

LEGISLATIVE AUDIT COMMISSION



Review of
Department of Labor
Two Years Ended June 30, 2009
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REVIEW: 4355
ILLINOIS DEPARTMENT OF LABOR
TWO YEARS ENDED JUNE 30, 2009

FINDINGS/RECOMMENDATIONS - 11
ACCEPTED - 9
IMPLEMENTED - 2

REPEATED RECOMMENDATIONS - 9

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 16

This review summarizes the report on the Illinois Department of Labor for the two years ended June 30, 2009, filed with the Legislative Audit Commission June 3, 2010. 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, minors in the work force, and licensing of employers in certain businesses. The Department regulates amusement rides, employment agencies and nurse registries, and also administers the Displaced Homemaker Program, the Equal Pay Act, the Victims Economic Security and Safety Act, the Private Employment Agencies Act, and the Nurse Agency Licensing Act.

The Department promotes and protects the rights, wages, welfare, working conditions, safety and health of Illinois workers through education and the enforcement of the State labor laws and standards, and safeguards the public through the regulation of amusement rides. A summary of operating statistics is presented in Appendix A.

The Director of the Department during the audit period during was Catherine Shannon. She served as Director from December 2006 through March 2011 when the Governor appointed Joseph Costigan to serve as Director. Mr. Costigan was not previously associated with the Department.

The average number of employees during the fiscal years was:

Division	2009	2008	2007
General Office	17	16	10
Employment Progress of Women & Minorities	0	0	3
Child Labor and Day and Temporary Labor Services Enforcement	8	6	0
Displaced Homemakers	0	0	1
Public Safety	17	18	16
Fair Labor Standards	39	42	46
Equal Pay Act and Victims Economic Security and Safety Act	3	2	0
TOTAL	84	84	76

Expenditures From Appropriations

The General Assembly appropriated \$7,320,200 to the Department of Labor for FY09. All but \$400,000 was from the General Revenue Fund. Appendix B summarizes these appropriations and expenditures for the period under review. Total expenditures for the Department were \$6,871,161 in FY09 compared to \$7,069,448 in FY08, a decrease of \$198,287, or 2.8%. The decrease is attributable to the total veto of funds for the Displaced Homemaker Program (\$600,000) offset by higher personnel and administrative costs of about \$202,000 and an increase in enforcement efforts of child labor laws (\$202,000).

Lapse period expenditures for FY09 were \$620,697, or 9% of total expenditures.

Property and Equipment

Appendix C provides a summary of property and equipment for FY09 and FY08. Property and equipment, for which the Department was accountable, decreased from \$655,910 as of July 1, 2008 to \$486,945 as of June 30, 2009. According to Finding No. 3, auditors were unable to reconcile the property records submitted to the Office of the Comptroller to records maintained within the Department.

Cash Receipts

Appendix D summarizes cash receipts of the Department for the last three fiscal years. The information presented is considered not examined by the auditors (see Finding No. 1). The comparative schedule of cash receipts shows \$2,813,778 in FY09 compared to \$1,889,255 in FY08, a \$924,523, or 49% increase from FY08 to FY09. The increase in the Special State Trust Fund was due to the overall increase in wage claim complaints by employees and collections by the Department. The increase in Fines and Penalties was due to an increase of claims filed and penalties assessed by the Department.

Other Funds

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

The Child Labor Fund was established to account for monies collected under the civil penalty provision of the Child Labor Act. The funds collected are subject to legislative appropriation for activities or purposes related to the enforcement of the Act.

Accountants' Findings and Recommendations

Condensed below are the 11 findings and recommendations presented in the compliance report. There were nine 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 July 25, 2011.

Accepted or Implemented

- 1. Comply with the State Officers and Employees Money Disposition Act by making timely deposits into the State Treasury and documenting the date that receipts are received. Enforce good internal controls over receipts to ensure collection of revenue and adequate documentation is maintained readily available for all transactions. Review monthly reconciliations for accuracy. Maintain accurate documentation to support amounts reported on the Agency Fee Imposition Report and carefully review reports to ensure all fees collected are reported and to ensure accuracy of the Agency Fee Imposition Report before submission to the Comptroller. (Repeated-2005)**

Finding: The Illinois Department of Labor (Department) did not exercise adequate controls over revenues and related reporting. Auditors noted the following weaknesses in the Department's processing of receipts:

- Twenty-nine of 60 receipts tested, totaling \$153,782, were deposited between one and 104 days late.
- Timeliness of deposits could not be determined for 20 of 60 receipts tested, totaling \$102,001, because the Department did not maintain documentation of the date received.
- The Department did not retain copies of the Receipt Deposit Transmittal Forms, deposit slips or a Treasurer's Draft for 13 of 60 receipts tested, totaling \$57,705.
- For nine of 60 receipts tested, totaling \$81,459, Treasurer's Drafts were not submitted to the Office of the Comptroller (Comptroller) within 30 days, which is considered a reasonable time frame. The Treasurer's Drafts were submitted between 11 and 144 days late.
- Fifty-six of 72 (78%) receipt reconciliations for the General Revenue Fund (Fund 001), Special State Trust Fund (Fund 251), and Child Labor Law Enforcement Fund (Fund 357) contained errors.

The Department did not maintain sufficient documentation to support amounts reported on their Agency Fee Imposition Reports prepared for FY08 and FY09. The Department did not include copy fees, totaling \$5,405, on the FY09 report, and misclassified nine of 14 fees collected on the FY09 report. These errors had no material effect on the total amount of fees reported.

Accepted or Implemented – continued

REVIEW: 4355

Department personnel stated the lack of timeliness was due to an insufficient number of clerical program assistants who receive, prepare and deposit the cash receipts. Additionally, the Department stated the reconciliation errors are a result of an inadequate number of clerical fiscal staff and other competing priorities.

Response: Implemented. DOL requested and was granted a ten day deposit extension effective May 1, 2009 by the Illinois Office of the Comptroller and the Illinois Office of the Treasurer. DOL believes this extension provides for the timely deposit of funds. Additionally, beginning May 1, 2009, all checks are date stamped upon receipt. Date stamping provides the documentation needed to determine whether DOL is in compliance with the timely depositing of funds.

2. Review Quarterly Summary of Accounts Receivable (C-97s) before submission to the Comptroller to ensure accuracy. Also, maintain detailed records and supporting documentation of all billings to support accounts receivable balances reported and aging of accounts. (Repeated-2005)

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

- Eleven of 24 (46%) Quarterly Summary of Accounts Receivable (C-97s) reports prepared by the Department and submitted to the Comptroller's Office did not accurately reflect Department accounts receivable transactions. Auditors noted differences between amounts reported on the C-97s and the Department's records.
- The Department could not locate documentation to support transactions reported on 7 of 24 (29%) quarterly accounts receivable reports submitted to the Comptroller's Office.
- The Department did not maintain adequate accounts receivable records to facilitate aging of accounts.

Department personnel stated the errors noted are a result of an insufficient number of fiscal staff and the lack of a formal electronic receivable reporting system. Department personnel noted they are currently managing over 300 penalty receivable accounts in Microsoft Excel, and the receivable accounts are dynamic in nature due to litigation, settlement offers, and re-audits.

Updated Response: Accepted. A corrective action plan has been developed and is in progress.

3. Strengthen controls over the recording and reporting of State property by reviewing inventory and recordkeeping practices to ensure compliance with statute and regulations. Ensure all equipment is accurately and timely recorded on the Department's property records and properly valued. In addition, thoroughly review all reports prepared from internal records for accuracy before

REVIEW: 4355

submission to the Comptroller and the Department of Central Management Services. (Repeated-2003)

Finding: The Department did not exercise adequate control over the recording and reporting of State property. The Department maintained two sets of property inventory records during the period, including a computerized property inventory register and a manually prepared monthly transaction spreadsheet. The results of testing indicated that the valuation of the computerized property inventory register was insufficient and the two sets differed in content.

Auditors noted five of eight Quarterly Reports of State Property (C-15s) prepared by the Department and submitted to the State Comptroller's Office did not accurately reflect Department equipment transactions. Auditors noted differences of -\$247,980 between the addition, deletion, and ending balance amounts reported on the C-15s and the Department's monthly transaction spreadsheets.

In addition, auditors noted several instances of noncompliance with Statewide Accounting Management System (SAMS) procedures including;

- Transfers of surplus property, totaling \$40,328, during FY08 and FY09 were incorrectly classified on the C-15s as deletions.
- Fourteen of 50 items tested did not have the purchase price included on the Department's property inventory register.
- Seven of 25 items tested, totaling \$19,815, appeared on the Department's property inventory register but could not be located within the Department.

Further, auditors noted noncompliance with statutory requirements and the Illinois Administrative Code (Code) as follows:

- 22 of 25 surplus items did not have sufficient documentation to determine that they were sent to the CMS, and if so, when they were sent.
- The Department did not timely record eight of 25 equipment additions to property inventory tested, totaling \$7,133, on its property inventory register. These items were recorded from 3 to 332 days late.
- The Department could not provide documentation that it reported a theft of an equipment item, valued at \$3,493, to the State Police.

Department personnel stated the errors noted were primarily the result of a limited number of fiscal staff and an inadequate inventory database. The Department also stated poor historical property records, as noted during prior examinations and in the resulting findings, limited the Department's ability to correct the records.

Accepted or Implemented – continued

REVIEW: 4355

Response: Accepted. The Department is implementing procedures that change the timing of when property records are updated. Additionally, responsibilities related to property control have been clarified among various staff. The overall net difference of \$247,980 between Forms C-15 to Department records represents items of property and corresponding amounts that were incorrectly represented and reported by the previous fiscal officer. Based on physical inventories taken in FY2008 and FY2009, a “write-down” was required to reflect items actually on-hand.

4. Maintain detailed records for all Special State Trust Fund transactions. Also, retain documentation of all reconciliations performed. (Repeated-2007)

Finding: The Department did not exercise adequate control over its Special State Trust Fund. Auditors noted the following control weaknesses:

- The Department did not maintain a ledger of claimants and corresponding dollar amounts comprising the balance held in Fund 251. The State Comptroller’s Office records showed balances of \$575,666 and \$1,658,317 held in Fund 251 as of June 30, 2008 and June 30, 2009, respectively.
- The Department could not locate documentation for any of the 24 fund reconciliations prepared for Fund 251 during the examination period.

The Department operates the Special State Trust Fund as an agency fund in the State Treasury. The purpose of this fund is to hold wage claims collected from employers by the Department on behalf of Illinois workers (claimants) and hold those monies until the claimants can be located and properly paid.

Department personnel stated complete reconciliations of fund activity were not possible due to statutorily authorized sweeps of money from the fund. In addition, Department personnel stated fund balance reconciliations were not performed due to a limited fiscal staff and other competing deadlines, plus the fact that current expenditure and receipt activity in the fund was being reconciled on a monthly basis. The auditors noted deficiencies in the expenditure reconciliations performed for Fund 251. See Finding 09-5 for further information regarding the Department's expenditure reconciliations.

Updated Response: Accepted. A corrective action plan is in progress.

5. Implement procedures to ensure the completeness and accuracy of expenditure records maintained. Also, perform and document the results of all monthly reconciliations of expenditure records to Comptroller records and promptly notify the Comptroller of any irreconcilable differences noted. (Repeated-2006)

REVIEW: 4355

Finding: The Department did not perform adequate and/or accurate reconciliations during the examination period. In addition, the Department did not maintain accurate expenditure records for its three funds.

- Expenditure reconciliations performed for Fund 357 during FY08 were not signed off on by the preparer or reviewer of the reconciliation. As a result, auditors could not determine who prepared the 13 reconciliations performed, or how timely the reconciliations were performed.
- Expenditure reconciliations performed for Fund 357 during FY08 were not accurate. Two of 13 reconciliations performed contained differences, totaling \$48,225 and \$11,901 respectively, between the reconciliations themselves and underlying support.
- Documentation of expenditure reconciliations required to be performed could not be located. One of 14 reconciliations for Fund 001 for FY08 could not be located. Also two of 14 reconciliations for Fund 001 and one of 14 reconciliations for Fund 357 for FY09 could not be located.

Auditors also noted the following regarding the Department's expenditure records:

- The Department's expenditure records for Fund 001 were incomplete. Thirty-two transactions, totaling \$118,980, appeared on records maintained by the Comptroller but were not posted to the Department's expenditure records. Four transactions, totaling \$2,745, appeared on the Department's expenditure records but were not posted to the records maintained by the Comptroller. The Department's expenditure records were not subsequently adjusted for these amounts, and there was no documentation indicating these differences were further investigated and resolved or reported to the Comptroller as required.
- In addition, during FY09, a \$15,069 difference was noted between the Department's expenditure records and records maintained by the Office of the Comptroller for Fund 001. Department personnel later determined the cause of the difference to be a salary reversal transaction and provided support to the auditors explaining the difference on April 30, 2010.
- Other adjustments made to the Department's expenditure records resulting from the reconciliation process were not timely posted to the Department's expenditure records. The adjustments were not posted to Fund 001 and Fund 357 respectively until two to nine months after the original entries, which required adjustment, were posted.

Department personnel stated the errors noted were caused by an inadequate level of fiscal staffing and competing priorities for responsible personnel. In addition, Department personnel stated the need for the adjustments was triggered by errors on the part of the responsible employee.

Accepted or Implemented – continued

REVIEW: 4355

Updated Response: Accepted. A corrective action plan has been developed and is in progress.

- 6. Carefully review travel vouchers to ensure accuracy of reported information and accuracy and reasonableness of travel claims prior to payment. In addition, periodically remind all employees of the allowable lodging rates set forth in the travel regulations and carefully review all invoices received for hotel stays to ensure the Department is not billed for amounts in excess of the allowable lodging rates. Finally, request reimbursement from overpaid employees. (Repeated-2007)**

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

- Two of 25 travel vouchers tested contained excess reimbursements totaling \$178 for expenses incurred between the employees' homes and headquarters.
- One of 25 vouchers tested contained payments for hotel rooms at nightly rates exceeding the allowable lodging rate for the area. In this instance, four employees stayed a total of seven nights at a hotel which charged \$70 per night. However, the allowable lodging rate for the county where this hotel is located was \$60 per night.
- One travel voucher, totaling \$1,812, tested for one of the Department's top travelers contained a discrepancy in the reported headquarters for the traveler between the travel voucher and the Travel Headquarters (TA-2) reports.

Department personnel stated the errors noted were simply human errors not caught during the review process. In addition, Department personnel stated some of the errors noted during testing occurred on vouchers that were approved by a newly hired division manager who was not yet fully familiar with all applicable travel regulations.

Response: Accepted. The Department is considering a corrective action plan to include the Office of the Auditor General recommendations.

- 7. Implement internal controls to ensure required employee performance evaluations are completed and discussed with all employees in a timely manner. (Repeated-2005)**

Finding: The Department did not conduct employee performance evaluations timely. Auditors tested 21 employee files, some of which required multiple (2 to 4) evaluations during the two-year period and noted the following:

- Four evaluations for four different employees were not conducted at all.

REVIEW: 4355

- The Department did not perform annual employee performance evaluations in accordance with the Department's Policy Manual for one employee tested. The employee's performance evaluation covered a period of 4 years.
- Employee performance evaluations were not communicated to employees timely for 14 employees tested. Employee evaluations were communicated to employees from 7 to 274 days late.

Department personnel stated evaluations were not completed timely due to management turnover. They further stated evaluations were not communicated to employees timely due to the multitude of responsibilities and competing demands on the Department's supervisory and managerial staff.

Response: Accepted. The Department has implemented procedures that alert senior management when a supervisor has not completed timely performance reviews.

- 8. Implement procedures to ensure accurate entry of employee work hours and benefit time. Also, ensure time sheets and Attendance System (CTAS) records are accurate and reconcile. Further, implement procedures necessary to ensure leaves of absence are processed timely to ensure the accuracy of payroll expenditures. Finally, recover the excess amount paid to the employee.**

Finding: The Department did not exercise adequate controls over employee attendance records and personnel functions. During testing of 21 employees' attendance records for four months during the period, auditors noted the following:

- Four of 21 employees' time keeping records did not agree to the Central Time and Attendance System (CTAS). Auditors noted four discrepancies totaling 37 hours when comparing the time keeping records to the CTAS.
- Two of 21 employees did not complete their time sheets correctly.

In addition, during locations and divisions testing, auditors noted the following:

- One of 34 employees' time sheet did not agree to the leave request. Eight hours of equivalent earned time taken was not reflected on the employees' time sheet.
- One of 34 employees' leave requests did not agree to CTAS. In one instance, eight hours of equivalent time was recorded on CTAS as earned instead of taken.

Auditors also noted one instance where an employee was on a leave of absence but erroneously received pay for 8 days of that leave of absence. As a result, the employee was overpaid \$1,744.

Department personnel stated the errors noted were due to entry errors and oversight.

Accepted or Implemented – continued

Response: Accepted. The department is considering a corrective action plan to include the Office of the Auditor General recommendations. The overpayment of wages has been collected from the employee.

Updated Response: A corrective action plan has been implemented.

9. Work with the Governor’s Office of Management and Budget to determine a method to become current with the balance due to DCMS and initiate reductions in other line items to ensure sufficient funds to pay for the services provided by DCMS.

Finding: The Department failed to pay \$817,144 to the Department of Central Management Services (DCMS) as of June 30, 2009 for various goods and services purchased from DCMS from FY07 through FY09. As of March 31, 2010, the Department has paid \$111,257 to the Communications Revolving Fund and \$228,846 to the Facilities Management Revolving Fund. However, these payments were not made in a timely manner and the Department still owes \$477,041 to DCMS.

Department personnel stated the vouchers were not paid timely due to insufficient appropriation authority beginning in FY08. Department personnel further stated the past due amounts were created by a former Department employee when that person did not expend available appropriations for DCMS liabilities incurred during FY05 and FY06.

Response: IDOL has made numerous attempts to have this appropriation increased but have been unsuccessful in doing so primarily as a result of the current State fiscal crisis. The amount of past due CMS liabilities equates to approximately one year of CMS related appropriations. In each of the last three years, DOL has expended all of the budgetary resources made available to it for CMS-related appropriations by the General Assembly. Additionally, amounts remaining in other budgetary lines are transferred and paid from CMS related lines via the 2% transfer authority granted DOL at the end of each fiscal year.

10. Limit expenditures from appropriated line items to the purpose for which they are appropriated. (Repeated-2005)

Finding: The Department improperly used funds appropriated by the General Assembly as follows:

- The Department received a lump sum appropriation of \$159,000 for FY08 for all costs associated with promoting and enforcing the Equal Pay Act and the Victims’ Economic Security and Safety Act. However, the Department expended \$1,500 from this appropriation for license and application fee refunds unrelated to the promotion and enforcement of those statutes.

REVIEW: 4355

- The Department received telecommunications appropriations totaling \$87,900 for FY08. However, the Department expended \$45,766 from these appropriations, which should have been expended from the Department's contractual services appropriation.
- The Department received commodities appropriations totaling \$19,500 and \$23,500 for FY08 and FY09, respectively. However, the Department expended \$2,424 and \$50 from these appropriations during FY08 and FY09, respectively, which should have been expended from the Department's printing appropriation.

Department personnel stated that the proper fund but incorrect appropriation line was used to refund the overpayment of fees collected for Nurse Agency and Private Employer Agency application fees due to employee error. Department personnel stated that they paid the services out of the Department's telecommunication appropriation due to the lack of appropriation made available by the General Assembly in the contractual services line.

Response: Accepted. The Department plans to implement procedural changes to help ensure that expenditures from appropriated line items are limited to the purpose for which they were appropriated.

- 11. Implement procedures to ensure all vouchers are approved timely in accordance with the Administrative Code and develop and implement procedures to identify all vouchers not paid within 60 days to ensure the proper amount of interest is paid in accordance with the Prompt Payment Act. Also, comply with the State Records Act and ensure an adequate system of recordkeeping is maintained. In addition, comply with SAMS procedures by having a receiving officer sign each voucher to indicate goods were received according to stated specifications. Further, ensure the correct SAMS information and accurate general information is reported on all vouchers. (Repeated-1999)**

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

- Forty-seven of 258 vouchers tested, totaling \$322,813, were approved for payment from one to 569 days late.
- The Department could not locate 11 of 238 vouchers, totaling \$2,258, selected for testing.
- Twelve of 238 vouchers tested, totaling \$22,168, did not contain accurate information.
- Nine of 238 vouchers tested, totaling \$49,990, were not charged to the correct SAMS detail object code.
- Five of 238 vouchers tested, totaling \$20,129, were not signed and dated by the receiving officer.

REVIEW: 4355

Accepted or Implemented – concluded

Department personnel stated the deficiencies were due to limited fiscal staff and competing priorities for responsible personnel.

Response: Accepted. The Department is considering a corrective action plan to include the Office of the Auditor General recommendations.

Emergency Purchases

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, 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 and FY09, 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.

The Department of Labor indicated as of July 2009, the Department had 14 employees assigned to locations other than official headquarters.