

LEGISLATIVE AUDIT COMMISSION



Review of
Department of Employment Security
Two Years Ended June 30, 2009

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REVIEW: 4337
DEPARTMENT OF EMPLOYMENT SECURITY
TWO YEARS ENDED JUNE 30, 2009

FINDINGS/RECOMMENDATIONS - 7

ACCEPTED - 3
IMPLEMENTED - 2
UNDER STUDY - 2

REPEATED RECOMMENDATIONS - 2

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 3

This review summarizes an audit of the Department of Employment Security for the two years ended June 30, 2009, filed with the Legislative Audit Commission February 11, 2010. The auditors performed a financial audit and compliance examination in accordance with State law and *Government Auditing Standards*. The auditors stated the financial statements were fairly presented.

The Department of Employment Security is a cabinet-level State government agency. The Department provides services to employers, claimants, and job seekers. As mandated by the Illinois Unemployment Insurance Act, the Department collects unemployment contributions from covered employers, pays unemployment benefits to eligible claimants, and makes decisions on appeals involving eligibility for benefits. The Department works to speed re-employment through job matching and employability development services. Additionally, the Department produces labor market information. Appendix A shows the number of unemployment insurance claims processed by the Department and the number of job placements provided by the Department in FY09-FY07. The Illinois unemployment rate was 11.2% in May 2010, the first decrease in unemployment since November 2006.

The Director of the Department of Employment Security during the first 14 months of the two-year audit period was James P. Sledge. Mr. Sledge was appointed to the position of Director in March 2007 and then resigned to become Director of CMS in August 2008. Maureen O'Donnell became Director of IDES on August 25, 2008, and she still serves in that position. Although not previously employed by IDES, she was previously Director of CMS.

The average number of employees is summarized in the table appearing below.

	At June 30		
	2009	2008	2007
Central Administration	130	115	108
Financial & Administration	263	275	287
Workforce Development	1,360	1,264	1,320
TOTAL	1,753	1,654	1,715

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Presented below is a summary of the State and national unemployment rates by quarter:

	Rate by Quarter (calendar year)			
	1 st	2 nd	3 rd	4 th
2007 - National	4.5%	4.5%	4.7%	4.8%
State	4.7	5.0	5.2	5.5
2008 - National	4.9	5.4	6.0	6.9
State	5.6	6.2	6.7	7.3
2009 - National	8.1	9.2	9.6	10.0
State	8.5	9.9	10.3	10.9

Expenditures From Appropriations

The General Assembly appropriated a total of \$295,058,600 to the Department for FY09. Almost 90% of Department funds are federal funds that are appropriated by the State while the remaining come from the Unemployment Compensation Special Administration Account Fund, GRF, the Road Fund, and the IMSA Income Fund. Total appropriations increased from \$288,839,582 in FY08 to \$295,058,600 in FY09. Appendix B summarizes these appropriations and expenditures for FY09 through FY07.

The Title III Social Security and Employment Services Fund accounts for most of the expenditures of the Department. Total expenditures were \$217,760,436 in FY08 compared to \$250,666,872 in FY09, an increase of \$32.9 million, or 13.1%. In FY09, expenditures for payroll and benefits, postage and management services increased \$30 million. Expenditures from the Unemployment Compensation Trust Fund increased \$3 million due to an increase in the number of claims paid.

Cash Receipts

Appendix C provides a summary of the Department's cash receipts for FY09 through FY07. Total cash receipts increased from \$210,299,755 in FY08 to \$218,229,981 in FY09. The increase in cash receipts in the Title III Social Security and Employment Services Fund was due to increased federal funding through the Department of Labor.

Accounts Receivable

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

- Taxes receivable are unemployment taxes owed by private and nongovernmental employers to the Illinois Unemployment Compensation Trust Fund. Taxes

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receivable totaled \$479,223,000 as of June 30, 2009 with \$125,588,000 recorded as an allowance for uncollectible accounts, for a net receivable of \$353,635,000;

- Intergovernmental receivables represent reimbursements due from other state and local governments for unemployment benefits paid to those states' ex-employees by the Trust Fund. The receivables also include amounts due from the federal government for ex-military and federal employees and temporary emergency unemployment compensation. Intergovernmental receivables totaled \$107,914,000 in FY09 and \$30,886,000 for FY08; and
- Other receivables represent amounts due from claimants who received benefits, which exceeded the allowable amounts, totaling \$343,193,000 at June 30, 2009. The allowance for uncollectible accounts totaled 233,734,000, or 68.1%, and is calculated using historical collection data.

The intergovernmental receivables for FY09 were \$28.9 million and \$17.8 million for FY08. Since the amounts are due from other governmental entities, receipt is reasonably assured so there is no allowance for uncollectible accounts. Other receivables represent interest receivable from Illinois funds in the custody of the State Treasurer and totaled \$102,000 in FY05.

Property and Equipment

Changes in State property, solely represented by equipment, for the two-year period are presented in Appendix E. The balance as of July 1, 2007 totaled \$26,286,083, compared to the ending balance as of June 30, 2009 which totaled \$23,913,391.

Unemployment Compensation Trust Fund

Employer contributions received and benefits paid are accounted for in the Unemployment Compensation Trust Fund, a locally held fund. This Fund is not subject to General Assembly appropriation control. Appendix F provides a summary of revenues and expenditures as of June 30, 2009 and June 30, 2008. Total net assets decreased from almost \$2.4 billion in FY08 to \$600 million in FY09.

Subsequently in July 2009, the State of Illinois began receiving repayable advances to the account of the Illinois Unemployment Compensation Trust Fund from the federal unemployment account. As of December 31, 2009, a total of 26 states were borrowing from the federal government to fulfill the mandate to pay unemployment benefits, and Illinois' loan balance was exceeded \$1.1 billion. These loans are interest-free under current law through the end of calendar year 2010. Absent a robust economic recovery and/or legislative changes to the system, the Department projects that borrowing for the State will continue through at least 2012.

Accountants' Findings and Recommendations

Condensed below are the seven findings and recommendations presented in the audit report. There were two repeated recommendations. The following recommendations are classified on the basis of updated information provided by Jon Gingrich, Chief Financial Officer, and received via electronic mail on June 2, 2010.

Under Study

- 2. Allocate the resources necessary to correct day-to-day transactional and applications related information systems problems without compromising the security of those systems by over utilizing Super ID access rights. Further, restrict use of the Super ID to emergencies as required by Department policy.**

Findings: The Department did not properly restrict the use of the Super ID access to its information systems. The Department processed approximately \$2 billion in employer unemployment tax revenue contributions and \$5 billion of unemployment payments in fiscal year 2009.

During the audit period auditors found that Information Service Bureau programmers shared and used Super IDs on a non-emergency basis in the production environment to resolve transactional or application-related problems. In a review of a system-generated log between December 29, 2008 and April 5, 2009, the Super ID was used 268 times. As a compensating control, the Support Services Division Manager compared the system log to an independent log which documented the use and approval for each instance of access to the production environment. Auditors tested the independent log and found that they were properly completed for all 268 uses of the Super ID noted in the system log during that period.

According to the Department, staffing resources are often not available to follow the normal process for fixing errors, particularly errors occurring when converting benefit transactions from the Benefit Information System to the Benefit Charging System. The use of the Super ID is the expeditious method for ensuring that benefit transactions are processed correctly in BIS. Correcting such errors is critical as benefit charges are a key component of employer tax rate calculations.

Updated Response: Under Study. The Department will examine the resource implications of implementing the recommendation and will soon hire a consultant to study staffing within the IT area. Given the record volume of unemployment claimants in the current environment, the Department may occasionally need to use extraordinary measures in order to ensure timely service to claimants. In these cases, the Department will continue to leverage the compensating controls which are in place and currently provide detailed system access logs.

5. Revise the Unemployment Insurance Application to provide space for information on the claimant's dependent children's name and birth dates.

Findings: The Department did not obtain required information from claimants regarding dependent children. During local office visits, auditors noted that the Unemployment Insurance Application did not provide space for information on the claimant's dependent children's name and birth dates.

Department officials stated the claimant certifies that the information provided in the application, including dependents information, is true and correct. In the same statement, the claimant acknowledges that there are penalties involved for making false statements to obtain benefits.

Response: Accepted. The Department agrees that it does not obtain the name and date of birth of each of a claimant's dependent children and will resolve the inconsistency between its current process and Department rules in that regard. The current process is designed to limit the payment of the dependent child allowance to claimants who qualify for the allowance. In determining eligibility for any benefits under the Act, the system largely relies on information provided by the claimant, subject to criminal and civil sanctions for falsifying information. The benefit application asks whether the claimant has a child either under the age of 18 or who was unable to work in the last 90 days due to illness or disability, along with other questions relevant to whether the claimant qualifies for the allowance. Before receiving benefits for any period, the claimant must certify as to whether there have been any changes with regard to his or her dependents during that period. If the claimant who previously appeared to qualify for the dependent child allowance - on the basis of the application or a prior certification - indicates there have been any such changes, the Department will interview the claimant to determine whether he or she still qualifies for the allowance.

Updated Response: Under Study.

Accepted or Implemented

1. Evaluate process and improve controls over recording transactions in the correct fiscal year.

Findings: The Department understated its cash and cash equivalents by \$43 million. The related benefit payments payable was also understated by the same amount.

Auditors noted that as of June 30, 2009, the Department recorded a transfer of funds amounting to \$43 million against cash and cash equivalents for benefit payments when the actual transfer was not made until July 1, 2009. This resulted to a corresponding understatement in the Department's benefit payments payable by the same amount. The financial statements and disclosures have been corrected for these adjustments.

Accepted or Implemented – continued

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Department officials stated that the transfer was recorded on June 30, 2009 as it was the intention that the funds be transferred on that day. The Department accommodated the bank's request that the transfer be deferred until the following day.

Response: Accepted. A new aspect of end-of-quarter processing, due to FDIC changes was not properly communicated throughout IDES Accounting Services. This change has now been fully incorporated and communicated within IDES Accounting Services.

Updated Response: Implemented.

3. Prepare and review the monthly reconciliation reports on a timely basis, and include the date that the reconciliation reports are prepared and reviewed.

Findings: The Department did not timely prepare and review the monthly reconciliation reports. In addition, reconciling items were not adequately supported and adjusted in the books timely.

Department officials stated that Administrative Funds (052, 055 and 1136) were not always prepared timely due to a staff shortage that existed throughout FY09. The longest delays occurred during GAAP preparation when priority was given to completing the reconciliations for the current fiscal year.

A daily reconciliation is performed of the Trust Fund (1138) bank account information using information from the Benefit Information System, Federal Reserve Bank (FRB) detail transactions and bank statements. The information from the systems was downloaded into the Paradox database program, balances were reviewed for accuracy and exceptions were returned to FRB or the bank responsible for the reconciling items the daily reconciliations of the bank statements were performed timely and the spreadsheet review of the ETA 8401 to the bank accounts were completed timely; however the back-up reconciliations took longer to finalize. The unadjusted recurring items were the cumulative cleared check discrepancy amounts that were under or over the \$25 FRB threshold. These amounts are carried forward each month until an adjustment is made to the Ledger that will clear the reconciling item.

Updated Response: Implemented. Daily reconciliations were performed timely as were portions of the monthly reconciliations. Since the audit, a spreadsheet has been developed to track the completion and approval dates of the various reconciliations. The FY10 reconciliations from July 2009 through March 2010 have been completed and approved timely. The auditors consider reconciliations timely if completed within two months after the month-end.

4. Improve process for timely executing interagency agreements. (Repeated-2005)

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Findings: The Department did not execute its interagency agreements with other State agencies in a timely manner. During a detailed review of 15 interagency agreements, auditors noted that 13 of the interagency agreements (87%) had contract terms prior to the completion of an executed agreement. The agreements were signed between 12 and 196 days late.

Department officials stated that the Intergovernmental Agreements for Utilization of Lease Space (IGAs) are based upon local Cost Allocation Plans that are developed each year as a requirement under the Workforce Investment Act (WIA). WIA requires that Memorandum of Understanding (MOUs) be drawn up among partner agencies operating under that law. These MOUs include, among other items, a Cost Allocation Plan that specifies what costs will be borne by each partner in the operations of physical facilities, including costs for space at the Department's offices that serve as physical centers for the WIA program. These MOU Cost Allocation Plans form the basis for the rental amounts drawn up in the IGAs.

Thus, the IGA must be consistent with the Cost Allocation Plans compiled for WIA MOUs. However, since the MOU approval process is subject to the approval of local Workforce Investment Boards created under the WIA, the Department has no control as to when the local MOU and their Cost Allocation Plans are computed. The Department's region manager must know the MOU and Cost Allocation Plans are fully in place before committing to the term of the IGA. Thus, the MOU process causes delay in signing the IGAs.

Updated Response: Accepted. The Department is working toward improving the process for timely execution of interagency agreements. Discussions with the Department of Commerce and Economic Opportunity (DCEO) have begun. DCEO and IDES agreed to change the due date of Memorandums of Understanding (MOU's) to 6/30/10 for Program Year 2010-2011 and to 6/1/11 for the following year.

6. Implement procedures to ensure all eligibility determinations are made within the prescribed timeframes.

Findings: The Department did not issue eligibility determinations within the prescribed timeframe. During testing, auditors noted the Department untimely issued eligibility determinations for 15 of 60 cases (25%). The eligibility determinations were issued 1 to 38 days after the end of the 21-day prescribed timeframe. However, none of these cases resulted in an overpayment of unemployment insurance.

Department officials stated that untimely eligibility determinations were caused by a combination of increased workload and additional time provided to the claimant to respond to their inquiries and follow-up.

Accepted or Implemented – concluded

Updated Response: Accepted. Although we have implemented several corrective action plans, the Department has been unable to meet the Acceptable Level of Performance required for timely adjudication cases, which is 80 percent of the determinations issued within 21 days of the issue detection date. An overwhelming increase in workload is largely responsible for the backlog which in turn creates late determinations. The Department continues to monitor the backlog on a weekly basis. In addition, we have used a state-wide task force to address the backlog and have hired over 300 new front-line staff since October 2008.

Currently, staff complete interviews in the new benefit system (IBIS) and then must enter the final result in the mainframe system (BIS). When IBIS is fully implemented, the time-consuming double entry will be eliminated, which should positively impact timeliness. Although the Department's practice is to issue determinations based on the oldest first, the performance could drop as the backlog is eliminated.

7. Ensure the timely completion and submission of employee performance evaluation and assign responsibility for its monitoring for compliance with the applicable law. (Repeated-2003)

Findings: The Department did not complete performance evaluations timely. During the examination of 60 personnel files, auditors noted 15 employees (25%) whose performance evaluations were completed untimely. The evaluations were completed from 15 to 204 days late. In addition, five employees did not have a current performance evaluation on file.

Department officials stated that the delays were due to the delays of the managers/supervisors responsible for preparing the evaluations, which have increased dramatically in FY09 due to high unemployment and the number of Unemployment Insurance extensions that have occurred.

Response: Accepted. The Department has assigned responsibility for monitoring performance evaluations to the Manager of the Transactions and Benefits Unit who sends supervisors monthly a list of evaluations that are past due along with a list of evaluations that will be due in the coming month. In addition, the Deputy Director takes an active role in directing leadership to ensure performance evaluations are completed timely.

Updated Response: Ensure timely completion and submission of performance evaluations—Accepted. Assign responsibility for monitoring for compliance with applicable law—Implemented.

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The Illinois Purchasing Act (30 ILCS 505/1) states, “The principle 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 for emergencies “involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records, or to avoid lapsing or loss of federal or donated funds. The chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make ‘quick purchases’, including but not limited to items available at a discount for a limited period of time.”

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The 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 FY08, the Department filed one emergency purchase affidavit for replacement of the phone notification system. The purchase was paid with \$38,637.00 in federal funds.

In FY09, the Department filed two affidavits for emergency purchases totaling \$1,030,264.71 as follows:

- \$1,000,000.00 for establishing and staffing a local office for the processing of Extended Benefit claims; and
- \$30,264.71 for maintenance of equipment.

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.

The Department of Employment Security indicated in July 2009 it had 29 employees assigned to locations other than official headquarters.