LEGISLATIVE
AUDIT
COMMISSION

Review of
Department of Labor
Two Years Ended June 30, 2015

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REVIEW: 4470
ILLINOIS DEPARTMENT OF LABOR
TWO YEARS ENDED JUNE 30, 2015

FINDINGS/RECOMMENDATIONS - 14
ACCEPTED - 7
IMPLEMENTED - 7

REPEATED RECOMMENDATIONS - 8

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 9

This review summarizes the report on the Illinois Department of Labor for the two years ended June 30, 2015, filed with the Legislative Audit Commission June 30, 2016. The auditors performed a compliance examination in accordance with *Government Auditing Standards* and State law.

The Department of Labor administers and enforces various Illinois Labor Laws that regulate wages, hours, working conditions, safety and health of workers, minors in the work force, and licensing of employers in certain businesses. Safeguarding the public interest is performed by the Department through regulation of amusement rides, employment agencies and nurse registries. The mission of the Department is to promote and protect the rights, wages, welfare, working conditions, safety and health of Illinois workers through enforcement of State labor laws and to ensure compliance with all other labor standards. The Department also administers the Equal Pay Act, the Victims Economic Security and Safety Act, Farm Labor Contractor Certification Act, Industrial Homework Law, School Visitation Rights Act, Street Trades Law, and the Nurse Agency Licensing Act. A summary of operating statistics is presented in Appendix A.

The Director of the Department at the beginning of the audit period was Joseph Costigan. He served as Director from April 2011 through January 2015 when Hugo Chaviano was appointed to serve as Director. Director Chaviano resigned in February 2016 and Anna Hui was appointed Acting Director after serving as Assistant Director at the Department since 2015. Previously, Acting Director Hui served in the administrations of Governor Edgar and Governor Ryan, and she served as the Associate Deputy Secretary at the U.S. Department of Labor from 2002 to 2009. The Department had 90 full-time employees in FY15.

Expenditures From Appropriations

The General Assembly appropriated $32,521,242 to the Department of Labor for FY15. Appendix B summarizes these appropriations and expenditures for the period under review. Total expenditures for the Department were $21,469,004 in FY15 compared to $8,760,541 in FY14, an increase of $12,708,463, or 145.1%. The increase is attributable to the development programs. Lapse period expenditures for FY15 were $655,995, or 2.9% of total expenditures.

Property and Equipment

Appendix C provides a summary of property and equipment for FY15 and FY14. Property and equipment, for which the Department was accountable, increased from $902,308 as of June 30, 2014 to $977,461 as of June 30, 2015. According to Finding No. 5, the Department exercised inadequate controls over the accuracy, completeness, and timeliness of State property records and related reporting.

Cash Receipts

Appendix D summarizes cash receipts of the Department for the last three fiscal years. The comparative schedule of cash receipts shows $5,557,082 in FY15 compared to $4,722,825 in FY14, an increase of $834,257, or 17.7%, from FY14 to FY15. There was an increase in miscellaneous receipts and a decrease in fines and penalties. The $1.5 million increase in miscellaneous receipts consisted of monies transferred from the Special State Trust Fund; these monies were collected on behalf of Illinois workers who were not paid properly in accordance with minimum wage laws. State statute requires these monies to be deposited in the General Revenue Fund if the workers cannot be located within six months of collection. The $663,235 decrease in the Department of Labor Special State Trust Fund was due to a fluctuation in the amount of claims collected, depending on the number of allegations received, the outcome of Department investigations, and the rate at which employers pay the Department monies owed.

Other Funds

The Department administers funds which are held in the State Treasury. The Special State Trust Fund is a nonappropriated fund which is custodial in nature and used to account for certain monies collected from various employers by the Department of Labor as agent for individual claimants who have been paid wages at substandard rates. Monies collected are remitted to the claimants.

Accountants' Findings and Recommendations

Condensed below are the 14 findings and recommendations presented in the compliance report. There were eight repeated recommendations. The following recommendations are classified on the basis of updated information provided by the Department in a memo received via electronic mail on February 22, 2017.

Accepted or Implemented

1. **Enforce internal controls over receipts to ensure that timely collection of revenue occurs and adequate documentation is maintained and readily available for all transactions. Implement procedures to segregate the duties involved with the receipts processing function. Further, ensure all receipts and refunds are entered into a system that is able to generate reports, provide balances, and produce transaction listings. Also, monthly reconciliations should be completed and reviewed for accuracy and any differences should be investigated. In addition, document all collection efforts on returned checks and past due amounts owed and perform timely follow ups on these amounts. Finally, ensure all Fee Imposition Report Forms are adequately supported and filed timely with the State Comptroller. (Repeated-2005)**

<u>Finding:</u> The Illinois Department of Labor (Department) did not exercise adequate controls over revenues and related reporting. Auditors noted the following control weaknesses:

- The Department did not maintain documentation to support amounts reported on its Agency Fee Imposition Reports (Report) prepared for FY14 and FY15. This resulted in discrepancies with Department records of $202,104 and $421,023, respectively. In addition, the Department filed its FY15 Report 209 days late.
- The Department could not provide records or documentation to support receipts recorded in the Federal Industrial Services Fund (Fund 726) during the first quarter of FY14. Comptroller records indicated $531,201 was received for this time period.
- The Department could not provide reconciliations of agency receipts to the Monthly Revenue Status Report (SB04) for any months during FY14 or FY15. This includes 190 monthly reconciliations for eight different funds: General Revenue Fund (001), Amusement Ride and Patron Safety Fund (051), Special State Trust Fund (251), Child Labor Law Enforcement Fund (357), Employee Classification Fund (446), Department of Labor Federal Projects Fund (724), Federal Industrial Services Fund (726), and Wage Theft Enforcement Fund (885).
- The Department did not process deposits for checks received during the months of March, April, May and June 2015. Per discussion with Department personnel, these checks were held by the Department for deposit at a later date while the Department attempted to resolve errors and discrepancies noted between their records and their clearing account. Department personnel indicated the checks were deposited during FY16. In addition, the Department did not process Treasurer's Drafts or Receipt Deposit Transmittals for this same time period. Auditors were unable to quantify the dollar value of the activity that was carried over into FY16 from this time period.
- The computer program used by the Department to process receipts is outdated and not fully functional. Because of this, it is difficult for the Department to track receipts after entry, produce reports of receipts received, or sort data already in the system. In addition, the Department's segregation of duties over receipts is not sufficient as the same person responsible for reviewing ledger postings also deposits funds and is responsible for performing reconciliations.

Accepted or Implemented – continued

- Detail testing could not be completed for refunds received. The Department was unable to provide auditors with a listing of, or supporting documentation for, refunds received during the engagement period.

The Department did not timely request a renewal of its deposit extension. The Office of the State Comptroller had approved an extension to the timely deposit requirements of the State Officers and Employees Money Disposition Act (30 ILCS 230) for the period of April 23, 2013 through April 23, 2015 for Funds 001, 251, 357, 446, and 885. The Department did not request a renewal of its deposit extension until August 18, 2015, 116 days after the preceding extension expired.

Auditors also noted the following weaknesses in receipts processing:

- The Department did not maintain supporting documentation for the date received for 20 of 60 (33%) receipts selected for testing, totaling $177,641. Therefore, timeliness of deposits could not be determined.
- The Department did not maintain supporting documentation for 18 of 60 (30%) receipts selected for testing, totaling $1,225,151. As a result, auditors were unable to test these receipts.
- Receipts deposit transmittals were not submitted timely for three of 60 receipts selected for testing, totaling $6,254. All three transmittals were submitted four days late.

Auditors noted the following weaknesses in returned check processing:

- The Department could not produce documentation of any collection attempt such as a demand letter for payment sent to the vendors for six of 10 returned checks selected for testing, totaling $6,778.
- The Department provided only an initial demand letter that was sent to the vendor for two of 10 returned checks selected for testing, totaling $3,500. It could not be determined if the funds were eventually collected or if other collection activity was pursued.

During the current examination, Department personnel stated turnover within their fiscal staff and a lack of transition documentation limited their ability to comply with all applicable requirements.

Updated Response: Accepted and Partially Implemented. The Department accepts the recommendations. Many of the issues noted in the finding either occurred during the prior administration or were due to a lack of internal controls and proper recordkeeping in place under the prior administration. When the Department's current leadership learned of the underlying causes and conditions, it took remedial actions. The Department has undertaken a review of all internal fiscal controls and is working closely with the State's Chief Information Officer in establishing the necessary platform for a new case management and receipts processing and reporting system. The eventual solution will be an enterprise grade software system developed in conjunction with the Department of Innovation and Technology for use across different agencies. In the interim, the Department has begun the process of adopting existing financial systems from the Illinois State Board of Education and plans to tailor the system to fit Department of Labor needs. This interim solution will resolve most or all of the conditions noted in the above finding and enable a more seamless transition to the final enterprise grade solution. During development, the Department has continued to use, to the best of its ability, the current software for tracking cases, revenues, and payments while establishing better operational processes and controls. The Department intends to continue to make every effort to correct all deficiencies and streamlining all processes that it has the capability and resources to accomplish.

2. Review all accounts receivables reports to ensure accuracy before timely submission to the Comptroller. In addition, maintain detailed records and supporting documentation of all billing and collection activity to support accounts receivable balances reported and to accurately estimate amounts that may be uncollectible. (Repeated-2005)

Finding: The Department did not exercise adequate controls over accounts receivable records and related reporting. Auditors noted the following control weaknesses:

- The Department was unable to provide certain requested accounts receivable records, including a listing of accounts, history of collection attempts, records of billings/collections, or records showing referral of accounts to the Comptroller's Offset system and/or the Attorney General's Office. In the absence of this information, auditors were unable to determine the accuracy and completeness of accounts receivable activities reported to the Office of the State Comptroller.
- The Department was unable to provide current policies or procedures for the handling and reporting of receivables. Auditors obtained a draft copy of policies and procedures from the Department dated January 9, 2009, but could not determine if these policies and procedures had been approved by management or were currently practiced by the Department.
- Some revenue source codes were not listed in the SAMS manual.

The Department reported gross receivables totaling $187,000 and $83,000 on its June 30, 2015 and June 30, 2014 C-98 reports, respectively.

During the current examination, Department personnel stated turnover within their fiscal staff and a lack of transition documentation limited their ability to comply with all applicable requirements.

Updated Response: Accepted and Partially Implemented. Many of the issues noted in the finding either occurred during the prior administration or were due to a lack of internal controls and proper recordkeeping in place under the prior administration. Under the current administration, the Department's leadership has taken steps to implement proper internal controls. The Department is reviewing the basis of receivables reported under the previous administration. The Department intends to identify all forms of debt to the State under our programs and will make every effort to develop a formal billing, collections, and reporting process in accordance with the State Finance Act, the Fiscal Control and Internal

Accepted or Implemented – continued

Auditing Act, and all relevant SAMS procedures. Since the release of the OAG final report, the Department experienced turnover in the role of Chief Fiscal Officer. The new CFO, Jill Mazrim, has made proper receivables reporting a priority. The agency continues to review past receivables reports submitted to the comptroller's office for accuracy and has provided training to program staff managers on proper internal reporting to the agency fiscal office.

3. Maintain detailed records for all Special State Trust Fund 251 transactions. Include in the records a ledger of claimants and monthly reconciliations of the balance in the Fund to the State Comptroller's SB04 reports. Also, comply with the Minimum Wage Law (820 ILCS 105/12(b)) by transferring the required amounts from Fund 251 to the General Revenue Fund and maintaining documentation of these transfers. (Repeated-2007)

Finding: The Department did not exercise adequate controls over its Special State Trust Fund (Fund 251). The Department operates Fund 251 as an agency fund in the State Treasury. The purpose of this fund is to hold wage claims collected from employers by the Department on behalf of Illinois workers (claimants) and hold those monies until the claimants can be located and properly paid. Auditors noted the following control weaknesses:

- The Department was unable to provide a claim request for the payment processed for one of 60 expenditures selected for testing in Fund 251, totaling $4,723.
- The Department did not maintain a ledger of claimants and corresponding dollar amounts comprising the balance held in Fund 251. Comptroller records showed balances of $2,332,105 and $1,279,400 held in Fund 251 as of June 30, 2014 and June 30, 2015, respectively.
- Department receipt records were unable to be reconciled to the Comptroller's Monthly Revenue Status (SB04) report for FY15. The irreconcilable amount noted of $116,884 is approximately 44% of the total receipts amount reported on the Comptroller's SB04 report as of June 30, 2015. The Department was unable to provide reconciliations to explain the difference noted.

The Department transferred funds, totaling $1,052,457, from Fund 251 to the General Revenue Fund, via voucher, during the engagement period. However, the Department could not provide documentation to substantiate the funds transferred were held for more than one year. Also, the Department could not provide support for how it determined which funds were required to be transferred.

During the current examination, Department personnel stated turnover within their fiscal staff and a lack of transition documentation limited their ability to comply with all requirements.

Updated Response: Accepted and Implemented. The issues noted in the finding were due to a lack of internal controls and proper oversight of Fund 251 by the Department under prior administrations. The Department's current leadership discovered the inherited issues with the management of Fund 251 and took remedial actions during calendar year 2015 to rectify such issues.

In CY 2015, the Department experienced complete turnover at the executive level and complete turnover at every level of the fiscal section, including the resignation of the Department's Chief Fiscal Officer (CFO) in February 2015. When the current administration learned of the conditions it inherited, it took immediate steps to address the problem. Although unable to locate any documentation of reconciliations of the Department's general ledger and Fund 251 balances against the Comptroller reports from prior administrations, the current CFO and fiscal staff implemented policies and procedures to ensure that such documentation is maintained and that the general ledger and funds are reconciled. The Department also implemented changes to its check-processing procedures to make sure that adequate controls are in place to ensure proper transfers from Fund 251 to the General Revenue Fund in compliance with the Minimum Wage Law (820 ILCS 105/12(b)) and maintain adequate documentation. The Department also retained an independent accounting firm to conduct an audit, which confirmed that all funds were properly placed into and transferred out of Fund 251 during CY 2015.

The Department intends to maintain adequate controls and documentation and to continue these new policies and procedures to comply with the Minimum Wage Law (820 ILCS 105/12(b)) by transferring the required amounts from Fund 251 to the General Revenue Fund with documentation of these future transfers.

Under previous administrations, numerous audits found repeated reconciliation and documentation problems with Fund 251. In the spirit of good government and transparency, the current administration is committed to restoring the public's confidence in the Department's management of this special trust fund.

4. Implement procedures to ensure all monthly reconciliations are complete, accurate, and prepared in a timely manner and update expenditure records when circumstances warrant. Further, maintain all reconciliations and supporting documentation as required by the State Records Act. (Repeated-2007)

<u>Finding:</u> The Department did not perform adequate and/or accurate expenditure and/or cash balance reconciliations during the examination period. The Department operated eight funds during the examination period. The Department should have performed 190 expenditure reconciliations during FY14 and FY15. Some of the conditions auditors noted were as follows:

- The Department failed to prepare 106 of 190 (56%) monthly reconciliations to the Comptroller's Monthly Appropriation Status (SB01) report. As a result, auditors were only able to test 84 monthly reconciliations.
- The Department failed to prepare the cumulative portion of the monthly reconciliation to the SB01 report for 33 of 84 (39%) reconciliations performed.
- Twenty-six of 84 (31%) monthly reconciliations prepared by the Department did not actually reconcile with the SB01 report.

Accepted or Implemented – continued

- Twenty-five of 84 (30%) monthly reconciliations were not signed or dated. As a result, auditors could not determine if the reconciliations were prepared in a timely manner.

Auditors also noted the Department should have performed 168 reconciliations of Department records to fund balance information maintained by the Office of the State Comptroller and reported on the monthly Cash Reports (SB05). However, no such reconciliations were performed.

Finally, during comparison of Comptroller expenditure records to Department expenditure records, auditors noted:

- Forty vouchers, totaling $45,272, were reversed or voided in the Comptroller records, but were not reversed in Department records.
- Eighty-eight vouchers, totaling $866,227, were included in Department records but did not appear in Comptroller records.
- Thirty-two vouchers, totaling $1,043,687, were included in Comptroller records but did not appear in Department records.

During the current examination, Department personnel cited turnover and staffing shortages as barriers to compliance.

Updated Response: Accepted and Partially Implementation. The issues noted in the finding were due to a lack of internal controls and proper oversight of by the Department under the prior administration. The Department's current leadership discovered the inherited issues and is continuing its efforts to remedy the deficiencies identified in the findings. The Department has been involved in reconciling expenditures and cash receipts from prior years since the change in administration and fiscal positions during the third and fourth quarters of Fiscal Year 2015. For the current transactions, the Department has implemented reconciliations of the expenditure data from the Accounting Information System (AIS) to the Comptroller's SB01 appropriation status report for all payables. On the receipts side, the Department has implemented reconciliations of Department transmittals to the Treasurer's deposit record and the Comptroller's monthly SB04 and SB05 reports.

5. Strengthen controls over the recording and reporting of State property by reviewing inventory and recordkeeping practices to ensure compliance with statutory and regulatory requirements. In addition, ensure all equipment is accurately and timely recorded on the Department's property records, equipment additions are properly tagged and charged to proper detail object codes, and maintain documentation of any equipment additions, deletions and transfers. Lastly, thoroughly review all reports prepared from internal records for accuracy before timely submission to the Comptroller and DCMS. (Repeated-2003)

<u>Finding:</u> The Department did not exercise adequate control over the accuracy, completeness, and timeliness of State property records and related reporting. Some of the conditions noted by the auditors were as follows:

- Auditors were unable to reconcile equipment additions reported on the Department's Quarterly Reports of State Property (C-15s) to equipment expenditures noted on records maintained by the Office of the State Comptroller. Differences noted totaled $6,500 in FY14 and $14,254 in FY15. In addition, Department personnel were unable to provide support for additions, deletions, and transfers reported on the C-15s.
- Two of eight (25%) C-15s filed with the Office of the State Comptroller during the examination period were not filed timely. They were filed nine and 18 days late.
- The Department did not perform a physical inventory of all property items and certify the inventory to the Department of Central Management Services (DCMS) during FY15 as required. The certification was due to DCMS by July 1, 2015. In addition, the Department could not provide a complete property listing as of June 30, 2015 for testing purposes.
- Equipment items purchased on five vouchers selected for testing, totaling $13,934, could not be located on the Department's property listing.
- During forwards testing (list to floor), auditors noted the following:
    - Eighteen of 40 (45%) items selected for testing could not be located within the Department's Springfield location. A total value for these items could not be determined due to missing acquisition prices in the property listing.
    - The property listing did not include an acquisition price for 12 of 40 (30%) items tested. As such, a value for these items could not be determined.
- During backwards testing (floor to list), auditors noted the following:
    - The physical locations for 25 of 40 (63%) items selected for testing did not match the locations noted for these items on the property listing. A total value for these items could not be determined due to missing acquisition prices in the property listing.
    - The property listing did not include an acquisition price for 15 of 40 (38%) items selected for testing. As such, a value for these items could not be determined.

<u>Updated Response:</u> Accepted. Current administration staff is unable to comment on the root cause of deficiencies under the prior administration and is making every effort to remedy the deficiencies identified in the findings. The Department has made, and will continue to make, a concerted effort to improve controls over the recording and reporting of State property. The Department performed a complete inventory of its offices, including properly tagging all items and marking their correct location on inventory records during FY15 and FY16. Fiscal staff also will charge all expenditures to the proper detail object codes going forward. The current FoxPro based inventory management system is inadequate for Department needs and not fully functional.

Near the end of CY16, the Department began the process of acquiring a modern inventory and property control software system from the Illinois Student Assistance Commission. Development of that system to fit IDOL needs is ongoing, but the Department has improved controls through a manual process in the interim.

Accepted or Implemented – continued

6. **Establish an internal audit program and appoint a chief internal auditor as required. In addition, timely file annual certifications regarding the evaluations of systems of internal fiscal and administrative controls with the Auditor General by May 1st of each year as required by the FCIAA. Further, maintain adequate documentation related to the internal controls evaluation process as required by SAMS.**

Finding: The Department did not comply with the Fiscal Control and Internal Auditing Act (FCIAA). Auditors noted the following:

- The Department did not maintain an internal audit function as required by the FCIAA (30 ILCS 10/2001). During testing, auditors noted the Department had not appointed a chief internal auditor and did not maintain a full-time program of internal auditing.
- The Department did not timely submit its FCIAA certifications for FY14 and FY15. The Department's FY14 certification was filed on January 14, 2015, which is 258 days late. The Department's FY15 certification was filed on July 2, 2015, which is 62 days late.
- The Department could not locate any supporting documentation for the FY14 certification, and the Department did not maintain sufficient supporting documentation for the FY15 certification.

Department personnel stated an internal audit function has not been established due to budget constraints. Department personnel stated the reports were not submitted timely due to significant turnover in executive and fiscal positions. In addition, Department personnel stated adequate supporting documentation was not maintained due to a misunderstanding of requirements and oversight.

Updated Response: Accepted and Partially Implemented. The Department accepts the recommendations. As noted in the response to Finding 2015-003, the Fiscal Division experienced complete turnover in the second half of FY15, including the CFO. The Department has already taken steps to increase staffing levels and plans to hire even more additional staff. The Department will make every effort to comply with SAMS requirements by completing all future FCIAA certifications in a thorough and timely fashion and by maintaining supporting documentation. Additionally, the Department is currently reviewing options to appoint a Chief Internal Officer, given operational restraints resulting from limited headcount and lack of appropriations authority.

7. **Develop a detailed plan which addresses computer operations. The plan should include at a minimum:**
   - **Criteria for the declaration of a disaster,**
   - **Detailed procedures for recovering all their systems,**
   - **Recovery time objective or recovery point objective in accordance with the State's objective,**
   - **Staff assignments and clear guidelines outlining their responsibilities, and**

- **Detailed recovery goals.**

In addition, perform a comprehensive test of the Disaster Recovery Plan.

<u>Finding:</u> The Department had not developed a comprehensive disaster recovery plan or performed testing during the audit period.

In April of 2015, auditors received a one paragraph document in response to a request for a Disaster Recovery Plan. After discussions of the deficiency with the Department, auditors received a Disaster Recovery Details document dated May 26, 2015. Auditors reviewed the Disaster Recovery Details document and noted:

- The Plan indicated the Department's applications would need to be recovered within 72 hours; however, upon further communication, the Department determined they would need to review the timeframe for recovery in order to align with the State's recovery objectives.
- The Plan did not outline:
  - Detailed recovery goals,
  - Detailed recovery procedures,
  - Criteria for declaring a disaster,
  - Staff responsibilities and contact information,
  - Alternate facilities,
  - Equipment needs,
  - Disaster recovery coordinator information,
  - Recovery scripts for applications, testing requirements,
  - Responsibilities of the Department or the Department of Central Management Services, and
  - Manual processes to continue operations without computer systems.

Additionally, the Department had not conducted disaster recovery testing over its environment during the audit period or verified the accuracy of backups.

IT across the State of Illinois has historically been disjointed and outdated. During FY14-FY15, the Department lacked the staff, resources, and specific IT funding to fully support its IT operations and make any sort of improvements beyond day-to-day maintenance. The senior development staffer retired, leaving the CIO as the only individual in-house on staff to handle daily customer support matters as well as larger agency IT requirements and policies. DOL is a fully consolidated agency for IT purposes, relying on the Department of Central Management Services Bureau of Communications and Computer Services (CMS BCCS) for all of its IT infrastructure and support services.

<u>Updated Response:</u> Accepted and Implemented. In January 2016, the Department hired a new Chief Information Officer. The Department has already hired an additional IT staff member and plans to hire another in the coming months. Additionally, we are now working closely with DoIT on all matters related to IT support, including compliance with disaster recovery planning and testing requirements. The Department had already taken steps to provide the details, as outlined in the finding, to the past disaster recovery plan, prior to the release of this report. Since that time, IDOL's CIO, working with DoIT, has fully implemented the recommendations.

Accepted or Implemented – continued

8. Conduct employee performance evaluations timely. Leave requests should be approved prior to the leave or upon the employee's return in cases when sick time is used. In addition, strengthen controls to ensure employee personnel files are complete and payroll deductions are properly authorized. Further, implement controls to ensure attendance records are properly maintained. (Repeated-2013)

Finding: The Department failed to maintain proper controls over personal services. Some of the conditions the auditors noted during testing were as follows:

- Ten of 13 (77%) employees tested did not receive performance evaluations as required. Ten annual performance evaluations for eight employees were not completed by the Department. Additionally, three probationary evaluations for two employees were not completed by the Department. Further, six of 13 (46%) employees tested had performance evaluations that were between 18 and 142 days late.
- Six of 13 (46%) employees tested did not have leave requests properly approved in advance of the requested day off. Auditors noted 13 instances when leave time was approved between one and 127 days after the leave had occurred. These leave requests included vacation time, personal time, and authorized absences.
- Sick time was not approved within a reasonable amount of time for four of 13 (31%) employees tested. Requests were approved between four and 16 days after the sick leave had occurred.
- The Department was unable to provide eTime attendance records for three of 13 (23%) employees tested.

Department personnel stated that adequate procedures and mechanisms had not been established by preceding administrations to ensure timely submission of evaluations, approval of leaves, and other personnel services. Senior management and staff turnover in addition to lack of resources also contributed to the inability to track, process, and follow up with supervisors.

Updated Response: Accepted and Partially Implemented. Many of the issues noted in the finding either occurred during the prior administration or were due to a lack of internal controls and proper recordkeeping in place under the prior administration. When the Department's current administration learned of these inherited conditions, it took steps to remedy deficiencies. The Department's last Chief of Staff and current HR Manager made a concerted effort to make sure all senior staff understands the importance of completing evaluations in a timely manner and approving time requests pursuant to the Illinois Administrative Code, Department policies, and any applicable collective bargaining agreements. Additionally, the Department recently hired an additional HR staff member to assist with proper controls over personal services. The Department will continue to make every effort to ensure compliance.

9. Implement procedures to ensure all vouchers are approved timely in accordance with the Illinois Administrative Code. Comply with SAMS procedures by having the Agency head and receiving officer sign and date each voucher. Develop

procedures to ensure Department records are maintained as required. (Repeated-1999)

Finding: The Department did not exercise adequate controls over voucher processing. Auditors noted the following:

- Eighty-seven of 301 (29%) vouchers tested, totaling $251,515, were approved for payment four to 229 days late.
- Seventeen of 301 (6%) vouchers tested, totaling $44,673, were not signed or dated by the receiving officer.
- Twenty-one of 301 (7%) vouchers tested were not properly approved by the Department. Eighteen of the 21 vouchers, totaling $25,932, were not signed by the Agency head. Three of the 21 vouchers, totaling $8,586, were not dated by the Agency head.

Additionally, the Department could not locate 22 of 323 (7%) vouchers, totaling $96,963, which were selected for testing.

During the prior examination, Department personnel stated it was the Department's goal to perform all functions in a timely and effective manner; however, due to turnover and staffing shortages, other competing projects took precedence. During the current examination, Department personnel cited the same challenges as barriers to compliance.

Updated Response: Accepted and Partially Implemented. The Fiscal Officer was replaced in late March of 2015 and the Department began reviewing all responsibilities and procedures within the office. The Department filled fiscal vacancies and has taken steps toward correcting fiscal processes. As noted in response to finding 2015-001, current agency fiscal management software is inadequate for the needs of the Department. Deploying the interim solution, software from ISBE, and eventual enterprise grade solution will enable the Department to fully implement the recommendations above.

10. Implement controls over Agency Workforce Reports to ensure they are complete and accurate and supporting documentation is maintained. Submit the report to the Office of the Secretary of State timely, as required by statute. Lastly, file corrected reports with the Secretary of State and Office of the Governor as required by the Illinois State Auditing Act (Act).

Finding: The Department did not include complete and accurate information on its FY13 and FY14 Agency Workforce Reports (Report) submitted to the Office of the Governor and the Office of the Secretary of State. Auditors noted the following:

- The Department inaccurately calculated amounts and percentages reported on its FY13 and FY14 reports. Twenty-two instances were noted.

- The Department was unable to provide support for the number of employees reported on the FY13 and FY14 reports.

Accepted or Implemented – continued

In addition, the Department did not timely submit its FY13 and FY14 reports to the Office of the Secretary of State; the reports were one and six days late respectively. The State Employment Records Act (5 ILCS 410/20) requires all State agencies to file, by January 1 of each year, a copy of the Agency Workforce Report with the Office of the Secretary of State.

Department personnel stated the reports were inaccurate, incomplete, and late due to oversight by the responsible personnel.

Updated Response: Accepted and Implemented. When the Department's current administration learned of the conditions it inherited, it proactively put controls in place and took action to prepare correct workforce reports for FY15. As a result of these actions, the FY15 Agency Workforce Report was filed prior to the January 1, 2016 deadline and records of supporting documentation used to prepare the report have been retained. The Department will make every effort to maintain these controls for submissions of all future Agency Workforce Reports.

11. Develop procedures for the review of all reports to ensure compliance with the Employee Classification Act. In addition, notify contractors of violations and assess penalties for violations of the Act as required.

Finding: The Department did not maintain adequate records of its compliance with the Employee Classification Act (Act). Department records indicate they received a total of 754 reports for the taxable year ended December 31, 2014.

Testing included samples of reports the Department deemed "complete" and "incomplete." Auditors noted the following in testing of reports the Department determined to be complete:

- Seven of 40 (18%) reports selected for testing were not submitted timely. The reports were submitted two to 17 days late.
- Four of 40 (10%) reports selected for testing were not date stamped when received. As a result, auditors could not determine if the reports were filed timely.
- Three of 40 reports selected for testing were not actually complete reports. In these instances, the reports were filed electronically. Auditors noted the reports were either unable to be opened because the file was corrupted, or the email submission lacked the report attachment.
- Two of 40 reports selected for testing omitted pertinent information about nonemployees who were paid for construction services performed. Missing information included names, addresses, FEINs, amounts paid, and/or services rendered.

In testing of reports the Department determined to be incomplete, auditors noted the following:

- The Department was unable to provide a copy of the letter sent to the contractors who filed incomplete reports in all six instances tested.
- In addition, the Department did not assess penalties for incomplete submissions, as

authorized by the Act. Further, the Department did not refer the matters to an administrative law judge to schedule a formal hearing in accordance with the Illinois Administrative Procedure Act (5 ILCS 100/10).

Department personnel stated the reports were inaccurate, incomplete, and late due to oversight by the responsible personnel.

Updated Response: Accepted and Implemented. The reporting requirement provision of the ECA (Sec. 43) took effect during a period of time in which the Department was experiencing complete executive and managerial turnover. The prior administration did not implement procedures or controls to ensure adequate compliance with the new provision. When the Department's current administration learned of these inherited conditions, the Department took steps to remedy these deficiencies including legislative and administrative solutions such as requiring submissions to be filed with the Department electronically, and moving the reporting deadline to April 30^{th}, after the tax filing season. The Department has established procedures and controls to review submissions and to keep records of outgoing correspondence in relation to the administration and enforcement of the ECA. The Department will continue to make every effort to ensure compliance with the administration and enforcement of the ECA.

12. Carefully and timely review travel vouchers to ensure accuracy and reasonableness of reported information prior to payment and that vouchers are reviewed to ensure all applicable Department policies are met. Periodically remind all employees of the allowable lodging rates set forth in the travel regulations. Lastly, obtain reimbursement from the employee that was overpaid. (Repeated-2007)

Finding: The Department did not exercise adequate controls over its travel expenditures. Auditors noted the following:

- Four of 40 vouchers tested, totaling $831, were not properly signed and/or dated by the traveler's immediate supervisor.
- Nine of 40 (23%) vouchers tested, totaling $699, contained direct billed expenses that were not properly itemized on the voucher.
- Two additional vouchers selected for testing, totaling $328, were not submitted timely by the traveler. In these instances, the vouchers were submitted four and 31 days late.

During the prior examination, Department personnel stated the Department's goal was to process travel expenditures in a timely manner, but staffing shortages made this an ongoing challenge. During the current examination, Department personnel stated the issues noted were due to staffing shortages and a lack of general oversight of travel.

Accepted or Implemented – continued

Updated Response: Accepted and Implemented. When the Department's current administration learned of the underlying causes and conditions it inherited relating to travel expenditures, the Department took steps to improve oversight and control of travel vouchers. The Department circulated the "Travel Guide for State of Illinois Employees" to all Department staff and all employees were required to acknowledge their receipt of the policy. Additionally, IDOL has designated a Travel Coordinator for the agency. The Travel Coordinator periodically reviews vouchers and advises on compliance with travel policies. Finally, after increasing fiscal staff levels, the Department's fiscal section has implemented increased oversight and scrutiny of travel vouchers. It is the intention of the Department to ensure accuracy and reasonableness of travel claims prior to payment and to comply with all applicable rules and policies regarding travel.

13. Maintain and keep documentation for all leaves of absence as required.

Finding: The Department did not maintain adequate documentation to substantiate employee leaves of absence.

Auditors selected a sample of five employees who took leaves of absence during the examination period. Between the five employees included in the sample, a total of eight leaves of absence were tested. Auditors noted the following:

- The Department was unable to provide a leave of absence authorization or any other documentation to support the leave of absence status for four of eight (50%) leaves of absence tested. As a result, auditors were unable to determine whether the employees were removed from payroll during the correct time period or if the Department of Central Management Services was contacted and voluntary payroll deductions were properly handled.
- The Department was unable to determine leave of absence dates or provide leave of absence support for two of eight (25%) leaves of absence tested.

Department personnel stated documentation for the leaves of absence was not maintained due to oversight.

Updated Response: Accepted and Implemented. The previous administration did not create and/or maintain the paperwork for the leaves of absence tested. The Department's current administration and human resources staff are creating and maintaining appropriate documentation of all personnel transactions, including leaves of absence.

14. Properly monitor all grant agreements to ensure required reports are filed by the grantee and reviewed. Ensure that unused grant funds are returned within 45 days of the end of the grant period. Further, ensure all contract documents are signed before submission to the State Comptroller's Office.

Finding: The Department did not adequately monitor and exercise appropriate controls over grant agreements. The Department received an appropriation totaling $20,000,000 in FY15 for grants to State and local agencies and community providers for at-risk community support programs, after school programs, and youth employment opportunities. The Department then entered into two intergovernmental grant agreements with the Department of Human Services (DHS) and the Department of Commerce and Economic Opportunity (DCEO) for $6,500,000 and $5,000,000, respectively, for grants to community providers for the purposes described above.

The Department, in consultation with DHS, also executed agreements to distribute a total of 35 grants, totaling $8,114,642, directly to community providers. However, in January 2015, all grant funds were stopped for additional review under a directive from the Governor's Office. After this review, 20 of the 35 grants, totaling $763,616, were released by the Department.

Auditors noted the Department did not receive all of the documentation from DHS or DCEO necessary to properly monitor the intergovernmental grant agreements, to ascertain the degree to which program goals were met, or to ensure the monies spent by DHS and DCEO were, in fact, from the amounts the Department gave them for these purposes. Both of the intergovernmental grant agreements required DHS and DCEO to provide the Department with a final report upon expiration of the agreements on expenditures associated with managing and administering the programs. The Department could not locate documentation substantiating that these final reports were received.

In addition, for both of the intergovernmental grant agreements, the Department could not locate documentation substantiating the funds not expended or obligated by June 30, 2015 were returned to the Department within 45 calendar days as required by the Illinois Grant Funds Recovery Act.

Also, for the grants awarded by the Department directly to community providers, auditors noted deficiencies in the records maintained and/or prepared by the Department as follows:

- For one of 10 grants tested, with released amounts of $184,179, the Department could not locate all documentation substantiating Expenditure Documentation Forms (EDFs) were submitted by the grantees on a monthly basis to report all grant expenditures.
- Contract Obligation Documents (C-23s) prepared for six of 10 (60%) grants tested, totaling $1,693,544, did not contain evidence of approval by Department personnel before they were submitted to the Office of the State Comptroller.

Department personnel stated that historically, grant administration and monitoring have not been a part of the Department's responsibilities and thus, procedures and mechanisms had not been established by preceding administrations to ensure that grants were administered properly. Senior management and staff turnover also contributed to the lack of information regarding the grants being communicated to incoming management and staff.

Updated Response: Accepted and Implemented. Historically, grant administration and monitoring have not been a part of the Department's statutory responsibilities, and thus, prior administrations established no procedures or mechanisms to ensure that the grants

Accepted or Implemented – concluded

were administered properly. Consequently, this lack of established procedures and mechanisms fostered an inadequate transition as the current administration did not receive any information regarding the status of these grants from the prior administration.

Furthermore, in CY 2015, the Department experienced complete turnover at the executive level and complete turnover at every level of the fiscal section, including the departure of the Department's Chief Fiscal Officer (CFO). Despite finding inadequate historical documentation, the new CFO and fiscal staff, at the direction of the new Director, acted quickly to establish better controls and documentation practices and to meet reporting requirements going forward.

The grant to the Department was apparently a unique action, which is not likely to recur. If the Department is given such responsibilities over grants in the future, the current administration will be prepared to employ proper fiscal controls and monitoring. The Department intends to monitor all future grant agreements and ensure the proper contractual and reporting requirements are completed.

Emergency Purchases

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

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

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

During FY14 and FY15, the Department filed no affidavits for emergency purchases.

Headquarters Designations

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

As of July 2015, the Department had 13 employees assigned to locations other than official headquarters.

APPENDIX A

Selected Activity Measures

	FY15	FY14	FY13
Public Employee Safety			
Actual public workplace related fatality rate	*	10.0	**
Number of accidents on amusement equipment	*	26.0	**
Number of amusement ride inspections for public safety	*	3,790	**
Number of inspections/visits for occupational safety	*	1,152	**
Fair Labor Standards			
Number of cases filed for enforcement by the Department and Fair Labor Standards enforcement	*	5,102	**
Amount of money collected on behalf of workers	*	$ 7,856,000,000	**

***** The Department did not submit service efforts and accomplishments data to the Office of the State Comptroller for Fiscal Year 2015.

** Metrics used to measure the Department's performance were modified for the Fiscal Year 2014 reporting period. Data for Fiscal Year 2013 for the new reporting categories was not available.

REVIEW: 4470
ILLINOIS DEPARTMENT OF LABOR
TWO YEARS ENDED JUNE 30, 2015

APPENDIX B

Summary of Appropriations and Expenditures

Appropriations	FY15	FY14	FY13
General Revenue Fund	$ 26,204,342	$ 6,741,500	$ 6,316,500
Amusement Ride and Patron Safety Fund	230,800	-	-
Child Labor Enforcement Trust Fund	604,800	607,500	586,700
Employee Classification Fund	275,800	137,700	48,000
Federal Projects Fund	2,000,000	2,000,000	1,590,100
Federal Industrial Services Fund (OHSA)	3,000,000	3,000,000	3,000,000
Wage Theft Enforcement Fund	205,500	148,800	30,000
TOTAL APPROPRIATIONS	**$ 32,521,242**	**$ 12,635,500**	**$ 11,571,300**
Expenditures - General Revenue Fund			
Personal services	$ 5,297,504	$ 4,712,286	$ 4,564,191
Retirement, State	389,311	345,557	333,512
Contractual services	252,912	281,730	360,567
Travel	68,676	88,304	87,372
Commodities	2,653	7,675	11,086
Printing	286	2,403	10,490
Equipment	-	1,229	1,451
EDP	1,571	6,000	31,452
Telecommunications	58,026	67,307	124,735
Operations of Auto Equipment	80	671	-
Awards and Grants	12,263,616	-	-
Other purposes	-	-	1,369
Employee Classification Act	-	-	311,945
Total General Revenue Fund	$ 18,334,635	$ 5,513,162	$ 5,838,170
Amusement Ride and Patron Safety Fund	13,754	-	-
Child Labor Enforcement Trust Fund	421,426	426,471	447,381
Employee Classification Fund	41,001	-	-
Federal Projects Fund	924,939	1,103,008	1,483,409
Federal Industrial Services Fund (OHSA)	1,611,858	1,717,900	1,742,893
Wage Theft Enforcement Fund	121,391	-	-
TOTAL EXPENDITURES	**$ 21,469,004**	**$ 8,760,541**	**$ 9,511,853**

REVIEW: 4470
ILLINOIS DEPARTMENT OF LABOR
TWO YEARS ENDED JUNE 30, 2015

APPENDIX C

Summary of Property and Equipment

	FY15	FY14
Beginning Balance, July 1	**$ 902,308**	**$ 859,769**
Total Additions	75,153	43,006
Deduct - Deletions	-	(467)
Net Transfers	-	-
Ending Balance, June 30	**$ 977,461**	**$ 902,308**

APPENDIX D

Comparative Summary of Cash Receipts

General Revenue Fund	FY15	FY14	FY13
Private employment agencies inspection fees	$ 73,225	$ 89,105	$ 94,024
Carnival-amusement ride inspection fees	-	80,855	257,964
Carnival-amusement ride fines	-	5,000	6,250
Nurse agencies	51,250	60,000	58,250
Miscellanous	1,556,901	4,975	72,993
Civil penalties	-	250	4,000
Fines and penalties	278,996	505,233	256,977
Pollution control fines	-	130	-
Total, General Revenue Fund	$ 1,960,372	$ 745,548	$ 750,458
Amusement Ride and Patron Safety	**89,985**	**51,680**	**-**
Department of Labor Special State Trust Fund	**384,841**	**1,048,076**	**2,179,572**
Child Labor Enforcement Trust Fund	**569,783**	**542,375**	**507,750**
Employee Classification Fund	**43,879**	**65,982**	**153,896**
Federal Projects Fund	**880,977**	**1,020,145**	**1,571,710**
Industrial Services Fund (OSHA)	**1,579,700**	**1,196,000**	**1,779,598**
Wage Theft Enforcement Fund	**47,545**	**53,019**	**84,299**
Total Cash Receipts	**$ 5,557,082**	**$ 4,722,825**	**$ 7,027,283**