LEGISLATIVE AUDIT COMMISSION

Review of
Department of Labor
Two Years Ended June 30, 2017

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REVIEW: 4496
ILLINOIS DEPARTMENT OF LABOR
TWO YEARS ENDED JUNE 30, 2017

FINDINGS/RECOMMENDATIONS - 14
ACCEPTED - 2
ACCEPTED AND PARTIALLY IMPLEMENTED - 6
IMPLEMENTED - 6

REPEATED RECOMMENDATIONS - 12

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 14

This review summarizes the report on the Illinois Department of Labor for the two years ended June 30, 2017, filed with the Legislative Audit Commission February 14, 2019. 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, Private Employment Agency Act, Nurse Agency Licensing Act, and Whistleblower laws. Since FY14, the Department has not filed service efforts and accomplishments with the State Comptroller on activities the Department performs concerning workplace safety, amusement ride safety, or Fair Labor Standards enforcement.

The Department of Labor had two directors and one acting director during the audit period of July 1, 2015 through June 30, 2017. Hugo Chaviano served as director from 7/1/15-1/16/17. Anna Hui was appointed Acting Director from 1/17/17-4/16/17. Then Joseph Beyer served first as Acting Director from 4/17/17-4/23/18 and then as director from 4/24/18-1/21/19. Michael Kleinik was appointed director effective January 22, 2019 and still serves in that position. Director Kleinik's professional career includes a long tenure in law enforcement, including Sheriff of Fayette County, 15 years of service with the Laborers' union, and Executive Director of the Medical Cannabis Alliance of Illinois.

The Department had 83 full-time employees in FY17.

Expenditures from Appropriations

Appendix A summarizes appropriations and expenditures for the period under review. The General Assembly appropriated $6.6 million in FY17 and $5.6 million in FY16 to the Department. Total expenditures for the Department exceeded appropriations in both FY17 and FY16 by $2.1 million and $3.4 million, respectively. Significant variations in expenditures between FY17, FY16, and FY15 were due primarily to the Budget Impasse and changes in staffing levels within the Department. In FY15 the Department received a $20 million grant to fund at-risk community support programs, after school programs, and youth employment opportunities.

During FY16, the Department operated without enacted appropriations until PA99-0409 and PA99-0524 were signed into law on August 20, 2015, and June 30, 2016, respectively. During the Impasse, the Circuit Court of St. Clair County in *AFSCME Council 31 v. Munger* ordered the Comptroller to draw and issue warrants for wages of State employees at their normal rates of pay. The Department incurred non-payroll obligations which the Department was unable to pay until the passage of the aforementioned public acts. Public Act 99-0524 also authorized the Department to pay FY16 costs using the Department's FY17 appropriations for non-payroll expenditures. In addition, Public Act 100-0021 authorized the Department to pay its unpaid FY16 and FY17 costs using either the Department's FY17 or FY18 appropriations for non-payroll expenditures.

- The Department paid 122 invoices from FY16 totaling $58,632 from FY17 appropriations; and
- The Department expected to pay 14 invoices from FY16 totaling $52,935 from FY18 appropriations.

Other key highlights include:

- During FY16, the Department incurred $600 in Prompt Payment Interest for 20 invoices from two vendors.
- The Department and its vendors did not participate in alternative financing in lieu of enacted appropriations involving the Illinois Finance Authority during FY16.
- None of the Department's vendors participated in the Vendor Payment Program (VPP) or the Vendor Support Initiative Program (VSI) during FY16.

In FY17, the Circuit Court of St. Clair County in *AFSCME Council 31 v. Munger* ordered the State Comptroller, in the absence of enacted annual appropriations, to "draw and issue warrants accomplishing payment of wages for [all State employees] at their normal rates of pay." As the Department never received enacted personal services appropriations, the Department was able to submit vouchers to pay its employees in full without a maximum expenditure limit for personal service costs. With the passage of the aforementioned Public Acts,

- The Department paid 1,802 invoices from FY17 totaling $8,719,944 from FY17 appropriations; and
- The Department expected to pay 13 invoices from FY17 totaling $10,670 from FY18 appropriations.

Other key highlights include:

- During FY17, the Department incurred $2,266 in Prompt Payment Interest for 79 invoices from 18 vendors.
- The Department and its vendors did not participate in alternative financing in lieu of enacted appropriations involving the Illinois Finance Authority during FY17.
- None of the Department's vendors participated in the Vendor Payment Program (VPP) or the Vendor Support Initiative Program (VSI) during FY17.

In both FY16 and FY17 the Department did not perform all reconciliations and update expenditure records as required. As a result, expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the State Comptroller's records as of September 30, 2017 for FY17 and August 31, 2016 for FY16. See finding No. 4 for more details.

Property and Equipment

Appendix B provides a summary of property and equipment for FY17 and FY16. Property and equipment, for which the Department was accountable, increased from $978,153 as of July 1, 2015 to $1,257,540 as of June 30, 2017. In FY16, the Department's additions were $236,717, which accounted for the majority of the increase in FY16 and FY17. 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 C summarizes cash receipts of the Department for the last three fiscal years. Cash receipts were $4,261,396 in FY17 compared to $4,461,923 in FY16, a decrease of $200,527, or 4.5%. Other changes from FY16 to FY17 were as follows:

- The Federal Industrial Services Fund decreased $360,408, or 21%, due to fewer staff working on projects paid with federal grants.
- Fines and penalties decreased from $246,000 to $88,700, or 64%. This line item varies from year to year based on the number of violations noted and the varying fines and penalties assessed for each type of violation.
- The Wage Theft Enforcement Fund decreased from $166,000 to $84,000, or 49%, due to fewer claims filed and unsettled claims that were referred to the Attorney General for legal action, which lengthens the expected time period for the Department to receive payment.

In FY16, cash receipts decreased $1.1 million, or 19.7%, due to a decrease in miscellaneous receipts within the General Revenue Fund. During FY15, receipts totaling $880,932 were transferred from the Department's Special State Trust Fund and recorded in the General Revenue Fund. These monies were collected on behalf of workers who were not paid properly in accordance with the minimum wage laws. However, the workers could not be located and paid by the Department timely. The Minimum Wage Law requires these monies to be deposited in the General Revenue Fund if the workers cannot be located within one year of collection. No large transfers were performed during FY16; however, the Department sent significant funds to claimants in FY16, and according to the Office of the Comptroller, the Fund had a cash balance of $1.4 million at the end of FY17.

Accountants' Findings and Recommendations

Condensed below are the 14 findings and recommendations presented in the compliance report. There were 12 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 August 8, 2019.

Accepted or Implemented

1. Develop and maintain internal controls over receipts to ensure the timely collection of revenues and adequate documentation is maintained and readily available for all transactions. In addition, ensure accounting records reside within a system capable of generating reports, providing detailed records and balances, and producing transaction listings, which are timely reconciled to the State Comptroller's records. As a part of this reconciliation, investigate any discrepancies. Further, timely establish receivables and initiate collection for NSF checks. Finally, ensure the Annual Report is complete and accurate and filed timely with the State Comptroller. (Repeated-2005)

Finding: The Department of Labor (Department) did not exercise adequate control over its cash receipts and related reporting. According to the State Comptroller's records, the Department remitted $9,836,323 to the State Treasury during the examination period.

Four of the 10 conditions auditors noted during testing, were as follows:

- The Department was unable to provide individual receipt records for the General Revenue Fund, Amusement Ride and Patron Safety Fund, Department of Labor Special State Trust Fund, Child Labor and Day and Temporary Labor Services Enforcement Fund, Employee Classification Fund, and Wage Theft Enforcement Fund which reconciled to the *Monthly Revenue Status Report* (SB04) from the Office of the State Comptroller.

Auditors noted this condition was primarily due to the computer program used by the Department to process receipts, which was outdated and not fully functional. As such, it is difficult for Department staff to track receipts after entry, produce reports of receipts collected, or sort data stored within the system.

- While the Department's monthly reconciliations of the SB04 reports agreed between the Department's Receipt Deposit Transmittal (Form C-64) reports and the Comptroller's records, auditors noted the Form C-64s did not reconcile with the Department's individual receipt records.

Due to these conditions, auditors were unable to conclude whether the Department's records were precise and detailed to test receipts. In addition, due to these limitations, auditors were unable to conclude whether the Department's *Schedule of Cash Receipts and Reconciliation Schedule of Cash Receipts to Deposits Remitted to the Comptroller* was complete and accurate.

- Fourteen of 60 (23%) receipts tested, totaling $19,965, were deposited 3 to 198 days late, even after allowing for the Department's 10-day deposit extension granted by the State Comptroller and State Treasurer.

- The Department omitted fees related to private employment counseling from its Fiscal Year 2016 Report Agency Fee Imposition Report. $17,345 should have been reported by the Department for this fee.

During the prior examination, Department officials indicated fiscal staff turnover and a lack of staff limited the Department's ability to comply with applicable State laws, rules, and regulations. During the current examination, Department officials indicated similar conditions continued to exist impeding efforts to ensure its receipts are properly recorded and reported.

Response: Accepted. The NSF check controls have been corrected with staff as of July 2017. The new ERP system will correct issues with reports containing detailed records and balances.

Updated Response: Partially Implemented. The Department is working to develop uniform procedures for check processing between its Chicago and Springfield offices to eliminate internal control deficiencies in receipts. Past levels of staffing in the fiscal division have limited the Department's ability to comply with applicable laws, rules, and regulations. The Department is adding fiscal staff to both Springfield and Chicago. Additional staff will be essential to correcting this finding. The Department has a goal of eliminating the control deficiencies identified by December 31, 2019. The Department has implemented ERP, which provides detailed records and balances. Reports generated by ERP are reconciled to the Comptroller's records monthly. Timely establishment of receivables and collection for NSF checks will be provided for in an accounts receivable process which is being developed currently (see finding 2017-002). The Department has submitted the Fee Imposition Report timely and accurately since the release of this audit.

2. Take action to ensure accounts receivable are properly recorded, collection efforts are made, and accounts receivable reports are properly prepared in accordance with all applicable laws, rules, and regulations. (Repeated-2005)

Accepted or Implemented - continued

<u>Finding:</u> The Department did not exercise adequate control over its accounts receivable and related reporting. At June 30, 2017, the Department's *Aging of Total Gross Receivables* (Form C-98) reported $2.158 million in total gross receivables.

During testing, four of the 14 conditions auditors noted were as follows:

- The Department was unable to provide detailed individual accounts receivable records for the General Revenue Fund, Child Labor and Day and Temporary Labor Services Enforcement Fund, Employee Classification Fund, and Wage Theft Enforcement Fund.

- During analytical reviews, auditors noted the Department reported the same outstanding accounts receivable balance throughout FY16, with no adjustments, additions, or collections. In following up on this matter with Department officials, they indicated a former employee carried over the prior year's accounts receivable amount for all funds and all quarters during FY16 because the Department did not have any reports available to produce accurate additions and collections amounts.

- The Department was unable to provide an aging schedule to support its Form C-98s.

- The Department could not provide support for the following:
    - additions, totaling $715,000, from three different funds during three separate quarters during FY17;
    - collections, totaling $101,000, from four different funds during three separate quarters during FY17; and
    - adjustments, totaling $880,000, from two different funds during the first quarter of FY17.

Due to these conditions, auditors were unable to conclude whether the Department's records were precise and detailed to test the accounts receivable and conclude whether selected samples were representative of the population as a whole.

During the prior examination, Department officials indicated fiscal staff turnover and a lack of transition documentation limited the Department's ability to comply with applicable State laws, rules, and regulations. During the current examination, Department officials indicated similar conditions continued to exist impeding efforts to ensure its accounts receivable are properly recorded and reported.

<u>Updated Response:</u> Accepted. The Department accepts the auditor recommendation and is working to develop a system for accurate tracking and recording for accounts receivables. The Chief Financial Officer has held meetings with division heads to review requirements related to reporting of accounts receivable. Division staff are working to establish current, correct number and dollar amount of receivables as of July 1, 2019 and will track appropriately going forward.

3. Take action to ensure:

- **supporting documentation is obtained and preserved, along with the posting of proper accounting entries, when receipts for unclaimed wages are collected and remitted into the Special State Trust Fund (Fund 251);**
- **a notation within the Department's records is made to indicate amounts collected pursuant to the Wage Payment and Collection Act (WPCA) or the Minimum Wage Law (MWL) when receipts are collected and remitted into Fund 251;**
- **claimant claims are promptly processed and paid, along with the posting of proper accounting entries, when distributed from Fund 251;**
- **reconciliations of the total amount due to claimants at the end of each month to the *Monthly Cash Report* (SB05) report are performed and any unreconciled discrepancies are investigated and properly resolved;**
- **amounts due to claimants older than one year under the MWL are promptly transferred to the General Revenue Fund, with the timely posting of proper accounting entries; and**
- **amounts due to claimants under the WPCA are properly handled under the relevant provisions of the Revised Uniform Unclaimed Property Act (RUUPA), with the timely posting of proper accounting entries. (Repeated-2007)**

Finding: The Department failed to establish and maintain adequate control over its Special State Trust Fund (Fund 251), which holds unpaid wages due to employees. As of June 30, 2017, Fund 251 had $1,402,480 in cash.

Pursuant to the Illinois Wage Payment and Collection Act (WPCA), the Department collects, when necessary, an employee's wages or final compensation due and holds these moneys until the employee (now, claimant) can be located by the Department and properly paid. Additionally, pursuant to the Minimum Wage Law (MWL), the Department collects, when necessary, unpaid minimum wages and overtime due to employees and holds these moneys until the employee (now, claimant) can be located by the Department and properly paid. Finally, the Statewide Accounting Management System (SAMS) notes fiduciary funds account for assets held by a governmental unit in a trustee capacity or as an agent for individuals and SAMS notes Fund 251 is an agency type of fiduciary fund.

Auditors noted the following problems during testing:

- 32 of 60 (53%) claimant payment requests tested, totaling $127,119, were approved for payment between 14 to 334 days after the claimant filed their claim with the Department.

The WPCA requires the Department pay valid claims upon request from the claimant. The Department has not adopted administrative rules regarding the amount of time needed to

Accepted or Implemented - continued

reasonably process a claim. Auditors considered the WPCA's requirement for all wages due to employees be paid within 13 days of the end of a payroll period under the WPCA to be a reasonable period of time to process these claims and present a voucher for payment to the State Comptroller.

- Auditors were unable to reconcile the Department's ledger of claimants to the Fund 251's cash balance from the *Monthly Cash Report* (SB05) prepared by the Office of the State Comptroller. Auditors noted unreconciled differences of $73,346 and $75,377 at June 30, 2016, and June 30, 2017, respectively.

- At June 30, 2017, the Department held claimant balances as far back as Calendar Year 2003 activity. Each of these balances require a proper disposition by the Department.

During the prior examination, Department officials indicated fiscal staff turnover and a lack of transition documentation limited the Department's ability to comply with applicable State laws, rules, and regulations. During the current examination, Department officials indicated similar conditions continued to exist impeding efforts to ensure Fund 251's transactions were properly recorded and reported.

Response: Accepted. The Department has control over the Special State Trust Fund current payments. The Department is still working to resolve differences in fund balances and electronic records in the time frame of 2003 to September 2016. DOL is working to transfer some accounts to the State Treasurer with proper documentation if the funds have been on DOL books for five years.

Updated Response: Accepted. The Department is in the process of reconciling the fund balance in fund 251 to claimants owed. Once claimants owed, and the aging and type of monies owed, are identified, the Department will work with the State Treasurer to transfer abandoned property to their office. The Department anticipates completing this process by the end of FY20. Additionally, the Department is working to develop a reconciliation process that will occur monthly and will identify unpaid claimants by month. Fiscal staff will investigate unreconciled differences and outstanding payments to claimants monthly. This reconciliation will allow the Department to develop an aging schedule of all claims and transfer unpaid monies timely to either the State Treasurer or to GRF, dependent upon the type of claim.

4. Take action to ensure timely preparation of adequate and accurate reconciliations of accounting records to the Comptroller's records each month and investigate and resolve all discrepancies. (Repeated-2007)

Finding: The Department did not perform adequate and accurate reconciliations during the examination period. Auditors noted discrepancies with the Department's reconciliations of its activity against the *Monthly Appropriations Status Report* (SB01), the Non-Shared

Funds *Monthly Cash Report* (SB05), the *Agency Contract Report (*SC14), and the *Obligation Activity Report* (SC15).

Eleven of the 19 conditions auditors noted were as follows:

- The Department did not prepare any reconciliations of its records to the SB01 prepared by the Office of the State Comptroller during FY17. As a result, auditors could not examine 135 of the 227 (59%) SB01 reconciliations the Department should have performed.

- For the 92 SB01 reconciliations the Department should have performed during FY16, auditors noted:
    - 6 were not prepared by the Department;
    - 57 were performed between 10 and 198 days late;
    - 11 were incorrectly altered by the Department;
    - 2 were not signed or dated by the preparer, so auditors were unable to determine the reconciliation was prepared timely; and
    - 1 was improperly reconciled, as the ending reconciled balance was understated by $444,367.

- During the comparison of the Comptroller's expenditure records to the Department's expenditure records, auditors noted the following:
    - Eight vouchers, totaling $123,028, were reversed or voided within the Comptroller's records, but were not reversed or voided in the Department's records;
    - Four vouchers, totaling $7,928, were reversed or voided within the Department's records, but were not reversed or voided in the Comptroller's records;
    - Twelve vouchers, totaling $170,250, were included within the Comptroller's records, but did not appear within the Department's records; and
    - Twenty-two vouchers, totaling $35,821, were included within the Department's records, but did not appear within the Comptroller's records.

- The Department did not prepare 120 of 168 (71%) SB05 reconciliations for the Amusement Ride and Patron Safety Fund, Department of Labor Special State Trust Fund, Child Labor and Day and Temporary Labor Service Enforcement Fund, Employee Classification Fund, and Wage Theft Enforcement. The combined cash balance of those funds, according to the Comptroller's records, was $3,266,697 and $3,022,922 at June 30, 2016, and June 30, 2017, respectively.

Due to these conditions, auditors were unable to conclude whether the Department's records were sufficiently precise and detailed to test the Department's expenditures and contracts. Due to these limitations, auditors were unable to conclude the *Schedule of Appropriations, Expenditures, and Lapsed Balances* (Appx A) was complete and accurate.

During the prior examination, Department officials indicated fiscal staff turnover and a lack of staff limited the Department's ability to comply with applicable State laws, rules, and

Accepted or Implemented - continued

regulations. During the current examination, Department officials indicated similar conditions continued to exist impeding efforts to ensure its reconciliations were adequate and accurate.

Response: Implemented. Reconciliations have been completed on a regular basis since July 1, 2018.

5. Strengthen controls over the recording and reporting of State property by reviewing inventory and recordkeeping practices to ensure compliance with State law. In addition, ensure all equipment is tagged as State property and accurately and timely recorded on the Department's property records. Further, maintain documentation of any equipment additions, deletions, and transfers. Finally, thoroughly review all reports prepared from records for accuracy and completeness prior to submitting the reports to external parties. (Repeated-2003)

Finding: The Department did not exercise adequate control over the accuracy, completeness, and timeliness of its State property records and related reporting.

During testing, auditors noted the Department did not maintain detailed documentation supporting its quarterly *Agency Report of State Property* reports (Form C-15) filed with the Office of the State Comptroller (State Comptroller). As June 30, 2017, the Department reported total property balances of $1,257,540.

Eight of 18 problems auditors noted were as follows:

- Auditors could not agree the addition and deletion reports to activity reported on the Department's quarterly property reports filed with the State Comptroller (Form C-15s). Auditors noted an unreconciled difference of $11,285.

- The Department's ending property balance reported on its fourth quarter Form C-15 for Fiscal Year 2015 did not agree with the beginning balance reported on its first quarter Form C-15 for Fiscal Year 2016. There was an unreconciled difference of $692.

- Auditors were unable to reconcile the Department's Form C-15s to the State Comptroller's *Object Expense/Expenditures Report* (SA02), as Department personnel were unable to provide any documentation to support amounts reported on its Form C-15s. Auditors noted unreconciled differences between the Form C-15s and the SA02s of $35,752 and $20,757 during FY16 and FY17, respectively.

- The Department could not provide its FY16 *Certification of Inventory* and *Discrepancy Report* which should have been filed with the Department of Central Management Services (CMS). As such, auditors were unable to determine if any discrepancies were noted during the annual inventory count and the risk of data exposure from missing or stolen data stored on items like computers, servers, and laptops.

- The Department's property listing was incomplete. For the 1,279 items on the listing,
    - the purchase date was not reported for 994 (78%) items;
    - a voucher number was not reported for 961 (75%) items;
    - the purchase price was not reported for 835 (65%) items; and,
    - the listing included 16 items which appeared to be missing or were not tagged with an equipment number.

Due to these conditions and limitations, auditors were unable to conclude whether the Department's records were sufficiently precise and detailed to test the Department's equipment. Due to these limitations, auditors were unable to conclude the Department's *Schedule of Changes in State Property* (Information used for Appx B) was complete and accurate.

During the prior examination, Department personnel indicated turnover within the fiscal staff and a lack of transition documentation limited their ability to comply with applicable law. During the current examination, Department personnel indicated similar circumstances continued to affect and impede their efforts to ensure property records were properly maintained.

Updated Response: Partially Implemented. A complete inventory has been completed yearly since 2017. All items requiring tags are tagged and accounted for. Beginning July 1, 2019, the Department is maintaining a separate schedule of additions and deletions, and all C-15 reports are reconciled to the Comptroller's SA02 report prior to submission. The Department is currently drafting a property control manual which will dictate proper inventory recording processes to be used in all Department offices. The addition of fiscal staff will further enable the Department to ensure accuracy of inventory records and reporting.

6. **Establish and maintain fiscal and administrative internal controls over personal services functions including:**
    - **timely performing performance evaluations in accordance with the Manual and the Code;**
    - **ensuring employees submit leave documentation in a timely manner;**
    - **ensuring employees obtain approval prior to working overtime;**
    - **maintaining complete and accurate personnel files, including correct Form C-25s and authorizations for deductions;**
    - **ensuring all employees timely complete ethics training and complete the associated attendance verification for retention by the Department;**
    - **ensuring payroll vouchers are prepared from and agree with all source documentation; and**
    - **ensuring all payroll vouchers are signed by an authorized person. (Repeated-2013)**

Accepted or Implemented - continued

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

- Auditors tested performance evaluations for 18 employees and noted:
  - six (33%) employees did not have annual performance evaluations during FY16 and FY17;
  - three (17%) employees requiring probationary performance evaluations did not have these evaluations performed during the examination period; and,
  - six (33%) employees' annual performance evaluations during FY16 and FY17 were completed between 67 and 621 days late.

- Leave requests for 12 of 18 (67%) employees tested were not properly approved in advance of the requested day off. Auditors noted 42 instances when leave time was approved between 1 and 40 days after the leave had occurred.

- The use of sick time was not post-approved within a reasonable amount of time for 11 of 18 (61%) employees tested, as requests were approved between 2 and 20 days after the sick leave occurred.

- Four of 12 (33%) employees tested with overtime submitted requests to work overtime between one to nine days after the date when overtime was first worked during the pay period.

- Three of 18 (17%) employees tested lacked documentation authorizing miscellaneous payroll deductions.

- Two of four (50%) employees hired during the examination period tested completed initial ethics training 268 and 556 days late.

- The Department failed to maintain sufficient internal records of its payroll voucher approvals. Proper authorization for payment was not documented on 30 of 34 (88%) payroll vouchers tested, totaling $2,510,691. For these vouchers, the supporting documentation maintained by the Department did not include the signed payroll voucher authorization and certification pages.

During the prior examination, Department personnel indicated adequate procedures and mechanisms were not established by preceding administrations to ensure timely submission of evaluations, approval of leaves, and other personal services functions. Further, senior management and staff turnover, in addition to a lack of resources, contributed to the inability to track, process, and follow up on personal services problems with supervisors. During the current examination, Department personnel indicated both oversight by the responsible staff and unfamiliarity with personal services procedures contributed to these problems.

Response: Accepted and Partially Implemented

- Accepted. Timely performance evaluations. HR sends supervisors a list of evaluation due dates at beginning of the year and periodic reminders.
- Accepted. Timely leave/OT requests. HR sends all DOL staff reminders semi-monthly to submit.
- Accepted. Complete correct personnel files. DOL endeavors to keep files updated.
- Implemented. Ethics training. The latest version of training has been added to the new hire packet. (It was sent to Ethics Officer but not to HR – so there was a delay initially.)
- Accepted. Ensuring payroll vouchers are prepared from and agree with all source documentation. Payroll is now verified from documents prepared by and compared to the payroll vouchers. When HR changes a rate, HR staff makes sure to keep documentation in the file. HR will continue to ensure records are kept up to date.
- Implemented. Payroll vouchers signed by authorized person. The Comptroller will not pay if the office does not receive the signed vouchers. DOL now keeps electronic copies of the signed pages.

Updated Response: Partially Implemented. The Department continues to remind supervisors of the importance of timely performance evaluations. The Department anticipates that all performance evaluations will be completed timely in FY20. All other recommendations in this finding have been implemented.

7. Review duties and responsibilities under the Employee Classification Act; ensure internal processes and procedures are designed to carry out the duties and responsibilities assigned to the Department under the Act, including ensuring untimely and/or incomplete reports are processed in accordance with the Act's provisions and affected employers receive a written notice of complaints filed; and, train all officials and employees involved in any element of carrying out the Department's duties and responsibilities under the Act on how to perform their specific function. Further, review administrative rules to ensure they are consistent with the Act. (Repeated-2015)

Finding: The Department did not ensure it fully enforced applicable provisions of the Employee Classification Act. The Act was intended to address the practice of misclassifying employees as independent contractors.

The Act requires every contractor to report all payments made to individuals, sole proprietors, and partnerships performing construction services if the recipient is not classified as an employee to the Department during the prior tax year annually by April 30.

Auditors selected 40 reports for testing, noting the Department deemed 31 reports were complete and 9 reports were incomplete. During testing, auditors noted the following:

- The Department did not assess penalties or schedule the case for a hearing before an administrative law judge for seven of the nine (78%) incomplete reports tested.

Accepted or Implemented - continued

- Five of the 31 complete reports were filed with the Department between one and 41 days late. One of the nine incomplete reports was filed with the Department 10 days late.

Department personnel indicated that these problems persisted due to oversight and error by responsible staff.

The Department did not exercise adequate control over its handling of complaints filed by interested parties. During testing, auditors noted the following:

- For two of five complaints tested, the Department provided notice in writing of the complaint to the affected employer within 120 days after it received the complaint. The employer was notified 52 and 108 days late.

- For one of five complaints tested, the Department was unable to provide documentation to substantiate a written notification letter was sent to the affected employer.

Department personnel indicated these problems were due to oversight and error by responsible staff.

The Department's rules have not been changed to reflect the passage of Public Act 099-0303, which was effective on August 6, 2015. Auditors noted the rule still requires contractors report all payments to the Department by January 31, rather than April 30, each year. Further, the Department's rule still indicates contractors may file their report electronically, while the statute requires electronic filing.

Department personnel indicated these problems were due to oversight and error by responsible staff.

Updated Response: Partially Implemented. The Department has reviewed its duties and responsibilities under the Act, and has ensured that internal processes and procedures are designed to carry out the duties under the Act. The Department will work to change its administrative rules to ensure consistency with the Act.

8. Establish an internal audit program headed by a chief internal auditor appointed by the Director in accordance with the Fiscal Control and Internal Auditing Act. Further, the timely review of internal fiscal and administrative controls, retain proper documentation of the review process, and file the annual certification with the Auditor General at the conclusion of the review process before May 1. (Repeated-2015)

<u>Finding:</u> The Department did not comply with the Fiscal Control and Internal Auditing Act.

During testing, auditors noted the following:

- The Department did not maintain an internal audit function. Specifically, the Department's Director had not appointed a chief internal auditor and the Department did not maintain a full-time program of internal auditing. As a result, the required two-year plan, identifying audits scheduled for the pending fiscal year, was not prepared, and no internal audits of Department functions were carried out during FY16 or FY17.

- The Department submitted its annual internal control review certification two days and 74 days late for FY16 and FY17, respectively.

- The Department was unable to locate supporting documentation for its Fiscal Year 2016 certification. Further, the Department did not maintain adequate evaluation methods and supporting documentation for its FY17 certification.

During the prior examination, Department personnel indicated an internal audit function was not established due to budget constraints. In addition, Department personnel were not fully aware of the requirements of the Act regarding the annual certification and the related required documentation. During the current examination, Department personnel indicated the Department continued to face budget constraints as well as turnover in the position responsible for carrying out the Act's certification process.

<u>Updated Response:</u> Implemented. In FY18, the Department has entered into an Intergovernmental Agreement in FY18 with CMS to conduct a review of its FCIAA checklist and perform all internal audit functions on behalf of the Department. CMS performed IDOL's internal audit in FY18 and FY19. FCIAA Certifications have been submitted timely since the release of the FY16 and FY17 audit report.

9. Carefully review travel vouchers to ensure:
- **direct billed expenses are properly itemized and reported;**
- **unusual travel activity is both reasonable and documented; and**
- **employees use the most economical mode of transportation available**. **(Repeated-2007)**

<u>Finding:</u> The Department did not exercise adequate internal control over its travel expenditures.

As noted in Finding 2017-004, auditors were unable to conclude whether the Department's population records were sufficiently precise and detailed to test the Department's expenditures.

Accepted or Implemented - continued

- During testing of the Department's top travelers' vouchers, auditors noted 18 of 220 vouchers tested did not itemize or report costs directly billed to the Department for rental vehicles or overnight lodging costs on the travel voucher. However, of these 18 noted vouchers, eight included invoices supporting the direct billed costs, totaling $1,570.

- During analytical reviews and other testing, auditors noted the following:

  - Three vouchers, totaling $1,139, included personal vehicle mileage reimbursements for $387 which did not appear reasonable. The travel voucher indicated the employee used public transportation or rode with other Department employees from their home or headquarters to the destination, but then used personal vehicles for the return trip. The Department lacked documentation to support why a personal vehicle was used for the return trip or if a State vehicle was requested for use during any portion of the trip.

  - Four vouchers, totaling $762, included personal vehicle mileage reimbursements for $664 for round trips of at least 160 miles where the Department did not have documentation indicating if either a State vehicle was requested for use during the trip or a rental car would have been a less costly option.

During the prior examination, Department personnel indicated the issues noted were due to staffing shortages and a general lack of oversight over travel. During the current examination, Department personnel indicated a lack of communication and training to individual staff and management oversight led to these problems.

Response: Implemented. CFO has reviewed and conducted training with fiscal staff on the Travel Policy and requirements for travel vouchers including how to properly analyze a voucher and educate travelers on the policy and have them correct errors.

Updated Response: Implemented. All travel vouchers are audited by both the Account Technician II and the CFO prior to approving them for payment. Recurring travel voucher issues are addressed on an agency-wide basis.

10. Implement procedures to ensure complete and accurate information is reported to the Comptroller on the Department's annual Grant/Contract Analysis (Form SCO-563).

Finding: The Department did not ensure its federal grant activity was accurately reported to the Office of the State Comptroller.

During testing of the two funds where the Department reported federal activity during FY17, auditors noted the following inaccurate reporting on the *Grant/Contract Analysis* (Form SCO-563):

- The Department overstated expenditures by $75,000 in the Department of Labor Federal Projects Fund.
- The Department understated expenditures by $33,000 in the Federal Industries Services Fund.

Department personnel indicated these problems were due to staff error.

Updated Response: Implemented. The Department has provided accurate information to its GAAP preparation firm to ensure accurate reporting of federal grant expenditures.

11. Develop a plan that addresses the computer systems and update the plan at least annually or when significant changes occur. In addition, the Department should perform and document tests of its plan at least once a year. (Repeated-2015)

Finding: The Department had not developed a comprehensive disaster recovery plan or performed testing during the examination period. In addition, the Department had not conducted disaster recovery testing.

During the prior examination, Department personnel indicated a lack of staff and resources were challenges to complying with these requirements. During the current examination, Department personnel indicated the disaster recovery plan was not developed due to a lack of staff and time.

Updated Response: Implemented. The Department updated its Information Systems Resiliency Plan to comply with DoIT policies and procedures. Additionally, the Information Systems Cyber Resiliency Test, Training and Exercise Plan was implemented on April 27, 2018. Annual testing was completed in February of 2019.

12. Ensure records are disposed of only after (1) the retention period has expired and (2) the Department obtains approval for the destruction from the Chair of the State Records Commission in accordance with the Illinois Administrative Code. Additionally, the Department should ensure all investigators sign their written report.

Finding: The Department lacked adequate internal control over its investigations pursuant to the Private Employment Agency Act and did not comply with the State Records Act.

Accepted or Implemented - continued

During testing of 23 cases, auditors noted the following:

- Nineteen (83%) investigation reports were not retained by the Department. Auditors were unable to test compliance with the requirements of the Act.

- Two (9%) investigation reports were not signed by the investigator.

Department personnel indicated these exceptions were due to oversight.

Response: Accepted. The Department has established a procedure to ensure that records are maintained and accessible for the duration of the retention period. In addition, the Department will ensure that all investigators sign their written reports. The position responsible for managing the records under the Private Employment Agency Act is now filled with a dedicated, full-time staff member and all relevant information has been communicated to the employee.

Updated Response: Implemented. The Department is following the established procedure to ensure that records are maintained and accessible for the duration of the retention period. All written reports are being signed by the dedicated, full-time staff member responsible for the investigations.

13. Implement controls to ensure all reports required to be produced by the Department are complete, accurate, supportable, and filed with the appropriate parties in a timely manner. Further, prepare and submit a corrected Agency Workforce Report for FY13, FY14, FY15, and FY16 to the Governor and the Secretary of State within 30 days from the release of this report, as required by the Illinois State Auditing Act. (Repeated-2015)

Finding: The Department did not comply with certain procedural requirements established by State laws, rules, and regulations.

Agency Workforce Report

During testing, auditors noted the Department did not include complete and accurate information on its annual Agency Workforce Report for both FY15 and FY16, filed with the Office of the Governor and the Office of the Secretary of State during FY16 and FY17, respectively. The errors noted included the following:

- The FY15 report contained five instances and the FY16 report contained two instances where the reported amounts and percentages were not mathematically accurate.

- The FY15 report contained six instances and the FY16 report contained two instances where the Department failed to fill in a required element of the report.

- The Department did not report information on its open positions on both reports.

- The Department was unable to provide documentation to support its FY15 and FY16 reports were complete and accurate.

- The Department failed to file amended versions of its reports for FY13 and FY14 with the Governor and the Secretary of State after this recommendation was reported in the Department's last compliance examination report.

<u>Annual Public Accountability Report</u>

During testing, auditors noted the Department did not prepare and file its annual Public Accountability Report for both FY15 and FY16, with the Office of the State Comptroller (Comptroller) during FY16 and FY17, respectively.

The Statewide Accounting Management System requires the Department to provide information on its service efforts, accomplishments, and costs to the Comptroller as part of its annual fiscal year-end reporting package by October 15.

<u>Semi-Annual Travel Headquarters Report (Form TA-2)</u>

During testing, auditors noted three of four TA-2s forms were filed with the Legislative Audit Commission between 166 and 532 days late.

<u>Annual Agency Invoice Report</u>

During testing, auditors noted the Department did not prepare and file its annual Agency Invoice Report for FY16 with the Comptroller.

At the time, the State Finance Act required the Department to annually report the aggregate dollar value of bills held at the Department on June 30 to the Comptroller by October 15. Effective January 1, 2018, this report was modified to be a monthly report from the Department to the Comptroller.

During the current examination, Department personnel indicated the reports described above were inaccurate, incomplete, and late due to turnover within the Department, unfamiliarity with the statutory requirements, and a lack of communication during the time of the staffing change.

<u>Response:</u> Accepted and Partially Implemented.

Accepted or Implemented - continued

- Accepted. Annual Agency Workforce Report. The Department will prepare and submit corrected Workforce Reports for FY15 and FY16 to the Governor and the Secretary of State within 30 days from the release of the Audit Report, as required by law. Prior administrations did not maintain adequate records for FY13 and FY14.
- Implemented. Annual Public Accountability Report. Reports are now noted and reported timely.
- Implemented. Semi-Annual Travel Headquarters Report (Form TA-2). Reports are now noted and reported timely.
- Implemented. Annual Agency Invoice Report. Reports are now noted and reported timely.

Updated Response: Partially Implemented. The Department filed corrected Agency Workforce Reports for 2015 and 2016 and has timely filed the TA-2 report. The remaining required reports noted in the finding will be prepared and filed timely beginning with the most recent upcoming submissions.

14. Ensure equipment acquisitions are properly recorded, in conjunction with processing the related vouchers; track and periodically review interest amounts owed to vendors and authorize payment of interest to vendors when required; remind employees of the importance of submitting travel vouchers timely; ensure approval for future out-of-State travel is sought timely; also, ensure the review and approval of telephone bills by employees and supervisors is performed and documented timely. (Repeated-1999)

Finding: The Department did not exercise adequate internal control over voucher processing.

As noted in Finding 2017-004, auditors were unable to conclude whether the Department's population records were sufficiently precise and detailed to test the Department's expenditures.

Non-Payroll Vouchers

During testing of 120 non-payroll vouchers, auditors noted the following:

- The Department did not record the corresponding equipment acquisitions in its property control records for items acquired on five vouchers tested.

- The Department failed to process vouchers to pay vendors that required interest, totaling $981, for two vouchers tested, totaling $18,662.

- One voucher tested, totaling $1,040, was a travel reimbursement submitted 219 days late.

- The out-of-state travel approval form for one voucher tested, totaling $1,341, was not submitted for approval at least 30 days prior to the travel.

Telecommunications Vouchers

During testing of 23 telecommunications vouchers, auditors noted the following:

- Ten vouchers tested, totaling $11,774, consisted of telephone bills which had not been reviewed by the corresponding employee or signed and dated by the applicable division supervisor.

- Due to incomplete records, auditors were unable to determine if five (22%) telephone bills, totaling $3,713, had been reviewed by the corresponding employee or signed and dated by the applicable division supervisor.

During the prior examination, Department personnel indicated turnover and staffing shortages, as well as competing projects, impeded their efforts to comply with all voucher review and processing requirements. During the current examination, Department personnel cited the same challenges as barriers to compliance.

Response: Accepted. DOL is working to correct timely signatures on phone bills by implementing an electronic process. CFO has corrected out of State travel issues and prompt payment issues.

Updated Response: Partially Implemented. The Department is implementing an electronic process to timely approve telephone bills, through a program developed by the Department of Revenue. This system will be implemented in the 1st quarter of FY20, and the Department anticipates full compliance with the system requirements beginning in FY20. Remaining deficiencies identified in the audit have been corrected.

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 FY16 and FY17, 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 June 30, 2017, the Department had 16 employees assigned to locations other than official headquarters.

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APPENDIX A

Summary of Appropriations and Expenditures

Appropriations/Expenditure Authority	**FY17**	**FY16**	**FY15**
General Revenue Fund	$ -	$ -	$ 26,204,342
Amusement Ride and Patron Safety Fund	246,800	246,800	230,800
Child Labor Enforcement Trust Fund	623,100	-	604,800
Employee Classification Fund	348,300	348,300	275,800
Budget Stabilization Fund	200,000	-	-
Federal Trust Fund	2,000,000	2,000,000	2,000,000
Federal Industrial Services Fund (OHSA)	3,000,000	3,000,000	3,000,000
Wage Theft Enforcement Fund	206,200	-	205,500
Total Appropriations/Expenditure Authority	$ 6,624,400	$ 5,595,100	$ 32,521,242
Expenditures - General Revenue Fund			
Personal Services	$ 4,708,665	$ 4,869,308	$ 5,297,504
Social Security	336,986	357,034	389,311
Contractual Services	-	-	252,912
Travel	-	-	68,676
Commodities	-	-	2,653
Printing	-	-	286
EDP	-	-	1,571
Telecommunications	-	-	58,026
Operations of Auto Equipment	-	-	80
Awards and Grants	-	-	12,263,616
Total Expenditures (GRF)	**$ 5,045,651**	**$ 5,226,342**	**$ 18,334,635**
Amusement Ride and Patron Safety Fund	$ 229,222	$ 226,533	$ 13,754
Child/Day & Temp Labor Svcs Enforcement Fund	604,369	619,804	421,426
Employee Classification Fund	103,680	85,222	41,001
Budget Stabilization Fund	197,799	-	-
Federal Trust Fund	1,210,943	926,159	924,939
Federal Industrial Services Fund - OHSA	1,273,929	1,759,378	1,611,858
Wage Theft Enforcement Fund	130,397	200,638	121,391
Total Expenditures All Funds	**$ 8,795,990**	**$ 9,044,076**	**$ 21,469,004**
GRAND TOTAL			
Total Appropriations/Expenditure Authority	**$ 6,624,400**	**$ 5,595,100**	**$ 32,521,242**
Total Expenditures	**$ 8,795,990**	**$ 9,044,076**	**$ 21,469,004**
Lapsed Balance	**$ (2,171,590)**	**$ (3,448,976)**	**$ 11,052,238**

APPENDIX B

Summary of Property and Equipment

	FY17	FY16
Beginning Balance, July 1	**$ 1,214,870**	**$ 978,153**
Total Additions	58,000	236,717
Deduct - Deletions	(15,330)	-
Net Transfers	-	-
Ending Balance, June 30	**$ 1,257,540**	**$ 1,214,870**

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APPENDIX C

Comparative Summary of Cash Receipts

General Revenue Fund	FY17	FY16	FY15
Private employment agencies inspection fees	$ 70,640	$ 68,895	$ 73,225
Carnival-amusement ride inspection fees	-	815	-
Nurse agencies	58,000	67,170	51,250
Miscellanous	85,099	1,753	1,556,901
Fines and penalties	88,767	246,827	278,996
Total, General Revenue Fund	**$ 302,506**	**$ 385,460**	**$ 1,960,372**
Amusement Ride and Patron Safety Fund	$ 299,396	$ 269,795	$ 89,985
Department of Labor Special State Trust Fund	337,131	405,832	384,841
Child Labor/Day & Temp Labor Svcs Fund	590,700	557,167	569,783
Employee Classification Fund	10,150	12,994	43,879
Department of Labor Federal Trust Fund	1,288,621	955,377	880,977
Federal Industrial Services Fund - OSHA	1,348,743	1,709,151	1,579,700
Wage Theft Enforcement Fund	84,149	166,147	47,545
Total Cash Receipts	**$ 4,261,396**	**$ 4,461,923**	**$ 5,557,082**