

Review: 4356
Statewide Single Audit
Year Ended June 30, 2010
Department of Employment Security

FINDINGS/RECOMMENDATIONS – 9
Repeated – 9

Accepted – 6
Implemented - 3

10-68. The auditors recommend IDES implement procedures to ensure adequate eligibility certifications are obtained from all claimants on a continuing basis throughout the period for which benefits are paid. (Repeated-2008)

Findings: IDES does not obtain continuing certifications that claimants have not refused suitable work offers throughout the eligibility period prior to the payment of benefits under the Unemployment Insurance (UI) Program.

In discussing these conditions with IDES officials, they stated claimants were previously required to certify that they had not refused suitable work through Teleserve for each week of benefits they certified to; however, the refusal to work question was removed from the script over thirteen years ago due to a perceived confusion from claimants in answering the question.

Response: Implemented. The refusal of work question was added to the Teleserve Interactive Voice Response (IVR) System and the Internet Claims Bi-weekly Certification page when Release 4 of IBIS was implemented in August 2010. The system records the claimant's response to the question and where appropriate, the certification will be suspended if the claimant indicates he/she refused an offer to work.

10-69. The auditors recommend IDES implement procedures to ensure all eligibility determinations are made within the prescribed timeframes. (Repeated-2008)

Findings: IDES is not issuing eligibility determinations for individuals applying for Unemployment Insurance benefits in accordance with timeframes required by the State Plan.

During testwork auditors conducted unannounced site visits to three local offices and requested the most recent pending adjudication report as of the date of the visit. Auditors noted a significant backlog in the resolution status of claims in the adjudication process. Specifically, a total of 691 out of 1,775 claims at the three local offices were outstanding for time periods ranging from 22 to 247 days as of the date of the visits.

Additionally, during the review of the FY11 State Quality Service Plan (Plan) submitted by IDES to the USDOL, IDES did not meet the acceptable level of performance for issuing eligibility determinations on certain disqualifying issues as defined by the USDOL (non-monetary issues) for the federal fiscal year 2010, resolving only 62.3% of these determinations within 21 days of the detection date. The standard is 80%.

In discussing these conditions with IDES officials, they stated the significant increase in the volume of claims and the under-funding of the UI program in recent years have worsened the situation.

Response: We agree.

10-70. The auditors recommend IDES implement additional procedures to ensure the automated stop is generated for all invalid social security numbers to prevent payment of benefit to ineligible claimants and to ensure all requests are returned from the SSA. (Repeated-2009)

Findings: IDES does not have adequate procedures to follow up on invalid social security numbers for claimants of the Unemployment Insurance program.

During testwork over the eligibility of UI benefit payments, auditors selected a sample of 50 claimants from a listing of invalid social security numbers and noted two did not have the automatic stop applied and as such, were not properly investigated by IDES. Total benefits paid to these two claimants were \$9,767 during the year ended June 30, 2010. During the year ended June 30, 2010, a total of 2,006 out of 833,274 social security numbers were reported as potentially invalid by the Social Security Administration for which benefits paid to 238 claimants were approximately \$1,680,000.

In discussing these conditions with IDES officials, they stated the two numbers were submitted to the Social Security Administration but were not returned on the file and as such had not been uploaded to BIS. When the annual rematch was done for the auditors, these numbers were on the return file from SSA.

Response: We agree. IDES intends to have an online verification process with the Social Security Administration in place as part of the implementation of IBIS. This should ensure responses are received for each new claim filed. This should be in place by June 30, 2011.

10-71. The auditors recommend IDES reinforce procedures to ensure all eligibility determination documentation is complete and properly maintained. (Repeated-2006)

Findings: IDES did not maintain complete documentation supporting client eligibility determinations made for the Unemployment Insurance program.

During testwork of the UI program, auditors selected 60 beneficiary payments to review for compliance with eligibility requirements and for the allowability of the related benefits, and noted the following exceptions:

- In one case, the UI application could not be located. Auditors verified each of the eligibility criteria through information in the electronic files.
- In one case, the claimant's application contained insufficient documentation to determine if the claimant had dependents and provided over half the support, however the benefit payment included a dependent allowance. Total dependent benefits paid to this individual was \$3,871.
- In fifteen cases, the claimant was not registered on the Illinois Skills Match system. In each of these cases, auditors were able to determine the individuals were actively seeking employment through the weekly certifications made to IDES.

In discussing these conditions with IDES, they stated the application that was not located may have been misfiled or mislabeled when microfilmed. Regarding the dependent allowance, the IDES representative failed to document clarification of the claimant's responses to the applicable questions. Claimants are advised to register in the Skills Match system, but do not always do so.

Response: We agree. Since the implementation of IBIS on 8/30/10, all claimants that require registration with Illinois Skills Match are automatically partially registered at the time of claim filing.

10-72. The auditors recommend IDES review its procedures for monitoring its third party servicers and implement any changes necessary to ensure significant internal controls at the service organizations are operating effectively. (Repeated-2009)

Findings: IDES does not adequately monitor a service organization of the Unemployment Insurance program. In September 2008, IDES began utilizing debit cards to pay UI benefits. IDES has contracted with a third party service provider (financial institution) to administer the debit card processing of UI benefits.

Auditors noted IDES does not require its service provider to obtain an independent examination of the operating effectiveness of internal controls during the year (commonly referred to as a Type II SAS 70 report). As a result, IDES is not able to adequately monitor its third party service provider to determine whether internal controls that are essential to compliance with federal requirements of the UI program are operating effectively.

In discussing these conditions with IDES officials, they stated that in their opinion it was sufficient to have received a Type I SAS 70 report from this bank, which provided a description of the internal controls and reasonable assurance that the controls were

properly designed, as well as a Type II SAS 70 from the debit card provider, who subcontracts with the bank.

Response: IDES accepts this finding. We have implemented a procedure to formalize our review of third party service provider controls and have included a Type II SAS 70 review as a requirement in the new bank contract.

10-73. The auditors recommend IDES complete and document the resolution of each claim in a timely manner on the exception and monitoring report (including supervisory review), and retain the reports as considered necessary to facilitate completion of the audit. IDES should also automate the claim exception and monitoring edit reports into the Benefits Information System in future years to facilitate a more efficient and effective process for claims exception resolution documentation. (Repeated-2005)

Findings: The IDES local offices did not clearly document the resolution of the issues identified on the claim exception and monitoring reports, and the reports did not always indicate that a supervisory review had been performed.

The IDES Central Office generates several system (exception and monitoring) reports to facilitate proper benefit payment that are utilized at the local office level and monitored by local office and/or regional office management. These reports include the following:

- SSN Verification From SSA
- Sensitive Changes Report
- Immigration Record Check For Unemployment
- Combined Application Error Report.
- File Maintenance Error Report and Rejected Transaction Report
- Media Transfer Report
- Daily Rejected Report
- All Transactions Report
- Claims Application Error Report
- Internet Claims Deletion Report
- First Certification Report
- Certification Summary Report
- Pending Adjudication Report

Auditors conducted unannounced site visits to three local offices and requested the above claim exception and monitoring reports for the most recent date that had been reviewed by the local office staff. Auditors reviewed a total of 39 reports and noted that resolution of exceptions and supervisory review was not consistently documented.

In discussing these conditions with IDES officials, they stated that not all reports and/or items on reports require resolution and supervisory review.

Response: We accept the finding and have automated the reports. Most of the errors that occurred in BIS have been eliminated with the new benefit system (IBIS) or become workflow items that are automatically tracked in the system for follow up.

10-74. The auditors recommend IDES implement procedures to ensure the information technology systems are properly configured to offset overpayments in accordance with the federal regulations. (Repeated-2009)

Findings: IDES has not configured its information technology systems to properly offset overpayments related to the Federal Additional Compensation (FAC) and the Emergency Unemployment Compensation (EUC08) programs, which were established by the American Recovery and Reinvestment Act and administered as a part of the Unemployment Insurance Program.

Based on a review performed by the U.S. Department of Labor, auditors noted the following:

- IDES had not properly configured its information technology system to offset the FAC overpayments with FAC benefits. IDES' information technology system was configured to offset the FAC overpayments against the EUC08 benefit payments and other federally funded benefits, which resulted in slower collections of FAC overpayments. Total FAC payments made during the fiscal year ended June 30, 2010 were \$600,564,325, of which \$11,858,375, or 2.0%, consisted of overpayments.
- IDES had not properly configured its information technology system to offset EUC08 fraud overpayments to a maximum of 50% against the weekly benefit amount. The system is currently programmed to offset EUC08 fraud overpayments with 100% of the EUC08 weekly benefit amount. Total EUC08 benefits paid during the fiscal year ended June 30, 2010 were \$2,688,389,967, of which \$10,466,937, or 0.4%, consisted of overpayments related to fraud.

In discussing these conditions with IDES officials, they stated they were following past practices of previous federal extension programs by following State law which provides for a higher recoupment for fraudulent overpayments than does federal law. Concerning the failure to offset a FAC overpayment with a FAC payment, it was assigned a low priority compared to other requirements of the American Recovery and Reinvestment Act that significantly expanded the Unemployment Insurance Program. In addition, resources to perform the necessary programming tasks had been diverted to performing implementation and conversion tasks related to the implementation of the new benefit information system (IBIS).

Response: Implemented. Changes to ensure that fraudulent EUC overpayments are only recouped at 50% instead of 100% were implemented as well as the ability to offset a FAC overpayment with a FAC payment.

10-75. The auditors recommend IDES establish procedures to perform out-of-state wage verifications at the beginning of the initial EUC08 and extended benefit periods, and at the end of each quarter to determine if UI eligibility could be established in another state. (Repeated-2009)

Findings: IDES did not perform all required out-of-state wages verification procedures for Emergency Unemployment Compensation (EUC08) beneficiaries.

Based on a review performed by the U.S. Department of Labor and discussion with management, auditors noted IDES does not examine out-of-state wages at the beginning of the initial EUC08 and initial extended benefit claim or at the end of each quarter to determine if UI eligibility could be established in another state. IDES procedures for verifying whether a claimant has exhausted all rights to regular benefits only include examining out-of-state wages each time a claimant establishes a new benefit year.

In discussing these conditions with IDES officials, they stated they had explored different solutions as a result of the finding last year that were not viable and only recently learned of another option.

Response: We agree. USDOL has recently provided an option and we are exploring it.

10-76. The auditors recommend IDES implement procedures to ensure the ATAA benefit payments are properly calculated and paid on at least a monthly basis. (Repeated-2008)

Findings: IDES did not accurately calculate benefit payments for the Alternative Trade Adjustment Assistance (ATAA) grant administered under the Unemployment Insurance Program.

The ATAA grant is available to a subset of beneficiaries who were eligible for benefits under the Trade Readjustment Assistance (TRA) grant. The objective of the TRA grant is to provide benefit payments to assist individuals who become unemployed or underemployed as a result of increased imports or a shift of production to Mexico or Canada to return to suitable employment. The objective of the ATAA grant is to provide workers 50 years of age or older with the option of receiving a temporary wage subsidy upon prompt reemployment at lower pay than their previous adversely affected employment as an alternative to other TRA benefits. The ATAA wage subsidy must be evaluated on a monthly basis to determine whether the subsidy should be adjusted to accommodate pay changes resulting from changes in employment or shift differentials.

During testwork of the ATAA program, IDES disclosed an internal review of beneficiary payments for the quarter ended September 30, 2009 which identified several instances of non-compliance consistent with the prior year's audit results. Specifically, auditors noted the following exceptions were identified in IDES' review:

- In ten cases (with sampled weekly payments of \$4,482), the ATAA weekly benefit amount was not accurate due to changes in hours not reflected in the benefit calculation. As a result, eight beneficiaries were underpaid by \$1,019 and two beneficiaries were overpaid by \$115.
- In five cases (with sampled weekly payments of \$2,235), benefits paid were calculated using a monthly rate instead of a weekly rate which resulted in overpayments of \$102.
- In one case (with sampled weekly payments of \$528), benefits paid were calculated using a monthly rate instead of a semi-monthly rate which resulted in an underpayment of \$42.
- In one case (with sampled weekly payments of \$244), benefits paid were calculated using a weekly rate instead of a bi-weekly rate which resulted in an overpayment of \$2.

In discussing these conditions with IDES officials, they stated that staff calculating benefit payments were still in training and there was no monitoring process in place.

Response: We agree. Draft procedures have been modified to include payment accuracy verification by staff who do not process payments prior to payment file creation in ACCESS and upload to IBIS. Quarterly reviews of 60 A/RTAA payments per quarter will continue to be conducted to ensure accuracy of payments.