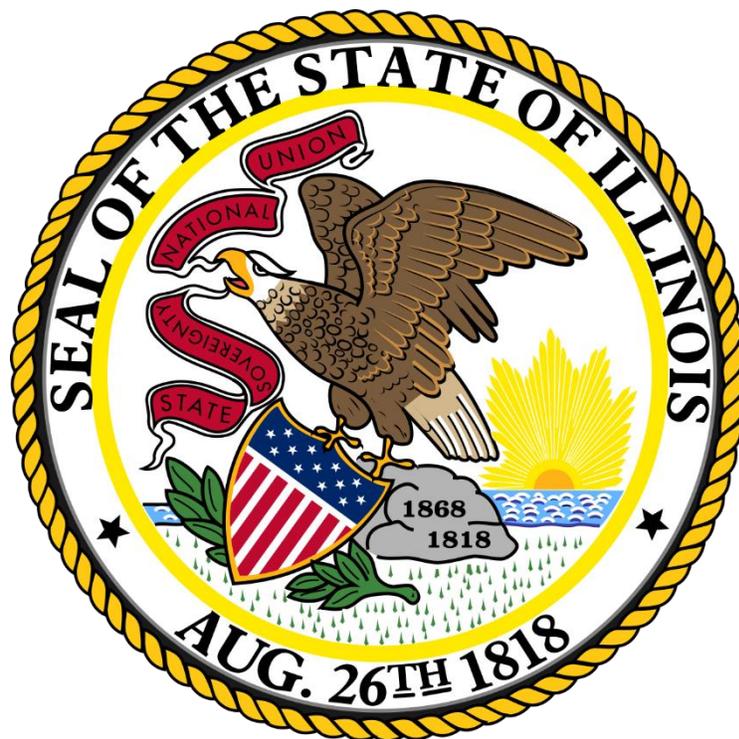


# LEGISLATIVE AUDIT COMMISSION



Review of  
Department of Employment Security

620 Stratton Office Building  
Springfield, Illinois 62706  
217/782-7097

**REVIEW: #4561 & 4562  
DEPARTMENT OF EMPLOYMENT SECURITY  
TWO YEARS ENDED JUNE 30, 2021**

**COMPLIANCE  
RECOMMENDATIONS – 26  
PARTIALLY IMPLEMENTED - 10  
IMPLEMENTED – 11  
REPEATED RECOMMENDATIONS – 8  
PRIOR AUDIT FINDINGS/RECOMMENDATIONS – 15**

**FOR THE YEAR ENDED JUNE 30, 2022**

**FINANCIAL STATEMENTS  
RECOMMENDATIONS – 5  
PARTIALLY IMPLEMENTED - 5  
IMPLEMENTED – 0  
REPEATED RECOMMENDATIONS –3  
PRIOR AUDIT FINDINGS/RECOMMENDATIONS – 3**

This review summarizes the auditors' report of IDES for the two years ended June 30, 2021, filed with the Legislative Audit Commission on August 30, 2022 for the Compliance portion and the Financial portion on October 6, 2023. The auditors conducted a compliance examination in accordance with state law and Government Auditing Standards.

Agency Narrative

IDES' mission is to connect the talented workforce to the education, training, and jobs necessary to keep Illinois' economy strong; produce, analyze, and disseminate labor market information; and ensure that eligible individuals receive the unemployment insurance (UI) benefits to which they are entitled. IDES is committed to the integrity of the UI program and will continue to advance internal strategies and leverage national partnerships to strengthen the program.

IDES will continue to provide timely and quality service to job seekers, claimants, and employers. Due to the pandemic, the agency has seen an unprecedented number of unemployment claims and attempted fraudulent claims. IDES has upgraded hardware and software systems to meet this demand and will continue to examine and enhance claims processing systems.

- Correspondence Revamp – The agency's continued response to the COVID-19 pandemic presents an opportunity to improve agency correspondence. IDES is renewing its focus on plain language and accessibility to ensure that both new and existing correspondence is easily understandable. Correspondence for both

claimants and employers will undergo continuous updates to ensure clear communication that is consistent with state and federal best practices.

- Benefit Charging System – Continued progress was made towards completing the integration of the Benefit Charging System (BCS) into the existing benefits system (IBIS); however much of the team’s resources remained dedicated to ongoing unprecedented workload and projects related to the COVID-19 crisis and pandemic. As previously stated, integrating the BCS functionality on IBIS will allow the benefit system to be better positioned to communicate with GenTax and better manage UI tax functions and the goal is to complete the migration into IBIS by the end of Calendar Year 2022.
- Benefit Payment Control Systems Update – With OATS (Overpayment Audit and Tracking System) the agency continues efforts to integrate and update the existing fraud detection, prevention and collections system. The team has completed integration of the main functionalities and will continue development work to complete integration as well as implement upgrades to currently deployed functionalities. Presently, crossmatches are being completed in IBIS.
- SIDES – the Earnings Verification module has been fully implemented. IDES will conduct an Employer Outreach campaign in calendar year 2023 in order to encourage employer use of SIDES and this module.
- GenTax was successfully upgraded in September 2021 and is operating as intended. Users are pleased with the enhanced functionality.

The Workforce Innovation and Opportunity Act requires Illinois to have a unified strategic planning process across core workforce programs, to encourage a broader planning scope, and to better align and leverage various agencies’ federal funding streams. It applies a single set of outcome metrics to every federal workforce program under the Act, including Title III/Wagner-Peyser services administered by IDES. IDES plays a key role in reporting to the U.S. Department of Labor on progress under the plan, as well as developing updated strategies over the course of the plan. IDES continues to be the go-to resource for wage, employer, and workforce participation information for all workforce partners in Illinois.

- IDES’ Economic Information and Analysis (EI&A) Division is the premier source for statewide and local information on labor markets and workforce outcomes. EI&A also manages the Illinois Career Information System, which provides the most current and reliable career information for everyone from students to adult job-seekers and second-career seniors. Information will be based on customer-driven geographies and made available in a timely manner. IDES is currently reviewing its publications and news releases of these data sets to better inform consumers of the data’s benefits and applications. IDES will expand its automated integrity system to further reduce waste, fraud, and UI abuse. This effort will include a monthly wage record cross-match to ensure that those who have

returned to work do not continue to receive benefits; UI overpayments; and recover overpayments into the agency’s modern UI benefits system.

The Director of IDES during the previous 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 until she left to become DCEO Director in January 2023. Prior to taking over IDES, Director Ray Marchiori served as IDES Chief of Staff from June 18, 2019 to January 16, 2023.

IDES’ primary administrative offices are:

- 33 South State Street Chicago 60603-2802; and
- 607 East Adams, 9<sup>th</sup> Floor, Springfield.

### Appropriations and Expenditures

Programs/Divisions	FY21 Expend	FY21 Headcount	FY22 Expend	FY22 Headcount
Unemployment Insurance	\$219,687,100	844	\$230,181,800	866
Employment Service	64,323,600	247	67,396,400	254
Labor Market Information	7,971,100	31	8,351,900	31
Non-Reporting:				
Interfund Transfer	107,584,500	0	\$2,776,809,000	0
<b>Totals</b>	<b>\$399,566,300</b>	<b>1,122</b>	<b>\$3,082,739,100</b>	<b>1,151</b>

Source: IL Comptroller’s Public Accountability Report.

#### Unemployment Insurance:

Mission Statement - Ensure that eligible individuals receive the unemployment insurance benefits to which they are entitled.

Program Goals and Objectives:

- Efficiently and effectively administer UI benefits to prevent the negative effects of economic downturns on businesses and the unemployed.
- Ensure at least 87% of first payments are made within 14 days of the first compensable week (U.S. Secretary of Labor standard).
- Resolve 60% of benefit appeals within 30 days of the appeal date (U.S. Secretary of Labor standard).
- Maintain average age of pending lower authority appeals completion in less than or equal to 30 days (U.S. Secretary of Labor standard).
- Protect taxpayers against waste, fraud, and abuse by ensuring the integrity of wage reports and unemployment claims.
- Collect quarterly UI taxes in a convenient and practical manner.

- Maintain at 94.4% the number of employees submitting tax payments within 30 days of the quarter end date

### Employment Service:

Mission Statement - Connect our talented workforce to the education, training, and jobs necessary to keep Illinois' economy strong.

#### Program Goals and Objectives:

- Develop and maintain connections through active employer outreach and engagement with job-seekers.
- Decrease the percent of UI recipients exhausting benefits to 32%.
- Increase the percent of veterans receiving staff-assisted services to 80%.
- Meet or exceed the negotiated goal for the entered employment rate (all) of 61% under the WIOA requirements.
- Meet or exceed the negotiated goal for the employment retention rate (all) of 60% under the WIOA requirements.
- Maintain an entered employment rate (veterans) of 53% using the WIOA requirements.
- Provide employment services to all Illinoisans through easily accessible technology and coordinated efforts with other service providers within a statewide network of employment centers.
- As the state employment office for Illinois business and workers, provide no-cost human resource solutions linking hiring businesses to qualified job-seekers.

### Labor Market Information:

Mission Statement - Produce, analyze, and disseminate labor market information.

#### Program Goals and Objectives:

Collect and analyze data covering employment and unemployment statistics, industry and occupation short- and long-term projections, occupational wages, and demographic characteristics of Illinois' workforce.

- Present employment and unemployment data and career and occupation information to the public so that Illinoisans can make informed educational, professional, and economic development decisions.
- Monitor and forecast national, statewide, and local economic trends to assist in the development of public policy.

## **Unemployment Compensation Trust Fund**

The UCTF accounts for assets held by IDES in a trustee capacity, for which the principal and income may be expended in the course of the fund's designated operations.

The fund, a locally held fund, receives employer contributions and disburses money in the form of unemployment benefits paid to eligible claimants. This fund also receives federal funding to pay eligible claimants for federally mandated benefit programs.

As a result of the pandemic a number of new federally mandated benefit programs were added to the UCTF:

- PUA – Pandemic Unemployment Assistance – provided up to 39 weeks of temporary unemployment benefits for those that had exhausted regular unemployment as well as not eligible for unemployment compensation;
- FPUC – Federal Pandemic Unemployment Compensation – provides a temporary emergency increase of \$600 per week in unemployment compensation benefits.
- PEUC – Pandemic Emergency Unemployment Compensation – provided up to 13 weeks of additional unemployment compensation to individuals who exhausted their regular unemployment benefits.

The federal programs expired, after some extensions, on September 6, 2021.

**Title XII Federal Loan Background:**

The Unemployment Trust Fund entered into a deficit position on June 23, 2020 as a direct result of labor market disruption arising from the COVID-19 pandemic that began in March 2020. Pursuant to provisions of Title XII of the Social Security Act, as amended by the Emergency Unemployment Insurance Stabilization and Access Act of 2020, IDES initiated borrowing from the federal government to fulfill its mandate to pay benefits as required by law. Interest on these federal advances is due and payable to the federal government on September 30 annually and may not be paid from the Unemployment Trust Fund.

The highest deficit amount was \$4.5 billion during the pandemic.

On January 25, 2023, IDES paid off the remaining balance of the Title XII federal loan.

**Key Performance Indicators**

<b>Indicator</b>	<b>FY20 Actual</b>	<b>FY21 Actual</b>	<b>FY22 Actual</b>	<b>FY23 Projected</b>
<b>Unemployment Insurance</b>				
Full-time employees – UI Division	804	844	866	921
Continued weeks claimed	11,671,700	16,733,000	6,050,930	5,748,400
Initial (first) claims filed	1,781,622	2,626,161	624,420	500,000
First payments made within 14 days	1,028,800	683,062	164,700	140,000
Total adjudication	237,050	283,800	409,280	327,400
Tax receipts	\$1.59 B.	\$1.49 B	\$1.67 B	\$1.92 B
Employer reports received	1,230,500	1,540,400	400,500	403,500
Benefits paid	\$3.952 B	\$5.4 B	\$1.64 B	\$1.92 B
% of first payments within 14 days	82.3%	71.6%	68.2%	72%

<b>Indicator</b>	<b>FY20 Actual</b>	<b>FY21 Actual</b>	<b>FY22 Actual</b>	<b>FY23 Projected</b>
Separation adjudication – 21 days	67.1%	55.3%	56%	60.5%
Appeals decision – 30 days	81.8%	30.8%	56%	62%
New employer account setup (180 days)	89.2%	91%	91.8%	92%
Employers submitting tax payments within 30 days	93.1%	92.5%	93.8%	95%
Appeals quality	95%	96.7%	98.3%	98.5%
Avg age of pending lower authority (days)	36	57	81	75
<b>Employment Service</b>				
Full time employees – ES division	204	247	254	265
Participants who received ES service	22,677	NA	15,845	18,000
Job openings	744,455	NA	905,223	925,000
Federal contractor openings	292,366	NA	731,940	750,000
Entered employments (applicants)	19,648	12,513	4,735	6,000
Unemployment recipients exhausting benefits	30.7%	40%	39.7%	30%
Veterans receiving staff-assisted services	23%	15%	31.6%	30%
Participants employed 2 <sup>nd</sup> quarter after exit	68%	55.9%	57.9%	61%
Participants employed 4 <sup>th</sup> quarter after exit	69%	61.3%	54.9%	65%
Veterans employed 2 <sup>nd</sup> quarter after exit	61.6%	54.2%	54.3%	55.5%
Participants' median earnings 2 <sup>nd</sup> quarter after exit (in dollars)	\$5,800	\$6,500	\$6,720	\$6,700
<b>Labor Market Information</b>				
Full-time employees – LMI division	25	31	31	35
Employer accounts received in Q1 annually	376,129	385,100	400,448	403,500
Covered employment in Q1 of each year that corresponds to employer count	5,898,567	5,559,200	5,839,069	5,868,264
Customer interactions via online for labor market	1,447,900	138,800	NA	NA

### **Auditor's Disclaimer**

IDES has not maintained certain accounting records and supporting documents relating to transactions with its beneficiaries. Accordingly, the auditors were unable to extend their examination procedures sufficiently to determine whether IDES was in compliance with the specified requirements. Because of the limitations on the scope of their examination, the scope of their work was not sufficient to enable them to express, and they do not

express, an opinion on whether IDES complied with the specified requirements, in all material respects. (On the Compliance)

IDES has not maintained certain accounting records and supporting documents for the Trust Fund relating to transactions with its beneficiaries, nor is the Trust Funds' internal control adequate to provide safeguards over the Trust Fund assets and to assure the proper recording of transactions. As such, the auditors were unable to satisfy themselves by performing other auditing procedures concerning both the opening net position at July 1, 2021, as well as the activity for the year ended June 30, 2022. Since opening balances enter in the determination of revenues, expenses, and cash flows, they were unable to determine whether any adjustments might have been necessary in respect of the changes in net position for the year reported in the statement of revenues, expenses, and changes in net position and the cash flows reported in the cash flow statement. Because of the significance of the matter described, the auditors have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statements of revenues, expenses and changes in net position and cash flows for the year ended June 30, 2022. Accordingly, they do not express an opinion on the Statements of Revenues, Expenses and Changes in Net Position and Cash Flows. (On the Financial Statements)

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

In FY21 and FY22, IDES did not have any emergency purchases over the \$250,000 threshold.

### **Accountants' Findings and Recommendations**

Condensed below are the combined 26 and 5 findings and recommendations included in the audit report. Of these, 8 are repeated from the previous audit. The following recommendations are classified on the basis of information provided by IDES, via electronic mail received August 30, 2022 and October 6, 2023, respectively.

- 1. The auditors recommend IDES ensure the service provider's contract requires obtaining a SOC report or an independent review. Auditors also recommend IDES ensure the service provider's developers' access is restricted and changes are appropriate. Further, auditors recommend IDES develop and implement security controls and disaster recovery controls.**

**FINDING:** *(Failure to Implement General Information Technology Controls over the Pandemic Unemployment Assistance System) – First reported 2020, last reported 2021 – Same as Finding #1 in the FY22 Financial Statements*

IDES failed to implement general Information Technology (IT) controls over the Pandemic Unemployment Assistance (PUA) System (System).

In April 2020, IDES contracted with a service provider to provide the System as a Software as a Service (SaaS) and to provide hosting services for the System. The service provider maintained full control over the system.

In order to determine if general IT controls were suitably designed and operating effectively over the System, auditors requested IDES provide a System and Organization Control (SOC) report for the service provider. As was noted in the prior audit, IDES could not provide a SOC report, as the service provider's contract did not require the service provider to undergo a SOC examination. Therefore, auditors conducted testing of the general IT control of the System.

As was noted in the prior audit, the service provider's developers continued to have access to the production environment. As a result, auditors were unable to determine if the developers made unauthorized changes to the environment, application, and data. IDES had not implemented internal controls over the System's access.

IDES had not implemented disaster recovery controls.

IDES indicated the service provider's contract did not require a SOC report to be provided. Additionally, IDES indicated competing priorities resulted in the other weaknesses.

As a result of the lack of general IT controls over the System, auditors were unable to rely on the System and the proper determination of claimant eligibility data and benefits paid. Furthermore, as a result of the lack of internal controls identified in this finding and finding 2021-002, the auditors are unable to obtain sufficient documentation to determine if IDES' FY21 financial statements are fairly presented. Therefore, auditors are issuing a disclaimer of opinion over IDES' FY21 Unemployment Compensation Trust Fund financial statements.

**DEPARTMENT RESPONSE:**

IDES accepts the auditor's recommendation. In 2021, IDES took action to address the points raised in the finding. The improvements to the PUA system were implemented within a timeframe that did not impact the entire 2021 audit period. As recommended, a contract is in place requiring the PUA system service provider to secure a SOC report for FY22. The system access of the PUA service provider's developers has been restricted and accurately documented. In addition, documentation for PUA system disaster recovery, as well as security controls, are in place and have been reviewed and documented.

**UPDATED RESPONSE:**

Implemented.

**2. The auditors IDES implement controls to ensure the claimants' data is complete and accurate.**

**FINDING:** *(Failure to Maintain Accurate and Complete Pandemic Unemployment Assistance Claimant Data) – New – Same as Finding #2 in the FY22 Financial Statements*

IDES failed to maintain accurate and complete Pandemic Unemployment Assistance (PUA) claimant data.

Based on IDES records, as of June 30, 2021, 424,887 claimants had received benefits totaling \$8,168,499,998.

From June 2021 through January 2022, IDES attempted to provide complete and accurate PUA claimant data in order to determine if the claimants were properly determined eligible. After several attempts and considerable manipulation of the data to make the data more auditable and organized, it was determined complete and accurate PUA claimant data could not be provided. Therefore, the auditors were unable to conduct detailed testing to determine whether the PUA claimants were entitled to benefits.

Also, due to these conditions, auditors were unable to conclude the PUA claimant data records were complete and accurate under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AU-C § 500.08 and AT-C § 205.35).

IDES indicated the PUA system limitations and data entry errors resulted in the weaknesses.

Due to the inability to conduct detailed claimant testing, the auditors were unable to determine whether IDES' financial statements accurately document the PUA benefits paid during FY21. Therefore, the auditors are issuing a disclaimer of opinion over IDES' FY21 Unemployment Compensation Trust Fund financial statements.

**DEPARTMENT RESPONSE:**

IDES accepts the auditor's recommendation. IDES continues to work with the PUA system service provider and DoIT staff to refine the PUA database information and develop a reporting structure that conforms with auditors' expectations. Errors and anomalies within the PUA system have been identified and are being addressed to ensure claimant data is complete and reliable.

**UPDATED RESPONSE:**

Partially Implemented. FY21 controls, including programming initiatives and recommended edits, are serving to provide data base improvements. Weekly benefit increases are programmed, and all claimants were paid. Claims flagged with identity fraud indicators were removed using third-party identity verification tools. Agency backlogs continue to be reduced.

- 3. IDES should prepare a monthly reconciliation for every cash account, reconciling the bank and general ledger balances. Each monthly bank reconciliation should be timely completed and reviewed and approved by a supervisor.**

**FINDING:** *(Failure to Perform Timely Cash Reconciliations) – First reported 2020, last reported 2021 – Same as Finding #4 in the FY22 Financial Statements*

IDES did not prepare its year end bank reconciliations timely.

As part of the engagement, auditors requested the June 30, 2021 bank reconciliations. The reconciliations are between cash as recorded in IDES' general ledger, and cash as reported by the bank for each account. IDES did not have the reconciliations prepared timely for audit fieldwork and auditors received the final versions of the June 2021 reconciliations on December 23, 2021.

IDES management indicated the weaknesses were due to turnover in personnel and the inability to quickly move employees into this area to perform this function as workloads increased significantly as a result of the new CARES Act unemployment programs.

Since IDES has numerous cash transactions every month, the risk of error due to misapplied cash transactions is significant. Monthly there can be over \$1 billion in cash that flows through IDES' various cash accounts. Monthly and annual financial statements could be materially misstated due to the lack of timely bank reconciliations. Failure to properly complete timely bank reconciliations could also result in a misuse or misappropriation of cash that could go undetected.

**DEPARTMENT RESPONSE:**

IDES accepts the auditor's recommendation.

**UPDATED RESPONSE:**

Partially Implemented. IDES has contracted with Crowe, LLP to help with the cash reconciliation for the Trust Fund unit, including reconciliations related to federal programs. Accounting and Crowe are working together to complete the monthly reconciliations. The Pandemic created unique issues from unprecedented volume of transactions, increased number of programs and issues with bank statement lump sum amounts. Reconciliations have been completed through June 30, 2022, and quality assurance reviews are currently being performed. Accounting is working with the contractual benefit banking entity to assist with balancing check exceptions.

- 4. The auditors recommend IDES enforce its policies and procedures concerning the prior approval and documentation of employee overtime and ensure proper maintenance of time and attendance reports for the calculation of final-termination gross pay.**

**FINDING:** *(Inadequate Controls over Determination of Overtime Pay and Calculation of Final-Termination Gross Pay) - New*

IDES did not exercise adequate controls over calculations of final-termination gross pay.

During testing of 60 employees during the review period, the Department failed to provide the following:

- Nineteen (32%) Overtime/Equivalent Earned Time Authorization & Attendance Reports (FI-44)
- Of the 13 terminated employees during the review period, four (31%) Time and Attendance Reports (FI-43)

Due to incomplete information, overtime pay of employees who rendered overtime during the review period could not be verified. Additionally, auditors could not determine whether final termination gross pay was calculated properly.

IDES indicated that cost centers are required to retain copies of their employees' forms FI-43s and FI-44s. The cost centers of each of the 60 employees selected were contacted by the Payroll Section for copies of the forms requested for the audit. IDES submitted all of the documents provided by the cost centers. Some of the documents could not be located by the cost centers due to complications of digital file retention of the employees working remotely during the pandemic.

Failure to properly maintain time reports of employees who rendered overtime may result in errors when determining overtime pay. Also, failure to properly maintain time reports of separated/terminated employees may result in errors when recomputing final-termination gross pay.

**DEPARTMENT RESPONSE:**

IDES accepts the finding and will enforce its policies and procedures. The auditors will emphasize the importance of cost centers retaining proper records of prior approval and documentation of employee overtime and being able to locate documents requested by the department accurately and expeditiously. IDES will ensure proper maintenance of time and attendance reports for the calculation of final-termination gross pay and prevent future findings.

**UPDATED RESPONSE:**

Implemented.

**5. The auditors recommend IDES implement procedures to ensure FCIAA certifications are filed in accordance with the requirements of the Act.**

**FINDING:** *(Untimely Submission of FCIAA Certification) – New*

IDES did not file its FY20 Fiscal Control and Internal Auditing Act (FCIAA) certification timely.

During the review, auditors noted IDES submitted its FY20 FCIAA certification on September 25, 2020, which was 147 days late from the required date of May 1, 2020.

IDES officials stated the submission of the certification was delayed until September solely due to the unprecedented impact on the Department's workload in response to COVID-19.

Failure to timely submit the FCIAA certification results in noncompliance with the Act and hinders governmental oversight.

**DEPARTMENT RESPONSE:**

IDES accepts the finding and has in place procedures to ensure the FCIAA is completed timely.

**UPDATED RESPONSE:**

Implemented.

6. **The auditors recommend IDES complete required monthly reconciliations relating to the Comptroller's monthly Obligation Activity Report (SC15) or monthly Agency Contract Report (SC14) in a timely manner.**

**FINDING:** *(Failure to Prepare Monthly Reconciliation) - New*

IDES did not perform a required reconciliation of its contract records to the Office of Comptroller's (Comptroller) records.

During the testing, auditors noted IDES did not prepare a required reconciliation of its internal records to the Comptroller's monthly Obligation Activity Report (SC15) or monthly Agency Contract Report (SC14) in accordance with the Statewide Accounting Management System (SAMS).

IDES indicated that due to staff turnover, staff shortages and the increased workload as the result of COVID-19, IDES was unable to complete the monthly reconciliation of the Agency Contract Report (SC14) or Obligation Activity Report (SC15) to IDES' records within 60 days of the end of the month and notify the Comptroller of any discrepancies. IDES stated that its Accounting Department will work with Procurement to ensure a monthly reconciliation is completed within 60 days of the month end.

Failure to reconcile IDES' contract activity or obligation activity report could lead to discrepancies between IDES and Comptroller records and could result in inaccurate financial reporting.

**DEPARTMENT RESPONSE:**

The Department accepts the Auditor's recommendation.

**UPDATED RESPONSE:**

Under Study. The senior procurement manager is reviewing the process and data collection methods to complete the monthly reconciliation reports. Past due reports will be reconciled, and future reconciliations will be performed timely.

7. **The auditors recommend IDES file a Late Filing Affidavit with the Comptroller as necessary and ensure emergency purchases are included in the Department's contracts listing.**

**FINDING:** *(Inadequate Controls over Contractual Agreements) - New*

IDES did not exercise adequate controls over contractual agreements.

During the testing of fifteen contracts with a total value of \$27,311,862 in FY20 and \$119,304,254 in FY21, auditors noted one (7%) contract where IDES did not file a Late Filing Affidavit with the Office of Comptroller (Comptroller).

Additionally, IDES failed to provide the schedule of emergency purchases for the examination period which must include description, amount, and approximate cost information. The Office of the Auditor General's website included an emergency purchase during the 3<sup>rd</sup> quarter of FY21. Auditors were unable to reconcile this emergency purchase with IDES' internal records.

IDES officials indicated the majority of the procurement unit at that time were working remotely during the pandemic. When this information was requested from the unit, the individual that supplied the information thought he had supplied the correct requested information. Consequently, the individual did not verify the information with others in the procurement unit before considering the list he sent final.

The Comptroller may refuse to issue a warrant for payment until IDES files the contract, purchase order, grant or lease and an Affidavit, signed by the chief executive officer or her designee, providing an explanation of the late filing.

Failure to maintain or identify emergency purchases inhibits IDES from meeting the requirements of SAMS and statutory law.

**DEPARTMENT RESPONSE:**

The Department accepts the finding and is consistently working to put better controls in place so that contracts are executed and filed timely with the Illinois Office of Comptroller.

**UPDATED RESPONSE:**

Partially Implemented. Additional resources have been hired and allocated in the procurement unit. To aid in the process of reinforcing existing policies and procedures the entire procurement unit has attended training led by the head trainer from the Chief Procurement Office. Additional review levels have been added within procurement, to allow additional compensating controls. Buyers are required to have physical and electronic contract files, including linked approval documents for each procurement and a centralized SharePoint site. The additional staff, internal and external training and a secure project review/approval process will ensure the effective handling of the contracts.

**8. The auditors recommend IDES ensure policies and procedures are in place in order to comply with the requirements of the State Library Act.**

**FINDING:** *(Noncompliance with State Library Act) - New*

IDES failed to file reports and promulgate policies and procedures to comply with the requirements of the State Library Act (15 ILCS 320/21(a)).

During the testing, auditors noted IDES did not provide and deposit with the State Library sufficient copies of all publications issued, including electronic publications, for its collection and exchanges purposes. IDES has not identified a specific person responsible for the distribution of the publications.

Additionally, auditors have noted there were no documented policies and procedures in place to meet compliance requirements of the State Library Act. IDES' Office of Legal Counsel is working to update the policies and procedures on this issue.

IDES officials indicated it is currently developing a policy and procedure for the Department to deposit publications with the Illinois State Library and to identify the position(s) responsible for making such deposits.

Failure to file reports and publications, establish policies and procedures to meet compliance requirements, or inform the State Library of the person or persons responsible for distribution of documents deprives the State Library's primary users of valuable information and represents noncompliance with the State Library Act.

**DEPARTMENT RESPONSE:**

IDES accepts the finding and has promulgated Policy and Procedure 1022 which sets forth the process for the Department to provide publications pursuant to the requirements of the State Library Act and inform the State Library annually by July 15 of the individual(s) responsible for providing the Library with the Department's publications.

**UPDATED RESPONSE:**

Implemented.

- 9. The auditors recommend IDES seek funding necessary to fulfill the requirements of the Code. In addition, they recommend IDES enter into an agreement with the State Board of Elections to deliver the related required information under the Electronic Registration Information Center Membership Agreement, as well as provide a downloadable version of the voter registration form on its website.**

**FINDING:** *(Noncompliance with the Election Code) – First reported 2017, last reported 2021*

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 related information with regards to the operation of the voter registration system.

During testing of IDES' compliance with the code, auditors noted the following:

- IDES has not established and operated a voter registration system capable of transmitting voters' registration information to the State Board of Elections' portal.

- 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.
- IDES' website did not have a downloadable, printable voter registration form available.

IDES was first cited for noncompliance with the Code during the compliance examination for the two years ended June 30, 2017. In the years since the finding was first noted, IDES has not been successful in correcting the finding.

IDES officials stated the failure to establish and maintain the data transfer mechanism was due to execution of a data sharing agreement pending with the State Board of Elections regarding the records to be shared and the development and testing of technological solutions for the data sharing. They also indicated IDES' website contained a link to the online voter registration form but were not aware a printable version was required, which was remedied upon identification of this issue.

Failure to establish and operate the voter registration system, as well as failure to include a downloadable, printable voter registration form on the Department's website resulted in noncompliance with the Code. In addition, lack of an agreement precludes transmission of member data required by the Code.

**DEPARTMENT RESPONSE:**

IDES accepts this finding 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, and will ensure that the downloadable, printable voter registration form remains on the Department's website.

**UPDATED RESPONSE:**

Partially Implemented. Discussions are ongoing with the State Board of Elections, regarding technology requirements and the shared data agreement. Our procedures will require the printable registration form remain on IDES' website. Funding for this initiative was appropriated for FY23.

**10. The auditors recommend IDES adhere to the requirements of the State Property Control Act, the Illinois Administrative Code, the Fiscal Control and Internal Auditing Act, and SAMS. Auditors further recommend the Department:**

- **Ensure equipment additions are properly reported in the quarterly Agency Report (Form C-15) submitted to the Comptroller.**
- **Ensure Annual Certifications of Inventory are accurately completed and submitted timely to CMS.**
- **Have sufficient trained personnel to maintain property records and accurately report information to CMS.**

- **Establish and enforce policies and procedures relating to conducting investigations on unlocated equipment that are subject to theft (i.e., laptops, cellphones, firearms).**

**FINDING:** *(Inadequate Controls over Property and Equipment Records) – First reported 2015, last reported 2021*

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

During testing, auditors noted IDES recorded in the Enterprise Resource Planning (ERP) System equipment totaling \$147,890 with a capitalization date of February 2, 2020. These asset additions were not reported in IDES' quarterly Agency Report (Form C-15) filed with the Office of Comptroller (Comptroller). As of June 30, 2020, and 2021, IDES reported total property of \$53.46 million and \$53.34 million, respectively.

Additionally, property additions per Form C-15 Reports could not be reconciled to the Comptroller's records reflected on the Object Expense/Expenditures by the Quarter Report (SA02).

During testing, auditors noted IDES did not submit its 2020 annual certification to the CMS on a timely basis. The Calendar Year 2020 certification was filed 14 days late. In the Calendar Year 2020 Annual Certification of Inventory, auditors also noted that three unlocated pieces of equipment were missing laptops, and IDES did not perform any investigations to determine the use and what data would have been stored or placed on the laptops.

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

- Six (10%) items were on the inventory listing but were not found on site.
- One (2%) item was found on site but no identification tag was found on the equipment.
- Two (3%) items' locations could not be determined.

Additionally, during the testing of a sample of 60 assets inspected on site, auditors noted three (5%) items with valid inventory tags were not included in IDES' inventory records.

IDES was first cited for inadequate controls over property and equipment records during the compliance examination for the two years ended June 30, 2015. In the years since the finding was first noted, IDES has not been successful in correcting the finding.

IDES officials indicated that in regards to the certification, the initial outstanding percentage of fixed assets was found unacceptable by management, so the certification was held until IDES was able to meet an acceptable percentage. In addition, many of the remote offices were closed due to the pandemic, resulting in the inability to confirm and report the assets under certain Cost Center locations. Conditions attributable to the

pandemic have challenged the Department's ability to conduct timely and accurate physical inventories, as well as file reports 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. Failure to maintain adequate property records and inaccurate reporting of property items increases the risk of equipment theft or loss occurring without detection.

**DEPARTMENT RESPONSE:**

IDES accepts the Auditors' recommendations. IDES will work internally to ensure all capitalized equipment is recorded on the C-15 report to the IOC. In addition, IDES will work to reconcile the C-15 to the Comptroller's records reflected on the Object Expenses/Expenditures by the Quarter Report (SA02). Auditors will endeavor to submit annual certifications accurately and timely, have sufficient trained personnel, and enforce policies and procedures relating to unlocated equipment that are subject to theft.

**UPDATED RESPONSE:**

Implemented.

**11. The auditors recommend IDES create policies and procedures to comply with reporting requirements of the State Finance Act and the State Library Act.**

**FINDING:** *(Noncompliance with Report Filing Requirements) - New*

IDES did not comply with the requirements for filing reports and publications.

During the examination, auditors noted IDES did not:

- Prepare a report of its acts and doings and submit to the Governor at least 10 days prior to the General Assembly convening in the following calendar year.
- Provide copies of its Annual Reports for FYs19 and 20 to the State Government Report Distribution Center at the State Library.

IDES official indicated the exceptions were due to oversight.

Failure to file reports deprives the Governor and the General Assembly of valuable information needed to manage the operations of the state.

**DEPARTMENT RESPONSE:**

IDES accepts this finding. The FY19 report was not filed, and the FY20 report was not timely filed. IDES will ensure that the annual report is timely filed with the Office of the Governor.

**UPDATED RESPONSE:**

Implemented.

**12. The auditors recommend IDES consistently complete required monthly reconciliations relating to revenues (SB04) and locally held funds in a timely manner.**

**FINDING:** *(Inadequate Controls over Monthly Reconciliations) – First reported 2017, last reported 2021*

IDES did not have adequate controls over the required reconciliations of its records with the reports from the Office of Comptroller (Comptroller).

IDES received \$186.34 million and \$291.44 million in revenues from its operating and non-operating funds in FY20 and 21, respectively.

During testing of the FY20 reconciliation between the Comptroller records and IDES records, auditors noted that for two of 8 (25%) months tested, the Monthly Revenue Status Report (SB04) reconciliations were not performed in a timely manner. These were prepared 4 to 360 days late.

Additionally, during the testing of eight monthly reconciliations of locally held funds of FY20 and 21, auditors noted that reconciliations prepared did not include evidence to indicate when the reconciliations were performed, thus timeliness of the reconciliations could not be determined for all eight (100%) reconciliations tested.

IDES was first cited for inadequate controls over monthly reconciliations during the compliance examination for the two years ended June 30, 2017. In the years since the finding was first noted, IDES has not been successful in correcting the finding.

IDES officials indicated that due to staff turnover, shortages, the transition from working in the office to working at home and increased workloads as the result of COVID-19, IDES was not able to complete the reports in a timely manner.

Failure to perform monthly reconciliations in a timely manner hinders necessary and reasonable corrective action to locate differences and correct the accounting records between IDES and Comptroller records timely.

**DEPARTMENT RESPONSE:**

IDES accepts the Auditor's recommendation.

**UPDATED RESPONSE:**

Under Study. IDES has contracted with Crowe, LLP to help with the cash reconciliation for the Trust Fund unit, including reconciliations required for federal programs. Accounting and Crowe are working together to complete the monthly reconciliations. Reconciliations have been completed through June 30, 2022, and quality assurance reviews are currently being performed. Accounting is working with the contractual benefit banking entity to assist with balancing check exceptions. A critical unit supervisor position has been

prioritized and is currently under review. The job duties will be updated in accordance with CMS guidelines with an intent to prioritize posting.

**13. The auditors recommend IDES monitor the status of performance evaluations to ensure they are completed in a timely manner.**

**FINDING:** *(Performance Evaluation Not Completed Timely) – First reported 2003, last reported 2021*

IDES did not complete employee performance evaluations timely.

During the testing of 60 employee personnel files, the auditors noted the following:

- Seven (12%) employees' annual performance evaluations were 42 to 271 days late.
- Eight (13%) employees' performance evaluations of three-month midpoint and six-month final probationary evaluations were 4 to 177 days late.
- Two (3%) employees' three-month midpoint probationary performance evaluations were not on file in Fiscal Year 2021.
- One (2%) employee's six-month final probationary performance evaluation was not on file in Fiscal Year 2021.
- One (2%) employee's annual performance evaluation was not on file.
- The three-month midpoint probationary and six-month final performance evaluation of one (2%) newly hired employee was not signed and dated in Fiscal Year 2021.

IDES was first cited for not completing performance evaluations timely during the compliance examination for the two years ended June 30, 2003. In the years since the finding was first noted, IDES has not been successful in correcting the finding.

IDES officials indicated that during the height of the pandemic, all staff were learning to work remotely and were involved in very pressing pandemic responses for IDES and the customers they serve. As a result, some evaluations were not completed timely.

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.

**DEPARTMENT RESPONSE:**

IDES accepts the finding. The Office of Human Resource Management Staff continuously monitor the status of performance evaluations. A monthly notice of both upcoming and overdue performance evaluations is sent to office managers.

**UPDATED RESPONSE:**

Implemented.

**14. The auditors recommend IDES implement controls to monitor the status of required employee trainings to ensure they are completed in a timely manner.**

**FINDING:** *(Inadequate Controls over Required Employee Training Requirements) - New*

IDES did not have adequate controls over the employee training requirements mandated by state laws, rules, and regulations.

During their testing of 60 employees, auditors noted the following:

- One (2%) employee did not complete the required Ethics training in FY20.
- Two (3%) new hire employees did not receive their initial Ethics training within 30 days of employment in FY20. The training was completed 25 to 53 days late.

During their testing of 60 employees, they noted four (7%) new hire employees did not receive their Harassment Discrimination Prevention training within 30 days of employment in Fiscal Year 2020. The training was completed 27 to 119 days late.

During the testing of 60 employees, auditors noted one (2%) employee did not complete the required Information Safeguard training in both FY20 and 21.

During the testing of 60 employees, auditors noted one (2%) employee did not complete the required Security Awareness training within the calendar year of hire date.

IDES officials indicated that some new hire employees were not able to meet the initial required trainings due to the COVID-19 remote work environment adjustments. The majority of these new hires were previous IDES employees who returned under a personal service contract and the Training Team was not made aware in time to meet the deadline requirements. For the other required annual trainings that were not met, IDES was unable to locate proof of completion through OneNet.

Failure to enforce annual required trainings could lead to employees not being aware of IDES policies and state law regarding ethics and could expose the state to legal and financial risks.

**DEPARTMENT RESPONSE:**

IDES accepts the finding and notes, it will work on implementing a more efficient process for assuring communication of new hire and PSC contractor employees with the appropriate internal departments, taking into consideration a small allowable margin of error for all state-wide mandatory trainings. The increase in training staff headcount as well as recommendations provided to all employees to complete all mandatory trainings regardless of employment status will also aid with meeting compliance requirements.

**UPDATED RESPONSE:**

Implemented.

- 15. The auditors recommend IDES prepare accurate quarterly accounts receivable reports (C-97, C-98 and C-99s) and ensure timely submission of said reports and the Report of Receipts and Disbursements of Locally Held Fund Report (C-17) to the Comptroller.**

**FINDING:** *(Inaccurate Accounts Receivable Reports and Quarterly Reports not Filed Timely) - New*

IDES did not maintain an accurate aging of accounts receivable record and did not file in a timely manner quarterly accounts receivable reports with the Office of Comptroller (Comptroller) as required by the Statewide Accounting Management System (SAMS) Manual.

In the review of accounts receivable reports generated from the Enterprise Resource Planning (ERP) system, it was noted that IDES included incorrect amounts on the “not past due” column which is used in the Aging on Total Gross Receivables (Form C-98) report submitted to the Comptroller.

IDES did not file in a timely manner the Quarterly Summary of Accounts Receivable – Accounts Receivable Activity (Form C-97), the Quarterly Summary of Accounts Receivable – Aging of Total Gross Receivables (Form C-98), or the Quarterly Summary of Accounts Receivable – External Collections Activity for Accounts over 180 Days Past Due (Form C-99) in three of 16 (19%) quarterly reports tested during the two-year examination period. These were filed 1 to 48 days late.

Additionally, IDES did not file in a timely manner the Report of Receipts and Disbursements of Locally Held Fund (Form C-17) in three of 16 (19%) quarterly reports tested. These were filed 2 to 27 days late.

IDES officials indicated due to staff turnover, shortages and the increased workloads as the result of COVID-19, IDES was unable to address reporting issues and complete the reports in a timely manner.

Failure of IDES to generate accurate accounts receivable reports provided to the Comptroller results in incorrect financial records. Furthermore, failure to file the quarterly reports on time hinders the Comptroller’s ability to timely monitor amounts due to the state.

**DEPARTMENT RESPONSE:**

IDES accepts the Auditor’s recommendation. IDES will work internally and with the ERP Team to ensure the quarterly accounts receivable reports are accurate and timely.

**UPDATED RESPONSE:**

Under Study. Accounting is working to ensure the C-97, C-98 and C-99 are submitted timely. Accounting is working with the ERP team for guidance on correcting issues with the C-97, C-98 and C-99 reports in HANA and supporting information from SAP.

**16. The auditors recommend IDES monitor its procedures on timekeeping in order to comply with the Procedures Manual. They also recommend IDES improve its record retention and storage system so that documents are available to auditors and IDES personnel.**

**FINDING:** *(Noncompliance with IDES Policies and Procedures on Timekeeping) - New*

IDES did not exercise adequate controls over its employee attendance.

During testing of 60 employee time and attendance records, IDES failed to provide the following:

- Forty-five (75%) Time and Attendance Reports (FI-43) of employees.
- Thirty-seven (62%) Overtime/Equivalent Earned Time Authorization & Attendance Reports (FI-44) of employees.
- Twenty-four (40%) Time Distribution and Attendance Reports (FI-46) of employees.
- Thirty-four (57%) Applications for Leave Approval (PO-4) of employees.

Due to incomplete information, hours worked by the employees could not be verified. Additionally, auditors could not determine whether the employee overtime and leave requests were timely approved.

In addition, one (2%) Application for Leave Approval (PO-4) was approved late. This was approved 461 days after the date of the employee's leave of absence.

IDES officials indicated that cost centers are required to retain copies of their employees' timekeeping forms. The cost centers of each of the 60 employees selected were contacted by the Payroll Section for copies of the forms requested. IDES submitted all of the documents provided by the cost centers. Some of the documents could not be located by the cost centers due to complications of digital file retention of the employees working remotely during the pandemic.

Failure to properly submit and complete time reports, leave forms and earned compensatory time reports may result in employees using time or earning time not approved by management.

**DEPARTMENT RESPONSE:**

IDES accepts the finding and will monitor and enforce its policies and procedures on timekeeping to comply with the Department Procedures Manual.

**UPDATED RESPONSE:**

Implemented.

**17. The auditors recommend IDES comply with the requirements of the Fiscal Control and Internal Auditing Act and International Standards for the Professional Practice of Internal Auditing. They further recommend the Department:**

- **Ensure that internal audit personnel always meet the continuing professional education requirements.**
- **Submit a two-year audit plan and internal audit annual report before their due dates.**
- **Develop procedures to internally evaluate the internal audit function.**
- **Establish policies requiring internal audit reports to include the proper acceptance or disagreement with audit findings and recommendations by management personnel responsible for the subject of the audit.**
- **Ensure that the internal audit team reports and communicates to the chief executive officer and governing board information about the audit plan and progress against the plan.**

**FINDING:** *(Noncompliance with Statutes and Regulations on Internal Auditing) - New*

IDES failed to comply with internal auditing requirements.

During the testing, auditors noted the following:

- IDES did not employ a Chief Internal Auditor from March 16, 2020 to May 2, 2021.
- During the review of the 2019 and 2020 continuing professional education (CPE) of each internal audit personnel, auditors noted the following:
  - a. One of four (25%) internal audit personnel did not meet the 80 hours CPE requirement during the two-year period of review.
  - b. Two of four (50%) internal audit personnel did not obtain at least 4 hours of CPE related to ethics during the two-year period of review.
- IDES did not prepare the two-year audit plan for FY21-FY22 due in FY20.
- IDES' internal audit function did not have internal assessments including ongoing monitoring of the performance of the internal audit activity and periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.
- During testing of the internal audit reports during the examination period, auditors noted the following:
  - a. All four (100%) internal audit reports tested did not include acceptance or denial of findings by persons responsible for the agency function.

- b. One of four (25%) internal audit reports tested did not include planning documents or any type of work paper related to the internal audit performed.
  - c. Three of four (75%) internal audit reports tested had no formal remediation or follow-up made from the time the audit reports were issued to the present.
- Auditors also noted IDES did not report and communicate to the chief executive officer and governing board information about the audit plan and progress against the plan, conformance with the Institute of Internal Auditors Code of Ethics and International Standards for the Professional Practice of Internal Auditing, including any action plans to address any significant conformance issues. Additionally, IDES did not prepare a written report during each fiscal year under review to the chief executive officer detailing how the audit plan was carried out, including significant findings, recommendations, and implementation of changes by the Department.

IDES officials indicated IDES' position of Chief Internal Auditor was vacated on March 20, 2020. At the time of vacancy, a review process of the position description was conducted as well as consideration for changing the job location. The term of the position expired on August 2020 and the vacancy was officially posted with the new job location effective September 2020. The candidate selection, hiring and onboarding process concluded on May 1, 2021, at which time the position was permanently filled.

During this timeframe the position remained open. As a result, the vacancy did not ensure compliance respective to the Fiscal Control and Internal Auditing Act and the Internal Auditing Program.

Failure to maintain an internal audit program represents noncompliance with the Fiscal Control and Internal Auditing Act, weakens the Department's assessment of its overall internal control environment, and increases the risk that an effective system of internal controls may not be maintained.

Without proper acceptance or disagreement with internal audit findings and conclusions by persons responsible for the finding/remediation, it is unclear whether management will develop sufficient corrective action plans to remedy the conditions noted in the internal audit findings, or accept responsibility for any risks not remediated. In addition, the lack of periodic internal assessments may diminish the effectiveness of the internal audit functions, which would not be beneficial to IDES.

**DEPARTMENT RESPONSE:**

IDES accepts this finding. In May 2021, IDES filled the Chief Internal Auditor vacancy. The Chief Internal Auditor will develop and implement changes in IDES' Internal Audit division to ensure IDES is in full compliance with the Fiscal Control and Internal Auditing Act and International Standards for the Professional Practice of Internal Auditing.

**UPDATED RESPONSE:**

Partially Implemented. IDES has now filled the Chief Internal Auditor vacancy. The Chief Internal Auditor is now in the process of implementing changes in IDES' Internal Audit

Division to ensure full compliance with the Fiscal Control and Internal Auditing Act and International Standards for the Professional Practice of Internal Auditing.

**18. The auditors recommend IDES develop a comprehensive disaster recovery plan for all critical systems. Additionally, they recommend IDES conduct disaster recovery testing at least annually, and ensure the disaster recovery plan is readily available. Furthermore, the auditors recommend IDES work with DoIT to ensure adequate resources are available for the recovery of IDES' systems.**

**FINDING:** *(Disaster Recovery Planning Weaknesses) - New*

IDES has weaknesses in its disaster recovery planning process.

IDES obtains and processes significant amounts of Federal Tax Information and confidential information in its applications.

During the review of IDES' disaster recovery plan, auditors noted the plan:

- had not been updated to incorporate all critical systems and did not have detailed system requirements for key server components.
- did not include detailed recovery scripts for off-site recovery in the event key personnel were unavailable.
- did not document roles and responsibilities of recovery teams.

In addition, auditors noted IDES:

- had not performed disaster recovery exercises for key systems during the examination period.
- alternate data center did not have capabilities to execute IDES' operations in the event the DoIT facility was unavailable.
- did not ensure the disaster recovery plan was readily available in the event the DoIT network was unavailable.

IDES management indicated the plan was still in development due to staffing shortages and challenges associated with the pandemic. IDES management also indicated testing had not been completed due to the lack of resources.

Failure to maintain a comprehensive disaster recovery plan and conduct testing could result in IDES being unable to execute its core functions in the event of an emergency situation.

**DEPARTMENT RESPONSE:**

IDES accepts the finding.

IDES will further ensure that hard copy disaster recovery plan materials are stored in its Chicago and Springfield Central Offices as well as at DoIT Security offices in Chicago and Springfield.

**UPDATED RESPONSE:**

No Change. The Disaster Recovery Plan is under review and will be updated to reflect all that is required to fully recover IBIS in the event of a disaster at the State Data center. This is scheduled for completion by October 31, 2022. In addition, IDES will initiate a Project with DoIT to identify gaps in services at the Alternate Data Center that are currently preventing a complete replication of IBIS at that site.

**19. The auditors recommend IDES:**

- **Adopt policies and procedure for configuration management, software development and lifecycle management, change management, vulnerability management, data classification, and system backup and offsite storage.**
- **Review and update policies timely.**
- **Maintain acknowledgements IDES policies by employees and contractors.**
- **Require employees and contractors to acknowledge receipt of updated policies.**
- **Develop a project management framework.**
- **Develop a risk management methodology and conduct a comprehensive risk assessment to identify all types and locations of confidential data.**
- **Establish roles and responsibilities between IDES and DoIT documenting each IDES roles and responsibilities.**
- **Classify data to identify and ensure adequate protection of information.**

**FINDING:** *(Cybersecurity Weaknesses) – First reported 2019, last reported 2021*

IDES had not implemented adequate internal controls related to cybersecurity programs, practices, and control of confidential information.

IDES had established a myriad of applications in order to meet its mission and mandate. IDES processed and maintained confidential and personal information within these applications, such as names, addresses, Federal Tax Information, dates of birth and Social Security numbers.

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 their examination, auditors noted IDES had not:

- Developed policies and procedures documenting:
  - Configuration Management
  - Software Development and Lifecycle Management
  - Change Management
  - Vulnerability Management

- Data Classification
- System Backup and Offsite Storage
- Updated its policies and procedures timely.
- Maintained acknowledgements of receipt of Department policies for 10 of 20 (50%) employees and contractors tested.
- Required employees and contractors to acknowledge receipt of policy updates.
- Developed a project management framework.
- Developed a risk management methodology and conducted a comprehensive risk assessment to identify all types and locations of confidential data.
- Established roles and responsibilities between IDES and DoIT related to security event monitoring and incident response performed on IDES' behalf.
- Classified its data to identify and ensure adequate protection of information.

IDES management indicated the Department relied on DoIT for information security management and had not formally drafted policies and procedures defining the specific breakdown of responsibility between the two organizations for cybersecurity management due to a lack of resources with the expertise to oversee cybersecurity programs.

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

**DEPARTMENT RESPONSE:**

IDES accepts the audit finding overall, without comment on the specifics listed.

**UPDATED RESPONSE:**

No Change. IDES is currently establishing a complete inventory of existing information technology procedures and cross matching them with the DoIT model to identify gaps. This assessment will be completed by November 15, 2022.

**20. The auditors recommend management:**

- **Establish requisite policies and procedures to maintain a PCI compliant environment;**
- **At least annually, assess each program accepting credit card payments, the methods in which payments can be made, and match these methods to the appropriate SAQ;**
- **Complete the appropriate SAQ addressing all elements of its environment utilized to store, process, and transmit cardholder data and an Attestation of Compliance Form; and**
- **At least annually, ensure credit card processors utilized to process transactions have maintained valid PCI compliance.**

**FINDING:** *(Payment Card Industry (PCI) Compliance Weaknesses) – New*

IDES had inadequate controls over Payment Card Industry Data Security Standards (PCI DSS).

IDES processed 13,239 credit card transactions totaling \$9,256,104 in FY21 via credit card processors.

During review, auditors noted IDES had not:

- Established policies and procedures to maintain a PCI compliant environment;
- Formally assessed each program accepting credit card payments, the methods in which payments could be made, and matched these methods to the appropriate Self-Assessment Questionnaire (SAQ);
- Completed a SAQ or Attestation of Compliance (AOC) addressing all elements of its environment utilized to store, process, and transmit cardholder data; and
- Ensured credit card processors utilized to process the Department's card transactions were PCI compliant.

IDES management indicated they were unaware of the need to complete SAQs and the need to review PCI compliance of its service providers.

Failure to adhere to PCI compliance responsibilities could result in fines or the loss of ability to process credit card transactions in the event of a breach of IDES or a non-compliant service provider processing credit cards on IDES' behalf.

**DEPARTMENT RESPONSE:**

IDES accepts this finding and is in the process of establishing a new position that would be responsible for obtaining and reviewing the SAQs and AOC reports.

**UPDATED RESPONSE:**

No Change. Policies and Procedures are under review for PCI compliance. IDES is working on the annual assessment and reviewing the process to ensure PCI compliance for credit card processors. IDES is evaluating a compliance position to ensure effective technical review.

**21. The auditors recommend IDES develop:**

- **Breach notification procedures for all types of confidential information.**
- **Encryption and redaction requirements for all types of confidential information.**
- **Data destruction procedures for all potential sources of confidential information.**

**FINDING:** *(Weaknesses in Security and Control of Confidential Information) - New*

IDES had inadequate controls over security of confidential information.

IDES had established a myriad of applications in order to meet its mission and mandate. IDES processed and maintained confidential and personal information within these applications, such as names, addresses, dates of birth and Social Security numbers.

During the review of IDES policies and procedures, auditors noted IDES had not:

- Developed breach notification procedures for information other than Social Security numbers.
- Developed encryption and redaction requirements for types of information other than Social Security numbers.
- Developed data destruction procedures for all potential sources of confidential information.

IDES management indicated they believed its internal policies in conjunction with DoIT policies were sufficient to address responsibilities for security and control of confidential information.

Failure to adequately secure confidential information could result in exposure of such information to unauthorized parties or breaches.

**DEPARTMENT RESPONSE:**

IDES accepts this finding and breach notification procedures will be documented.

**UPDATED RESPONSE:**

No Change. DES is in the process of identifying which information technology applications store confidential information and if there are Policies and Procedures in place that provide for proper notification procedures. Where there is an identified gap a policy and procedure will be developed. These tasks should be completed by November 30, 2022.

**22. The auditors recommend IDES implement controls to ensure the security over remote access to its environment, applications and data. Specifically, auditors recommend IDES:**

- **Periodically review staffs' remote access.**
- **Communicate requirements to users.**
- **Maintain documentation the information technology equipment utilized by staff contain updated antivirus and the latest security patches.**

**FINDING:** *(Inadequate Controls over Remote Access) - New*

IDES had inadequate controls over remote access to its environment, applications and data.

As a result of the COVID-19 pandemic, the Governor of Illinois issued Executive Order 2020-10 ordering all businesses and operations to cease and for citizens to remain at their place of residence. In order to comply with the Executive Order, IDES instructed

staff to perform their work from home resulting in a significant increase in the use of remote work options by employees of IDES.

To establish the ability to work from home, IDES allowed staff remote access to their environment, applications and data. The auditors review noted the Department had not:

- Periodically reviewed staffs' remote access;
- Required contractors to acknowledge receipt of remote access policies and procedures; and,
- Maintained documentation the information technology equipment utilized by staff contained updated antivirus and the latest security patches.

Even though IDES relied on DoIT for its technology needs, IDES had the ultimate responsibility to ensure adequate controls exist over remote access to its environment, applications and data.

IDES management indicated IDES allowed users to have remote access as part of a COVID-19 emergency directive and as such did not believe it was necessary to establish additional policies and procedures around remote access beyond the requirements of the temporary directive. Additionally, IDES management indicated they believed DoIT was responsible for managing the integrity of state-owned equipment and did not believe establishing monitoring procedures was necessary.

Without adequate controls over remote access, unauthorized individuals may have access, resulting in potential malicious activity.

**DEPARTMENT RESPONSE:**

IDES accepts this finding. IDES believes remote access was adequately addressed by the Covid-19 directive referenced for the period of time covered by this audit. A pilot remote work process is in place under an umbrella agreement between the union and the state, and IDES HR and Labor Relations are working with the union to develop appropriate and agreed procedures and policy for remote access to IDES work moving forward. The establishment of the compliance/liaison position at IDES to work with DoIT will advance these recommendations as well.

**UPDATED RESPONSE:**

No Change. IDES will develop a flow chart that describes step by step what is required to grant remote access rights to an employee; maintain an inventory of those employees; and develop policies and procedures in conjunction with DoIT around remote access privileges.

**23. The auditors recommend IDES update its Policy to identify and protect all types of personal information required by the Act.**

**FINDING:** *(Inadequate Personal Information Protection Policy) - New*

IDES did not have an adequate Personal Information Protection Policy (Policy).

The Department's Policy 1030 required the protection of Social Security numbers, but it was not updated to protect all types of personal information required by the Personal Information Protection Act. Specific types of personal information not addressed by IDES' Policy were:

- Driver's license numbers
- state identification card numbers
- Account number or credit or debit card number, in combination with any security code, access code, or password that would permit access to an individual's financial account
- Medical Information
- Health insurance Information
- Unique biometric data generated from measurements of technical analysis of human body characteristics used by the owner or licensee to authenticate an individual, such as a fingerprint, retina or iris image, or other unique physical representation or digital representation of biometric data.

IDES management indicated the internal policies in conjunction with DoIT policies were sufficient to address responsibilities for security and control of confidential information.

Failure to identify all personal information in accordance with the Act results in noncompliance with the Act.

**DEPARTMENT RESPONSE:**

IDES accepts this finding. A new Policy/Procedure #4004 was published 6/30/2021 covering Information Technology Security including specific reference to the Personal Information Protection Act and covered information.

**UPDATED RESPONSE:**

Partially Implemented. IDES is working to disseminate communication and training around Policy & Procedure 4004.

**24. The auditors recommend IDES implement controls over GenTax security, including controls over hired and terminated employees to ensure the security of the system.**

**FINDING:** *(Inadequate Controls over GenTax Access) – First reported 2018, last reported 2021 – New Same as Finding #5 in the FY22 Financial Statements*

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

During the testing of GenTax security, auditors noted:

- 1 of 11 (9%) individuals tested did not have a Request for Access to Illinois Department of Revenue System (CSB-154) form submitted by an authorized supervisor or manager,
- 1 of 6 (17%) individuals tested did not submit the Security Notification Form before the termination date,
- 2 of 6 (33%) individuals tested did not have a Security Notification Form submitted by an authorized supervisor or manager, and,
- 1 of 6 (17%) individuals tested did not have a completed Security Notification Form submitted containing all the required fields.

Furthermore, IDES GenTax Security Procedures (Procedures), did not document IDES' of GenTax access.

The Procedures stated in order to obtain access to GenTax an authorized approver was to submit on behalf of the employee:

- Completed background check (if access to Federal Tax Information was requested)
- Information documenting completion of the Safeguard Training,
- Completed CSB-154, Request for Access to Illinois Department of Revenue Systems, and
- Completed User Profile Template.

In addition, the Procedures stated in order to terminate access to GenTax an authorized approver was to submit a completed Security Notification Form requesting access to be removed.

IDES management indicated the weaknesses were due to oversight and competing priorities during the COVID-19 pandemic.

Failure to properly and fully complete all required forms, ensure forms are submitted by only an authorized individual, and disable users' access in a timely manner put IDES at risk of unauthorized access to GenTax.

**DEPARTMENT RESPONSE:**

IDES accepts the finding and has emailed the updated security control document that governs and explains the on/offboarding process to stakeholders that are authorized to add and/or remove users from GenTax. In addition, iDES' Human Resources Department sends a monthly list of employees that have been separated to the GenTax Team Lead to ensure that GenTax access has been revoked.

**UPDATED RESPONSE:**

Implemented.

**25. The auditors recommend IDES implement controls over GenTax change control to ensure all necessary steps are taken during the process.**

**FINDING:** *(Inadequate Controls over GenTax Change Control) - New*

IDES did not ensure adequate controls over the changes implemented within its enterprise-wide tax system (GenTax).

During the testing of GenTax change control, auditors noted:

- 4 of 10 (40%) changes tested did not have a fully completed request tab, and
- 6 of 10 (60%) changes tested were never closed after being verified in production (ILP).

IDES management indicated the weaknesses were due to oversight.

Failure to properly complete all required steps of the change process within GenTax puts IDES at risk of inaccurate and unauthorized changes to GenTax.

**DEPARTMENT RESPONSE:**

IDES agrees that adequate steps were not taken to ensure that the request tab was checked prior to setting up an SQR. However, IDES disagrees that not checking the box placed the agency at risk for inaccurate or unauthorized changes to GenTax. The SQR tab in question labeled “Details of Issue” is required to be filled out completely, explaining in detail the error correction or the enhancement requested. IDES has multiple quality control measures, such as IT developer scrutinization, which includes researching and attempts to recreate the error before a system solution can be developed. The SQR then moves through Phase 2 acceptance testing in the lower testing environment (ILT) which requires testing by both agencies before developers are allowed to move the SQR to the next testing level.

IDES will be more diligent in requiring SQR’s be closed timely.

**UPDATED RESPONSE:**

Implemented.

**26. The auditors recommend IDES strengthen its controls identifying the service providers. Additionally, auditors recommend IDES:**

- **Enter into agreements with service providers and ensure roles and responsibilities of both IDES and service providers are clearly defined and outlined in the formal agreement/contract;**
- **Ensure contracts with service providers outline the computing environment that promotes the security, integrity, availability, confidentiality, and privacy controls over IDES’ applications and data;**
- **Obtain and review SOC reports, Bridge Letters, or perform independent reviews of internal controls associated with outsourced systems at least annually; and**
  - **Monitor and document the operations of the Complementary User Entity Controls (CUECs) related to the Department’s operations.**

- **Monitor compliance with the contract requirements.**

**In addition, for SOC reports with one or more subservice providers, auditors recommend IDES:**

- **Either obtain and review a SOC report for each subservice organization or perform alternative procedures to satisfy the usage of each subservice organization would not impact IDES' internal control environment; and,**
- **Document its review of the SOC reports and review all significant issues with each subservice organization to ascertain if a corrective action plan exists and when it will be implemented, any impacts to IDES, and any compensating controls.**

**FINDING:** *(Inadequate Controls over Service Providers) – New*

IDES did not ensure adequate controls over its service providers.

IDES utilized various service providers to assist with significant processes such as: (1) benefit services, (2) credit and debit card payments processing, (3) Work Opportunity Tax Credit, (4) application hosting, and (5) pandemic unemployment assistance.

As part of the testing, the auditors requested IDES provide a population of its service providers. Although IDES provided a list of service providers, they noted the list also contained vendors which were not service providers. Therefore, auditors were unable to conclude whether the population was sufficiently precise and detailed under the Attestation Standards promulgated by the American Institute of Certified Public Accountants (AT-C § 205.36).

*Even given the population limitations noted above,* auditors tested nine service providers, noting IDES had not:

- Entered into agreements with five (56%) service providers to ensure the roles and responsibilities of both IDES and service providers were clearly defined and outlined.
- Ensured the contracts entered into with six (67%) service providers outlined the computing environment to promote the security, integrity, availability, confidentiality, and privacy controls over the applications and data.
- Obtained and reviewed service providers' System and Organization Controls (SOC) reports and Bridge Letters for the nine (100%) service providers.
- Monitored compliance with the contract requirements for the nine (100%) service providers.

IDES is responsible for the design, implementation, and maintenance of internal controls related to its operations to assure its critical and confidential data are adequately safeguarded. This responsibility is not limited due to the processes being outsourced.

Without entering into an agreement with service providers and timely obtaining and reviewing a SOC report or another form of independent internal controls review, IDES did

not have assurance the service providers' internal controls were adequate to ensure its critical and confidential data were secure and available. In addition, failure to monitor compliance with contract requirements may lend itself to inadequate services provided by the service providers.

**DEPARTMENT RESPONSE:**

IDES accepts this finding. While there are several service providers where IDES receives and reviews SOC reports annually, there is no centralized documentation to rely upon. These providers would include several banking units including the lock box service and card services. Several of the providers utilized for pandemic response are part of the finding, and corrections have been made, notably for the PUA program.

As previously noted, IDES is working to establish a position for compliance/liaison activities with DoIT. Current responsibility for reviewing SOC reports, and other technical issues lies with various unit managers. More robust and uniform monitoring is a desired outcome of a department-wide approach.

**UPDATED RESPONSE:**

Partially Implemented. While some of the SOC reports and contracts continue to receive attention and review, the agency wide solution to meeting the recommendations has not been established at this time. Study and discussion continue as to the exact nature of the new position which will be at the center of better compliance and controls.

**Only Finding #3 of the FY22 Financial Statements was not repeated.**

**FINDING:** *(Lack of Internal Controls over Financial Accounting and Reporting) - New*

IDES did not maintain appropriate controls over financial reporting.

During the audit, several adjustments were posted to correct errors identified by the auditors as noted below:

- Receivables due from the Federal Government relating to the waiver of the first waiting week for new claimants was improperly recorded and a large portion was found to relate to prior periods, resulting in a restatement of opening net position. The impact of this error is receivables being overstated by \$12,547,000, revenue being overstated by \$506,163,000, and opening net position being understated by \$493,616,000. Management elected to record the adjusting entry for this error.
- Receivables for overpayments that are still in the adjudication and appeals processes were improperly recorded, as IDES does not have a claim to the monies until the adjudication and appeals processes are complete. The impact of this error is receivables being overstated by \$393,731,000, allowance for uncollectible accounts being overstated by \$378,582,000, revenue being overstated by

\$369,507,000, and expenses being overstated by \$354,358,000. Management elected to record the adjusting entry for this error.

- Allowances for uncollectible accounts relating to overpayment receivables were not appropriately evaluated and recorded based on historical and subsequent collection data. The impact of this error was expenses and allowance for uncollectible accounts being understated by \$201,497,000. Management elected to record the adjusting entry for this error.
- Outstanding and voided checks were not appropriately accounted for while reconciling cash. The impact of this error was cash being overstated by \$31,591,000, benefit expense being understated by \$32,057,000, benefit payable being understated by \$2,461,000, and other receivables being understated by \$1,995,000.
- Loan interest payable that will be paid by another fund was incorrectly accrued to the trust fund. The impact of this error was an overstatement of interest payable and related expense by \$50,121,000.

Under a good system of internal control, all significant accounts should be reconciled on a regular basis to the underlying documentation, and thoroughly reviewed by a supervisory employee (other than the preparer), with any necessary adjustments recorded timely. Additionally, IDES' policy for year-end financial reporting requires that accounting staff reconcile account balances to supporting information/documentation and that account balances and the related support be reviewed and approved by a supervisor.

IDES management indicated the weaknesses were due to staff shortages and the volume of work as IDES is still recovering from the increased transactions and associated workload driven from the new Coronavirus Aid, Relief, and Economic Security (CARES) Act programs.

The financial statements of the department would have been materially misstated without recording several audit adjustments.

**DEPARTMENT RESPONSE:**

IDES accepts the auditor's recommendation. IDES continues to implement improved internal controls, analyzing operational management, review and approval, in coordination with DoIT technology resources, including looking at best practices with outside consultants. The timeliness of the cash reconciliation and inadequate controls is largely due to the discontinuation of paying unemployment insurance benefits via debit cards and the implementation of paying benefits via paper check to claimants who do not have a bank account or who choose not to set up automatic payment via direct deposit; IDES did not have an established reconciliation process in place for paper checks. Management is working with an outside accounting firm to evaluate best practices and provide subject matter expertise through temporary staff augmentation in coordination with strategic hiring.

**UPDATED RESPONSE:**

Partially Implemented.

**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 its officers and employees for whom official headquarters have been designated at any location other than that at which official duties require them to spend the largest part of their working time.

As of July 13, 2022, IDES had 1 employee assigned to locations others than official headquarters.