for safeguarding, securing, and

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controlling access to hardware, software, and the information stored in the computer system.

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

Failure to properly approve and disable users' access in a timely manner puts the Department at risk of unauthorized access to GenTax.

Response: Accepted. IDES is in the process of developing a security case to better track, control and monitor GenTax access and termination of access. IDES will be scheduling periodic review of all users and their associated access rights.

Updated Response: Implemented.

6. Consistently complete required monthly reconciliations relating to expenses (SA02), revenues (SB04), cash (SB05), and locally held funds in a timely manner. (Repeated-2017)

Finding: IDES did not have adequate controls over the completion and submission of reconciliations relating to expenses (SA02), revenues (SB04), cash (SB05), and locally held funds.

SA02 Reconciliations

During testing of 48 monthly expense reconciliations, the following are noted:

- 16 (33%) monthly reconciliations were not prepared. All of these related to FY 18.
- 6 (13%) monthly reconciliations were not completed timely, 3 for FY18 and 3 for FY19. The reconciliations were completed 2 to 8 days late.

SB04 Reconciliations

During testing of 48 monthly revenue reconciliations, the following are noted:

- 16 (33%) monthly reconciliations were not prepared. All of these related to FY 18.
- 2 (4%) monthly reconciliations were not completed timely with both being related to FY 19 and were 10 to 19 days late.

SB05 Reconciliations

During testing of 48 monthly cash reconciliations, the following are noted:

- 27 (56%) monthly reconciliations were not prepared timely and were 6 to 255 days late.
- 19 (19%) monthly reconciliations were prepared prior to the monthly revenue reconciliation being completed.

Locally Held Fund Reconciliations

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Accepted or Implemented – continued

During testing of 48 locally held fund reconciliations for Fund 1136, 4 reconciliations (8%) were conducted between 18 and 31 days late.

SAMS (Procedure 09.40.30) states the reconciliation of the ending balance of available cash shown in the monthly Cash Report should be prepared subsequent to the reconciliation of the unexpended appropriation balances shown in the Monthly Appropriation Status Report and the fiscal year-to-date revenue source per the Monthly Revenue Status Report.

IDES indicated that, in addition to staff shortages, when IDES went live with the new ERP System SAP, there was no reporting module. IDES had to build its own reconciliations internally which required considerable time and research.

Inadequate controls over the submission of monthly reconciliations hinders necessary and reasonable corrective action to locate differences and correct the accounting records timely between IDES and Comptroller records.

Response: Accepted. IDES will work to complete reconciliations in a consistent and timely manner.

Updated Response: Partially Implemented. IDES is preparing monthly reconciliations for expense, revenue, and cash when possible. Due to limited resources as the result of staff shortages and COVID-19, this audit finding has not been fully implemented.

7. Maintain a permanent record of issuances and revocations of portable communication devices as well as maintain a more detailed inventory of devices, which documents issuances and revocations. (Repeated-2017)

Finding: IDES was unable to provide adequate records for the population of telecommunication devices that were acquired and retired during the examination period as well as a monthly phone usage/concern report. Further, IDES did not have adequate controls over the issuance and cancellation of wireless communication devices.

During testing, auditors requested IDES to provide the population of telecommunication devices that were acquired and retired during the examination period to test compliance with the policies and procedures over the issuance, use, and revocation of these devices. In response to the request, IDES was only able to provide the listing of all active telecommunication devices as of June 30, 2019. Due to these conditions, auditors were unable to conclude whether IDES' populations of devices added or retired during the year were sufficiently precise and detailed under the Attestation Standards promulgated by the American Institute of Certified Public Accountants (AT-C § 205.35) to test the telecommunication devices. As such, auditors did not perform procedures over devices added or retired during the period.

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Auditors compared the listing against the FY17 report to determine if there were changes during the examination period. As a result of the comparison, the following are noted:

- 6 mobile phones included in the 2017 list were not included in the 2019 listing.
- These appear to be retirements and deletions during the examination period;
- 120 mobile phones were included in the 2019 listing but not included in the 2017 listing. These appear to be additions and upgrades during the examination period.
- 199 WIFI, USBs, and other telecommunication devices were included in the 2019 listing but not included in the 2017 listing.

Auditors also noted that 13 mobile phones were still active per the 2019 listing but should have been deleted as those employees had previously separated from IDES.

Also, auditors requested IDES provide a monthly phone usage report/concern report for the examination period. However, it was not able to provide the report requested.

IDES Procedures Manual (1113.601) states that the Phone Usage/Concern Report is to be produced monthly and be reviewed by the Telecom Coordinator. The Phone Usage/Concern Report specifies long distance calls, calls exceeding certain durations (e.g., 30 minutes, 60 minutes, etc.) and/or calls before or after normal working hours. In the field offices, an additional on-request detail report can be generated through the Call Accounting System to assist managers in tracking calls. Setting specific parameters will enable managers to view call data for a specified period. Cost center managers or their designees should review the usage data for calls to non-business numbers, calls of long duration, and third party calls and investigate those that indicate potential abuse. Callers may be subject to progressive corrective discipline and/or may be required to reimburse IDES for calls that violate the rules.

IDES officials indicated the deficiencies occurred due to a reduction in staff.

Inadequate controls over issuance and cancellation of wireless telecommunication devices could result in unnecessary expenditures for the Department, as well as inappropriate use of State funds.

Response: Accepted. The Department has hired a full-time Telecommunications Coordinator to monitor the portable communication devices as well as maintain a more detailed inventory of devices.

Updated Response: Implemented. The Telecoms Coordinator position was originally filled in November 2017 by Donald Ahern. Subsequently, Mr. Ahern shifted to a new role and the position was then filled in April 2020 by James Maderer, IDES' current Telecoms Coordinator.

The Telecoms Coordinator is responsible for maintaining a detailed inventory of all telecom devices as well as a permanent record of issuances and revocations of portable

Accepted or Implemented – continued

communication devices. These records are updated by the Telecoms Coordinator every time a device is issued or revoked.

IDES Policy and Procedure 1113 - IDES Telecommunications Equipment/Services was updated as of November 16, 2020 to reflect current IDES procedures for telecoms equipment and services.

8. Monitor the status of performance evaluations to ensure they are completed in a timely manner. (Repeated-2003)

Finding: IDES did not complete all employee performance evaluations timely.

During examination of a sample of 60 employee performance evaluations, the following were noted:

- 24 (40%) performance evaluations were completed after the due date. The evaluations were performed between 4 and 271 days late.
- 1 (2%) performance evaluation was not maintained within the employee's file.
- The performance evaluation of 1 (2%) newly hired employee was not completed.

IDES stated the deficiency was due to the redistribution of staff and the managers being challenged to prioritize their time.

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.

Response: Accepted. A new process established last year covered part of this audit year and shows improvements across the board. This process will be continued as IDES continues to work towards every evaluation being completed timely.

Updated Response: Partially Implemented. The effectiveness of evaluations as a management tool has diminished and is less of a priority for managers trying to address competing demands on their time.

Human Resource Management regularly sends notices to supervisors with the due dates of evaluations for their subordinates as well as past due notices and we accept scanned copies.

The state is in the process of transitioning to the IL ACTS Human Capital Management (HCM) system. One of the modules in this new system is Performance Management,

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which will allow an electronic submission and tracking of CMS-201 and CMS-201MC evaluation. The module is expected to go live in the third quarter of 2022.

- 9. Adhere to the requirements of the Illinois Procurement Code, the State Property Control Act, the Illinois Administrative Code, the Fiscal Control and Internal Auditing Act, and IDES' Procedures Manual and determine IDES has sufficient trained personnel to maintain property records and accurately report information to CMS. Also, review procedures for maintaining surplus/unused items in order to minimize the amount of idle property and equipment. (Repeated-2015)**

Finding: IDES did not have adequate controls over its property and equipment and related records.

During testing of a sample of 7 asset additions, the following was noted:

- 3 (43%) additions did not indicate the date the item was received by the General Services Department (GSD). As such, auditors could not determine if the asset was added to the inventory records timely;
- 1 (14%) addition was added to the inventory records 30 days late.

During testing of a sample of 10 asset deletions, the following was noted:

- 3 (30%) deletions were removed from inventory records 16 to 124 days late.

During testing of a sample of 60 assets selected from IDES' inventory records, the following was noted:

- 21 (35%) items were on the inventory listing, but were not found on site;
- 3 (5%) items were included on the inventory listing, but had a value below nominal value, and therefore should have been excluded;
- 2 (3%) items were found on site, but no ID tag was found on the equipment;
- 1 (2%) item could not be located in the regional office. IDES was able to locate the asset in another office, but was unable to provide an Authorization for Equipment Transfer Form (OS-5 Form);
- 1 (2%) item had an OS-5 Form that was missing authorized signatures.

IDES' 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 CMS or other state agencies and to accept property transfers. IDES managers use the OS-5 Form to transfer property out. In addition, for disposal of Electronic Data Processing (EDP) Equipment, the Manual (101.80.801) requires the relinquishing cost center manager to prepare and sign the OS-5 Form and give the OS-5 Form with the details of equipment for

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Accepted or Implemented – continued

transfer (scan list) 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 Form and a copy of the scan list for the cost center files.

The Code (44 Ill. Admin. Code 5010.210) requires each piece of equipment to be marked with a unique six-digit identification number. The identification number may be applied by using the Department's inventory decal or by indelibly marking the number on the property.

During testing of a sample of 60 assets found, the following are noted:

- 52 (87%) items were found on-site with a valid inventory tag, but could not be found on the inventory listing. As such, auditors could not determine the value of the assets, and could not confirm that the assets were tracked in accordance with policies and procedures;
- 2 (3%) items were confirmed to be transferrable property but had not been transferred as of the date of fieldwork.

During testing of 7 surplus items (items that appeared to be broken, obsolete or unused) held at IDES, 4 (57%) items were found on-site with a valid inventory tag, but could not be found on the inventory listing. As such, auditors could not determine the value of the assets, and could not confirm that the assets were tracked in accordance with policies and procedures.

IDES 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, IDES must periodically review all property to determine its continued value and to dispose of or recycle that property in accordance with applicable CMS rules, which has no further use.

IDES management stated the inventory control is a manual process susceptible to human error and also stated scanners were used in the past for the annual physical inventory, but are no longer available and with limited staff. IDES can only inventory a quarter of the total assets annually, limiting the opportunity to make adjustments and corrections timely.

Inaccurate property reporting reduces the reliability of IDES' capital asset information and results in incorrect accounting information that could cause unnecessary equipment expenditures and inaccurate financial reporting of the State. Inaccurate property reporting also exposes IDES to risk of misappropriation of assets.

Response: Accepted. IDES is in the process of updating our procedures.

Updated Response: Under Study.

10. Establish formal policies and procedures associated with the removal of system access when employees leave employment with IDES. Review user access rights on a regular basis. (New)

Finding: IDES did not review access rights to the Enterprise Resource Planning System (ERP) for terminated employees and does not have policies and procedures for access provisioning.

During review of the ERP user access matrix, 5 former employees, with termination dates within the examination period, still had access to ERP at the end of the examination period. IDES also lacks formal policies and procedures to review access rights for former employees.

Generally accepted information systems audit guidance endorses the development of computer security policies that adequately address the current technological environment and well-designed and well-managed controls to protect computer systems and data. Further, 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 to provide assurance that funds, property, and resources are safeguarded against waste, loss, unauthorized use, and misappropriation.

IDES management indicated the weaknesses were due to oversight and lack of formal policies and procedures.

Without set policies and procedures associated with removing user access to ERP when an employee leaves, IDES may be susceptible to data manipulation or improper access.

Response: Accepted. The Department will establish a formal policy and procedure to review user access rights to the ERP system on a regular basis with respect to employees whose employment with IDES has terminated. IDES will review user access rights on a regular basis.

Updated Response: Partially Implemented. Draft procedures are under review.

11. Ensure confidential information is protected from accidental or unauthorized disclosure. Specifically, perform the following:

- **Classify data to ensure adequate protection of confidential or personal information most susceptible to attack;**
- **Ensure all employees and contractors review and acknowledge receipt of IDES security policies;**
- **Ensure all staff members annually complete cybersecurity training as outlined in the Data Security on State Computers Act. Additionally, maintain documentation regarding the completeness and accuracy of the population related to cybersecurity training; and**

Accepted or Implemented – continued

- **Ensure adequate security controls are implemented on all equipment utilized by employees, appointments and contractors. (New)**

Finding: IDES did not implement adequate internal controls related to cybersecurity programs and practices.

As a result of the agency mission to administer the State's unemployment claims, it maintains computer systems that contain large volumes of confidential or personal information such as names, addresses, Social Security numbers, and federal and State tax information of the citizens of the State.

The Illinois State Auditing Act (30 ILCS 5/3-2.4) requires the Auditor General to review State agencies and their cybersecurity programs and practices. During the examination of IDES' cybersecurity program, practices, and control of confidential information, the Department did not:

- Classify its data to identify and ensure adequate protection of information (i.e., confidential or personal information) most susceptible to attack; and
- Require employees and contractors to review and acknowledge receipt of IDES' security policies.

In addition, auditors requested IDES provide a population of employees who were to have completed the annual cybersecurity training. In response, IDES provided the population; however, IDES did not provide documentation demonstrating the population was sufficiently precise and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AU-C § 330, AU-C § 530). Even given the population limitations noted, auditors performed testing to determine if employees had completed the annual cybersecurity training as required by the Data Security on State Computers Act.

The testing noted 4 of 39 (10%) employees sampled had not completed the annual cybersecurity training. Furthermore, IDES did not require 4 of 4 (100%) new employees sampled to complete the annual cybersecurity training upon employment.

Furthermore, an individual on 75-day appointment worked remotely on payroll matters which required them to receive confidential information. However, the individual was utilizing their personal computer and IDES was not aware of the security control implemented on the computer. Additionally, there are no policies or procedures in place at IDES to ensure the protection and safe disposal of payroll information from personal devices of employees working remotely.

The Data Security on State Computers Act (20 ILCS 450/25) requires every employee to annually undergo training by the DoIT concerning cybersecurity.

The Personal Information Protection Act (Act) (815 ILCS 530/30) requires any state

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agency that collects personal data that is no longer needed or stored at the agency to dispose of the personal data or written material it has collected in such a manner as to ensure the security and confidentiality of the material.

Furthermore, generally accepted information technology guidance, including the National Institute of Standards and Technology, endorses the development of well-designed and well-managed controls to protect computer systems and data.

IDES officials indicated the lack of resources led to the identified weaknesses. In addition, there are no procedures in place concerning data security for employees working from home.

The lack of adequate cybersecurity programs and practices could result in unidentified risk and vulnerabilities and ultimately lead to IDES' volumes of personal information being susceptible to cyber-attacks and unauthorized disclosure.

Response: Accepted. Although documentation could not be provided during the audit, IDES data is classified. Due to the nature of the work done by IDES, almost all data sets are classified as high risk containing PII. 2 annual computer-based trainings are required for IDES personnel, one for everybody which covers PII and a second for employees accessing GenTax covering IRS regulations for Federal Tax Information. IDES will continue to monitor for all employees to take appropriate training.

Updated Response: Partially Implemented. IDES has initiated a policies workgroup to develop acknowledgement receipts and hired a Manager of Policy and Procedures, who is working to ensure agency policies are reviewed and updated on regular intervals. In addition, IDES will continue to monitor for all employees to take appropriate training, and work closely with DoIT to follow all guidance provided to all DoIT agencies regarding best practices and what is required of personnel accessing the state network.

12. Implement enhanced security measures to access and monitor the Metro South Regional Office facility. (New)

Finding: IDES lacks security at the Metro South Regional Office facility.

During a tour of the Metro South Regional Office facility, various areas are secured by keypad access. However, there is only one access code that grants access throughout the facility, including the employee side entrance. Per inquiry, the code has been provided to all employees and cleaning staff, and has no time restrictions. Since there is no security system or cameras in place, there is a risk that employees, former employees, and cleaning staff can enter the building after hours and gain access to sensitive information.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources, or

Accepted or Implemented – continued

funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. This system of controls should be documented and monitored to ensure compliance is met.

IDES officials stated inadequate security at this location was due to management oversight.

Failure to establish proper controls over facility access could result in improper access to sensitive information.

Response: Accepted. IDES is reviewing options for a secured door that will allow limits to be placed on access and will require each individual to use a separate code or badge to enter the building.

Updated Response: Under Study. IDES is in the process of reviewing all local offices to ensure security is adequate and consistent with best practices.

13. Comply with the mandate by providing employers who have a credit balance of \$2 or greater with a copy of their statement of credit balances on a quarterly basis. (New)

Finding: IDES did not comply with the Unemployment Insurance Act (Act) which requires IDES to provide statements of credit balances quarterly to employers.

During testing of a sample of 44 quarters across 11 employers with credit balances, IDES failed to send a statement of credit balance to the employers for 19 (43%) quarters.

The Act (820 ILCS 405/2201.1) requires the Director to quarterly furnish each employer with a statement of credit balances in the employer's account where the balances with respect to all contributions, interest and penalties combined equal or exceed \$2.

IDES management indicated the statute was changed from semi-annual to quarterly on September 8, 2017, and the IT system which generates the statements was not updated timely to reflect this change.

Failure to provide statements of credit balances to employers results in noncompliance with the Act. In addition, employers could be unaware of an opportunity to request a refund which is allowable under the Act.

Response: Accepted. This was due to the statute being changed from semi-annual to quarterly on 9/8/2017. The Department created SQR 28337 to switch from semi-annually to quarterly, which after testing, was implemented on 11/7/2018. Since November 2018 the Department has been sending statements of credit on a quarterly basis.

Updated Response: Implemented. IDES has implemented the recommendation for finding 2019-013. IDES is now in compliance with The Act (820 ILCS 405/2201.1) providing statements of credit quarterly to employers that have account balances that exceed \$2.

14. Seek funding necessary to fulfill the requirements of the Election Code. In addition, enter into an agreement with the State Board of Elections to deliver the related required information under the Electronic Registration Information Center Membership Agreement. (Repeated-2017)

Finding: IDES did not fully comply with the requirements of the State's Election Code (Code) to establish a voter registration system and enter into an agreement with the State Board of Elections for the delivery of the related information with regards to the operation of the voter registration system.

During testing of IDES' compliance with the Code, the following are noted:

- IDES has not established and operated a voter registration system capable of transmitting voters' registration information to the State Board of Elections' portal; and
- IDES has not entered into an agreement with the State Board of Elections to transmit information required under the Electronic Registration Information Center Membership Agreement.

The Election Code (10 ILCS 5/1A-16.6) requires designated government agencies, one of which is IDES, to maintain a data transfer mechanism capable of transmitting voter registration application information, including electronic signatures where available, to the online voter registration system established by State Board of Elections. The designated government agencies were required to establish and operate this voter registration system by July 1, 2016.

The Code (10 ILCS 5/1A-45 (b-5)) also requires IDES to enter into an agreement with the State Board of Elections to transmit member data under the Electronic Registration Information Center Membership Agreement. The IDES Director is required to deliver the information on an annual basis to the State Board of Elections pursuant to the agreement between the entities.

IDES officials stated failure to establish and maintain the data transfer mechanism was due to the lack of administrative funds that could legally be used for that purpose. Department officials also stated execution of the agreement is pending the State Board of Elections entering into a shared data agreement regarding the records to be shared.

Failure to establish and operate the voter registration system resulted in noncompliance with the Code. In addition, lack of an agreement precludes transmission of member data required by the Code.

Response: Accepted. IDES will explore the potential availability of funding sources that

Accepted or Implemented – concluded

could legally be used for the data transfer mechanism and will continue to work with the State Board of Elections to obtain the shared data agreement required by federal law and authorized under state law, governing the transfer and safeguarding of confidential IDES records sought for the Electronic Registration Information Center.

Updated Response: Accepted.

15. Amend existing policies and procedures to comply with the requirements of the Public Employment Office Act. (New)

Finding: IDES did not comply with the Public Employment Office Act regarding the recruitment of farmworkers and reporting of allegations of violations.

During testing of compliance with the Act, the following are noted:

- IDES did not proscribe the recruitment by State employers of farmworkers;
- IDES did not provide written summary of the relevant state laws to each farmworker recruited for employment; and
- IDES did not transmit to the Office of the Attorney General (Attorney General) and to the appropriate State's Attorney any allegations of violations.

The Act (20 ILCS 1015/8.2) requires each farmworker recruited for employment shall be provided with a written summary of state laws relevant to their employment. The summary shall be both in English and the language in which the farmworker is fluent and shall include, but is not limited to, explanations of state law regarding payments of wages, wage assignments, wage deduction orders and migrant labor camps.

The Act (20 ILCS 1015/8.3) requires each local office of the IPEO to transmit allegations of violations to the Attorney General and to the appropriate State's Attorney.

IDES management indicated the noncompliance was due to management oversight.

Failure to proscribe the recruitment by Illinois employers of farmworkers unless certain conditions are met, to provide written summaries of laws to recruited farmworkers and transmit allegations of violations to the Attorney General and to the appropriate State's Attorney resulted in noncompliance with the Act.

Response: Accepted. IDES has updated existing policies and procedures to comply with the requirements of the Act. The policy and procedures manual for staff has been updated to reflect all the terms and conditions that need to be met by agricultural employers to be able to post the job order in our internet-based labor exchange system, IllinoisJoblink.

IDES, through the Migrant and Seasonal Farmworker Program division, ensures that job

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orders entered in IllinoisJobLink contain all terms and conditions required by the Act and by federal regulations before the job order is approved and viewed by the public.

All farmworkers recruited through these job orders have been provided a written summary of the relevant laws - "Migrant and Seasonal Agricultural Worker Protection Act" and the "Employee Rights under the H-2A Program." This information is also posted at worksite and housing locations and explained to migrant and seasonal farmworkers during outreach, field checks, field visits, and complaint investigations.

IDES, effective immediately, will transmit to the Office of the Attorney General and to the appropriate State's Attorney, any allegations of violations. IDES has, so far, transmitted any complaints and apparent violations to the appropriate federal agencies

that are responsible for enforcing the Migrant and Seasonal Agricultural Protection Act and Employee Rights under the H-2A Program. See Code of Federal Regulations 20 CFR 658.

Updated Response: Implemented.

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 5 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 a statement with the Procurement Policy Board and the Auditor General 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

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General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

In FY18 and FY19, IDES 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.

IDES indicated in July 2019 that there were 5 employees assigned to locations other than official headquarters.

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ILLINOIS DEPARTMENT OF EMPLOYMENT SECURITY
TWO YEARS ENDED JUNE 30, 2019

APPENDIX A

Performance Measures By Program

	<u>FY18</u>	<u>FY19</u>
<u>Employment Services</u>		
Second Quarter Employment Rate*	61.0%	61.8%
<u>Labor Market Information</u>		
Number Of Customer Interactions Via Internet	541,825	550,000
<u>Unemployment Insurance</u>		
Appeals Decisions Made Within 30 days	90.3%	90.5%
Employer Liability Determinations Made Within 180 Days of Liability Occurance	88.0%	88.0%
First-Time Payments Made Within 14 Days Of First Compensable Week	90.3%	90.3%

* Percentage of Individuals who entered the workforce after completion of an employment services program

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APPENDIX B

Summary of Appropriations and Expenditures

<u>Appropriations</u>	<u>FY17</u>	<u>FY18</u>	<u>FY19</u>
Title III Social Security and Employment Services Fund	\$ 233,527,200	\$ 239,626,700	\$ 240,726,700
Unemployment Compensation Special Administration Fund	2,100,000	2,100,000	2,100,000
General Revenue Fund	-	48,000,000	28,181,900
Road Fund	4,000,000	4,000,000	4,000,000
Total	<u>\$ 239,627,200</u>	<u>\$ 293,726,700</u>	<u>\$ 275,008,600</u>
<u>Expenditures</u>			
Title III Social Security and Employment Services Fund	\$ 188,968,783	\$ 185,394,901	\$ 197,135,924
Unemployment Compensation Special Administration Fund	1,017,337	886,395	821,695
General Revenue Fund	-	46,291,338	19,408,759
Road Fund	4,000,000	3,938,792	4,000,000
Total All Funds	<u>\$ 193,986,120</u>	<u>\$ 236,511,426</u>	<u>\$ 221,366,378</u>

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APPENDIX C

Comparative Summary of Cash Receipts

	<u>FY17</u>	<u>FY18</u>	<u>FY19</u>
<u>Title III Social Security & Employment Services Fund</u>			
U.S. Department of Labor	\$ 177,636,735	\$ 197,589,574	\$ 179,818,772
Miscellaneous	519,902	19,241	40,718
Healthcare and Family Services	4,884	4,884	4,884
Other states	-	88,400	27,600
Fines, penalties or violations	8,696	14,168	21,067
Returned petty cash fund	-	-	500
One stop participants	137,174	149,479	272,150
Reimbursement/Jury duty and recoveries	2,691	951	1,491
Copy fees	2,590	2,466	2,335
Shared data access fees	65,200	42,900	49,900
Labor market information	1,525	650	650
Commerce & Economic Opportunity	31,170	173,967	-
Investment income repurchase agreements	235,847	685,877	1,912,511
Prior year refunds	36,233	45,025	2,358
 TOTAL	 178,682,647	 198,817,582	 182,154,936
 <u>Unemployment Compensation Special Administration Fund</u>			
Employer tax contribution penalties	23,726,445	22,078,559	16,918,996
Judgement interest/UI claim	133,461	182,434	174,121
IPTIP UC special administration	31,857	63,679	96,708
 TOTAL	 23,891,763	 22,324,672	 17,189,825
 Total Cash Receipts	 \$ 202,574,410	 \$ 221,142,254	 \$ 199,344,761

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APPENDIX D

Unemployment Compensation Trust Fund
Accounts Receivable

	FY18	FY19
Total Taxes Receivable	<u>\$ 730,991,000</u>	<u>\$ 701,345,000</u>
Less allowance for uncollectible accounts	<u>(406,140,000)</u>	<u>(361,584,000)</u>
	<u>324,851,000</u>	<u>339,761,000</u>
Other Receivables	416,365,000	397,162,000
Less allowance for uncollectible accounts	<u>(304,779,000)</u>	<u>(302,951,000)</u>
	<u>\$ 111,586,000</u>	<u>\$ 94,211,000</u>

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APPENDIX E

Summary of Property and Equipment

	<u>FY18</u>	<u>FY19</u>
Beginning Balance, July 1	9,587,988	52,995,439
Additions	44,494,180	1,056,501
Deletions	(1,086,729)	(594,845)
Ending Balance, June 30	<u>\$ 52,995,439</u>	<u>\$ 53,457,095</u>

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APPENDIX F

Unemployment Compensation Trust Fund

I. Net Position June 30

<u>Current Assets</u>	FY18	FY19
Cash & cash equivalents	\$ 20,872,000	\$ 14,850,000
Cash equivalents held by Federal government	1,939,194,000	2,118,168,000
Receivables, net:		
Taxes	324,851,000	339,761,000
Intergovernmental	26,190,000	14,845,000
Other	111,586,000	94,211,000
Due from other Department and State funds	26,409,000	4,700,000
Due from component units of the State	138,000	146,000
Total Current Assets	\$ 2,449,240,000	\$ 2,586,681,000
<u>Current Liabilities</u>		
Benefit payments payable	124,127,000	115,182,000
Intergovernmental payables	3,394,000	3,081,000
Due to other Department and State funds	2,300,000	1,096,000
Total Current Liabilities	\$ 129,821,000	\$ 119,359,000
<u>Net Assets</u>		
Restricted for payment of benefits	\$ 2,319,419,000	\$ 2,467,322,000

II. Summary of Revenues, Expenditures, and Changes in Net Position

<u>Operating Revenues</u>		
Contributions - unemployment taxes	\$ 1,900,277,000	\$ 1,767,046,000
Contributions - Federal government	6,901,000	7,385,000
Total Operating Revenues	1,907,178,000	1,774,431,000
<u>Operating Expenses</u>		
Benefit payments and refunds	1,727,817,000	1,656,403,000
Total Operating Expenses	1,727,817,000	1,656,403,000
Operating income	179,361,000	118,028,000
<u>Non-operating revenues</u>		
Interest and investment income	36,931,000	45,720,000
Other revenue	25,000	65,000
Total non-operating revenues	36,956,000	45,785,000
Income before transfers	216,317,000	163,813,000
Transfers in	11,000	-
Transfers out	(23,270,000)	(15,910,000)
Change in net position	193,058,000	147,903,000
Net assets, July 1	2,126,361,000	2,319,419,000
Net assets, June 30	\$ 2,319,419,000	\$ 2,467,322,000