

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Proprietary Fund  
Financial Statements  
For the Year Ended June 30, 2018**

Performed as Special Assistant Auditors  
For the Auditor General, State of Illinois



**State of Illinois**  
**Department of Employment Security**  
**Financial Audit**  
**For the Year Ended June 30, 2018**

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**State of Illinois  
Department of Employment Security  
Agency Officials  
June 30, 2018**

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Director	Mr. Thomas Chan (Acting) (March 1, 2019 to present) Mr. Jeffrey D. Mays (through February 28, 2019)
Chief of Staff	Ms. Lisbeth Leanos (Acting) (Dec. 1, 2018 to present) Ms. Helen Cashman (August 1, 2018 to Nov. 30, 2018) Vacant (June 16, 2018 to July 31, 2018) Mr. James McDonough (through June 15, 2018)
Deputy Director Service Delivery Bureau	Ms. Trina Taylor
Deputy Director Business Services Bureau	Ms. Dolores Simon
Chief Legal Counsel	Mr. Thomas Chan (Acting) (August 1, 2018 to present) Mr. Joseph P. Mueller (through July 31, 2018)
Chief Financial Officer	Mr. L. Briant Coombs (Acting) August 1, 2018 to present) Ms. Linda DeMore (through July 31, 2018)
Chief Administration Officer	Vacant (February 23, 2019 to present) Ms. Jennifer Waldinger (June 1 to February 22, 2019) Vacant (May 17, 2018 to May 31, 2018) Mr. John Waters (through May 16, 2018)
Chief Operating Officer	Vacant (June 1, 2018 to present) Ms. Jennifer Waldinger (through May 31, 2018)
Chief Internal Auditor	Mr. Rex Crossland
Chief Information Officer	Mr. Thomas Revane
Chief Technology Officer	Mr. Venkata Twarakavi
Manager, Accounting Services Division	Vacant (August 1, 2018 to present) Mr. L. Briant Coombs (through July 31, 2018)
Manager, Economic Information and Analysis Division	Mr. George Putnam (Acting) (Jan. 1 2019 to present) Ms. Evelina Loescher, PhD (through Dec. 31, 2018)
Manager, Revenue Division	Mr. Algie Crivens (Acting) (March 1, 2019 to present) Mr. Bodgan (Bob) Acamovic (June 16, 2018 to February 28, 2019) Ms. Lois Cuevas (through July 31, 2018) Ms. Janice Taylor Brown
Statewide Manager, Field Operations	
Statewide Manager, Unemployment Insurance Programs	Mr. Justin Brissette

The Department's Administrative offices are located at:

33 S. State Street  
Chicago, IL 60603-2802

607 E. Adams, 9<sup>th</sup> Floor  
Springfield, IL 62701-1606

**State of Illinois  
Department of Employment Security**

**Financial Statements  
For the Year Ended June 30, 2018**

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**FINANCIAL STATEMENT REPORT SUMMARY**

The audit of the accompanying financial statements of the State of Illinois, Department of Employment Security (Department) was performed by RSM US LLP as of and for the year ended June 30, 2018.

Based on their audit, the auditors expressed an unmodified opinion on the Department's nonshared proprietary fund financial statements.

**SUMMARY OF FINDINGS**

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be material weaknesses or a significant deficiency. The material weaknesses are described in the accompanying Schedule of Findings on pages 23-32 of this report as items 2018-001, *Inadequate Controls over Taxes Receivable*, 2018-002, *Inadequate Controls over Claimant Overpayment Receivables*, 2018-003, *Inadequate Controls over Refund Liabilities*, 2018-004, *Inaccurate Refunds Payable*, 2018-006, *Lack of Write Off Policies*, 2018-007, *Inadequate Controls Over Changes to GenTax*, 2018-008, *Inadequate Controls over GenTax Access*.

The significant deficiency is described in the accompanying Schedule of Findings on page 28 of this report as item 2018-005, *Incomplete Conversion of Account Details*.

**EXIT CONFERENCE**

In correspondence received from James Schreiber, Audit Liaison, on May 17, 2019, the Department elected to waive a formal exit conference. The responses to the recommendations were provided by James Schreiber, Audit Liaison, in correspondence dated May 17, 2019.

## Independent Auditor's Report

Honorable Frank J. Mautino  
Auditor General  
State of Illinois

### Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Unemployment Compensation Trust Fund (Trust Fund), an individual nonshared proprietary fund of the State of Illinois, Department of Employment Security (Department), as of and for the year ended June 30, 2018, and the related notes to the financial statements which collectively comprise the Trust Fund financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Individual Nonshared Proprietary Fund of the Department, as of June 30, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 2, the financial statements present only the Trust Fund and do not purport to, and do not, present fairly the financial position of the State of Illinois or the Department as of June 30, 2018, the changes in their financial position, and where applicable, their cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters***Required Supplementary Information*

Management has omitted management's discussion and analysis for the Trust Fund, that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Trust Fund's financial statements. The combining statement of net position, statement of revenues, expenses, and changes in net position and statement of cash flows are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining statement of net position, statement of revenues, expenses, and changes in net position and statement of cash flows are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statement of net position, statement of revenues, expenses, and changes in net position and statement of cash flows are fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2019 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

**Restricted Use of this Auditor's Report**

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, Department management, and Federal awarding agencies and pass-through entities, and is not intended to be and should not be used, by anyone other than these specified parties.

**SIGNED ORIGINAL ON FILE**

Schaumburg, Illinois  
May 20, 2019

State of Illinois  
 Department of Employment Security

Individual Nonshared Proprietary Fund  
 Statement of Net Position  
 June 30, 2018  
 (Amounts in \$000's)

	Unemployment Compensation Trust Fund
<b>Current assets</b>	
Cash and cash equivalents	\$ 20,872
Cash equivalents held by Federal government	1,939,194
Receivables, net	
Taxes	324,851
Intergovernmental	26,190
Other	111,586
Due from State funds	26,409
Due from component units of the State	138
<b>Total current assets</b>	<u>2,449,240</u>
<b>Current liabilities</b>	
Benefit payments payable	124,127
Intergovernmental payables	3,394
Due to other State funds	2,300
<b>Total current liabilities</b>	<u>129,821</u>
<b>Net position</b>	
Restricted for payment of benefits	<u>\$ 2,319,419</u>

See Notes to Financial Statements.

State of Illinois  
 Department of Employment Security

Individual Nonshared Proprietary Fund  
 Statement of Revenues, Expenses, and Changes in Net Position  
 Year Ended June 30, 2018  
 (Amounts in \$000's)

	<b>Unemployment Compensation Trust Fund</b>
<b>Operating revenues</b>	
Contributions - unemployment taxes	\$ 1,900,277
Contributions - Federal government	6,901
Total operating revenues	<u>1,907,178</u>
<b>Operating expenses</b>	
Benefit payments and refunds	<u>1,727,817</u>
Total operating expenses	<u>1,727,817</u>
<b>Operating income</b>	<u>179,361</u>
<b>Nonoperating revenues</b>	
Interest and investment income	36,931
Other revenue	25
Total nonoperating revenues	<u>36,956</u>
<b>Income before transfers</b>	216,317
Transfers in	11
Transfers out	<u>(23,270)</u>
<b>Change in net position</b>	193,058
<b>Net position, July 1, 2017</b>	<u>2,126,361</u>
<b>Net position, June 30, 2018</b>	<u>\$ 2,319,419</u>

See Notes to Financial Statements.

State of Illinois  
 Department of Employment Security

Individual Nonshared Proprietary Fund  
 Statement of Cash Flows  
 Year Ended June 30, 2018  
 (Amounts in \$000's)

	<b>Unemployment Compensation Trust Fund</b>
<b>Cash flows from operating activities</b>	
Contributions - unemployment taxes received	\$ 1,962,573
Contributions received from the Federal government	6,660
Unemployment benefits paid	<u>(1,728,844)</u>
Net cash provided by operating activities	<u>240,389</u>
<b>Cash flows from noncapital financing activities</b>	
Miscellaneous receipts - FUTA credit	24
Transfers out	<u>(22,275)</u>
Net cash used in noncapital financing activities	<u>(22,251)</u>
<b>Cash flows from investing activity</b>	
Interest and investment income	<u>36,931</u>
Net cash provided by investing activity	<u>36,931</u>
<b>Net increase in cash and cash equivalents</b>	255,069
<b>Cash and cash equivalents, July 1, 2017</b>	<u>1,704,997</u>
<b>Cash and cash equivalents, June 30, 2018</b>	<u>\$ 1,960,066</u>

(Continued)

State of Illinois  
Department of Employment Security

Individual Nonshared Proprietary Fund  
Statement of Cash Flows (Continued)  
Year Ended June 30, 2018  
(Amounts in \$000's)

	<b>Unemployment Compensation Trust Fund</b>
<hr/>	
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 179,361
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Taxes and other receivables	61,430
Intergovernmental receivables	4,441
Due from State funds	8,509
Due from component units	(1)
Benefit payments payable	(11,664)
Intergovernmental payables	(1,687)
Net cash provided by operating activities	<u>\$ 240,389</u>

See Notes to Financial Statements.

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Proprietary Fund  
Notes to Financial Statements  
June 30, 2018  
(Amounts in \$000's)**

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**Note 1. Description of Funds**

The State of Illinois, Department of Employment Security (Department) administers the nonshared proprietary fund as described below. A nonshared fund is a fund in which a single State agency is responsible for administering substantially all financial transactions of the fund.

Unemployment Compensation Trust Fund

The following have been combined for external financial reporting purposes as the Unemployment Compensation Trust Fund:

a. Unemployment Compensation Trust Fund

The Unemployment Compensation Trust Fund (UCTF) accounts for assets held by the Department in a trustee capacity, for which the principal and income may be expended in the course of the fund's designated operations. The fund, a locally held fund, receives employer contributions and disburses money in the form of unemployment benefits paid to eligible claimants. This fund also receives Federal funding to pay eligible claimants for any federally mandated benefit programs. The UCTF is not appropriated by the General Assembly and is intended to be self-supporting.

b. Master Bond Fund

The Master Bond Fund (MBF) accounts for fund building receipts which are used for the payment of obligations in connection with bond issues, including principal and interest and bond administrative expenses. This locally held fund was established July 2012 by an amendment to the Unemployment Insurance Act by the Authorizing Legislation (Public Act 93-0634, as supplemented by Public Act 93-0676) where employers' contributions attributable to the fund building rate shall be directed for deposit into the MBF. The authorizing legislation authorizes the State to issue bonds to (1) repay principal and interest on unpaid advances to the State's unemployment trust account within the Federal Unemployment Trust Fund; (2) pay unemployment benefits by depositing a portion of the proceeds in the State's unemployment trust account within the Federal Unemployment Trust Fund; and (3) pay costs of issuance. The MBF is not appropriated by the General Assembly and is intended to be self-supporting. As of June 15, 2017, the bonds were fully redeemed. On October 3, 2017, the remaining funds were transferred to the UCTF and the MBF was closed.

**Note 2. Summary of Significant Accounting Policies**

The financial statements of the individual nonshared proprietary fund have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate understanding of the financial statements, significant accounting policies are summarized below.

A. Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable.

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Proprietary Fund  
Notes to Financial Statements  
June 30, 2018  
(Amounts in \$000's)**

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The financial statements present only the nonshared proprietary fund administered by the Department and do not purport to, and do not, present fairly the financial position of the Department or the State of Illinois as of June 30, 2018 nor changes in its financial position or cash flows for the year then ended in conformity with GAAP.

**B. Basis of Presentation**

In government, the basic accounting and reporting entity is a fund. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, deferred inflows/outflows, and equities, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. A statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows have been presented for the nonshared proprietary fund administered by the Department.

The nonshared proprietary fund is an enterprise fund. Enterprise funds are used to report any activity for which a fee is charged to external users for goods and services. Activities are required to be reported as enterprise funds if any one of the following criteria is met when applied in the context of the activity's principal revenue sources: the activity is financed with debt that is secured solely by a pledge of net revenues from fees and charges of the activity; laws and regulations require that the activity's costs of providing service, including capital costs, be recovered with fees and charges, rather than taxes or similar revenues; or the pricing policy of the activity establishes fees and charges designed to recover its costs, including capital costs.

The Department administers the unemployment insurance program under various Federal and State statutes and regulations. The Unemployment Trust Fund (UTF) was established under Title IX of the Social Security Act to provide partial protection to workers against the loss of wages when they are out of work due to no fault of their own. To fund this program, the agency receives monies from employers to maintain the fund, which are then used to pay benefits to the unemployed workers who meet the eligibility requirements of the law.

These funds are held by the United States Treasury in an unemployment trust fund and are restricted to the payment of unemployment benefits. Unemployment benefits drawn from the fund are awarded to qualified former employees of covered Illinois employers. Employers are required to contribute to the unemployment trust fund based on employees' wages and their past experience level of causing unemployment. The overall rate used to determine contributions for the Illinois Unemployment Insurance Trust Fund is designed to recover the payment of unemployment benefits plus maintain a reasonable balance to protect the solvency of the fund if unemployment rates rise significantly.

Operating revenues, such as collections of unemployment tax contributions, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Contributions received from the Federal government pertain mostly to unemployment coverage for Federal employees and ex-service members and are considered operating revenues. Nonoperating revenues, such as investment earnings, result from nonexchange transactions or ancillary activities.

**State of Illinois**  
**Department of Employment Security**

**Individual Nonshared Proprietary Fund**  
**Notes to Financial Statements**  
**June 30, 2018**  
**(Amounts in \$000's)**

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C. Basis of Accounting

The nonshared proprietary fund is reported using the economic resources measurement focus and the accrual basis of accounting.

Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include Federal funding for federally mandated benefit programs. On an accrual basis, revenues from employer contributions are recognized in the fiscal year in which the underlying exchange transaction occurs. Revenues from grants, entitlements, and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

D. Cash and Cash Equivalents

Cash and cash equivalents consist principally of cash in banks for locally held funds, U.S. government securities, and pooled investment funds held by other governmental agencies with original maturities of three months or less from the date of acquisition.

E. Interfund Transactions

The nonshared proprietary fund has the following types of interfund transactions with other funds of the State:

a) Reimbursements

Repayments from the funds responsible for particular expenditures or expenses to the fund that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

b) Transfers

Flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported after nonoperating revenues and expenses.

F. Operating Revenues

Details of the reported balance of Federal government contributions and grants revenue is shown in the table which follows. The negative balances shown below are because the Programs have come to an end. Those Programs include the Emergency Unemployment Programs, Temporary Extended Unemployment Compensation, Federal Additional Compensation and Extended Benefits. These amounts have historically been reported net consisting of, total Federal receipts less the recouped cash receipts from Claimants. Under Federal Guidelines the recouped receipts are reported as an offset of Federal revenue receipts.

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Proprietary Fund  
Notes to Financial Statements  
June 30, 2018  
(Amounts in \$000's)**

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Program	Revenue
Unemployment Compensation for Federal Employees	\$8,041
Unemployment Compensation for Ex-service members	5,881
Temporary Extended Unemployment Compensation	(46)
Emergency Unemployment Compensation 2008 (General Revenue funded)	(4,497)
Emergency Unemployment Compensation 2008 (FUTA Funded)	(207)
Federal Additional Compensation	(603)
Extended Benefits	(390)
Emergency Unemployment Compensation 2008 (Non General Revenue)	(1,519)
Year-end Adjustment	241
Total	\$6,901

**G. Net Position**

Restricted Net Position includes resources in which the Department is legally obligated for payment of Unemployment benefits in accordance with the Unemployment Insurance Act.

**H. Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Proprietary Fund  
Notes to Financial Statements  
June 30, 2018  
(Amounts in \$000's)**

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**Note 3. Deposits and Investments**

At June 30, 2018, cash and cash equivalents for the UTF for a locally held fund had a carrying amount in the accompanying financial statements of \$20,872 and a bank balance of \$22,864.

Custodial credit risk relating to deposits is the risk that in the event of a bank failure, the Department's deposits may not be returned to it. As of June 30, 2018, the Department's deposits held outside the State Treasury were adequately collateralized and therefore not exposed to custodial credit risk.

Credit risk exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its obligations. The Department does not have a formal policy limiting credit risk.

Investments held by the Federal government totaled \$1,939,194 as of June 30, 2018, and represents an external investment pool in which the Department's funds are pooled along with other participating State's funds. This pool is valued at amortized cost. It is not rated in regards to credit risk.

Custodial credit risk is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2018, the Department did not have any investments subject to this risk.

Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's value. The Department does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Department does not have any debt securities that are subject to interest rate risk.

**Note 4. Taxes Receivable**

Taxes receivable represent unemployment taxes, known as contributions, owed by private and non-governmental employers. The allowance for uncollectible taxes has been based on historical collection experience which, per statute, is typically on a 4-year collection cycle.

Balances as of June 30, 2018, are as follows:

Unemployment taxes	\$ 591,358
Interest and penalties receivables on taxes	<u>139,633</u>
Total taxes receivable	730,991
Less allowance for uncollectible taxes	<u>(406,140)</u>
Taxes receivable, net	<u><u>\$ 324,851</u></u>

**Note 5. Intergovernmental Receivables**

Intergovernmental receivables represent reimbursements due from other State and local governments and from the Federal government for unemployment benefits paid to those governments' ex-employees. These totaled \$25,732 and \$458, respectively, at June 30, 2018.

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Proprietary Fund  
Notes to Financial Statements  
June 30, 2018  
(Amounts in \$000's)**

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**Note 6. Other Receivables**

Other receivables represent amounts due from claimants who received benefits that exceeded their allowable amounts. The allowance for uncollectible accounts has been based on historical collection experience which, per statute, is typically on a 5-year collection cycle.

Balances as of June 30, 2018 are as follows:

Other receivables	\$ 416,365
Less allowance for uncollectible receivables	<u>(304,779)</u>
Other receivable, net	<u><u>\$ 111,586</u></u>

**Note 7. Interfund Balances and Activities**

(a) Balances Due to and from Other Funds

The following balances at June 30, 2018 represent amounts due from and due to other Department and State of Illinois funds.

<u>Description/Purpose</u>	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>
Due from General Revenue Fund for reimbursement of unemployment benefits paid	\$ 25,291	\$ -
Due from Title III for reimbursement of unemployment benefits paid	7	-
Due from the Department of Transportation for reimbursement of unemployment benefits to former employees of the Department	1,100	-
Due to Operating Fund for discretionary transfers of penalties and interests	-	2,295
Due from Operating fund for discretionary transfers of nonsufficient funds (NSF) fees	11	-
Due to Operating fund for discretionary transfers of nonsufficient funds (NSF) fees	-	5
Totals	<u><u>\$ 26,409</u></u>	<u><u>\$ 2,300</u></u>

Due from component units of the State of Illinois balance at June 30, 2018 of \$138 represents reimbursement of unemployment benefits paid to employees of State universities.

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Proprietary Fund  
Notes to Financial Statements  
June 30, 2018  
(Amounts in \$000's)**

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(b) Transfers

Interfund transfers in and out for the year ended June 30, 2018, were as follows:

Description/Purpose	Transfer Out to Other Fund	Transfer In from Other Fund
Discretionary transfers of penalties and interests to Operating Fund	\$ 23,253	\$ -
Discretionary transfers of NSF fees to Operating Fund	17	-
Transfer in for Operating Fund for Judgment Interest Fund	-	11
Totals	\$ 23,270	\$ 11

**Note 8. Intergovernmental Payables**

Intergovernmental payables of \$3,394 represent interstate combined wage claim benefits payable.

**Note 9. Bonds Payable**

As of June 15, 2017, the bonds were fully redeemed. By October 3, 2017, the remaining balance in the Master Bond Fund in the amount of \$155,717 was transferred to the Unemployment Insurance Trust Fund Account.

**Note 10. Contingencies**

The Department is involved in various claims and legal actions arising in the ordinary course of business. It is the opinion of management that the ultimate disposition of these matters will not have a material effect on the individual nonshared proprietary fund financial statements.

**SUPPLEMENTARY  
INFORMATION**

State of Illinois  
 Department of Employment Security

Individual Nonshared Proprietary Fund  
 Combining Statement of Net Position  
 June 30, 2018  
 (Amounts in \$000's)

	Unemployment Compensation Trust Fund	Master Bond Fund	Eliminations	Total
<b>Current assets</b>				
Cash and cash equivalents	\$ 20,872	\$ -	\$ -	\$ 20,872
Cash equivalents held by Federal government	1,939,194	-	-	1,939,194
Receivables, net				
Taxes	324,851	-	-	324,851
Intergovernmental	26,190	-	-	26,190
Other	111,586	-	-	111,586
Due from State funds	26,409	-	-	26,409
Due from component units	138	-	-	138
<b>Total current assets</b>	<b>2,449,240</b>	<b>-</b>	<b>-</b>	<b>2,449,240</b>
<b>Current liabilities</b>				
Benefit payments payable	124,127	-	-	124,127
Intergovernmental payables	3,394	-	-	3,394
Due to other State funds	2,300	-	-	2,300
<b>Total current liabilities</b>	<b>129,821</b>	<b>-</b>	<b>-</b>	<b>129,821</b>
<b>Net position</b>				
Restricted for payment of benefits	\$ 2,319,419	\$ -	\$ -	\$ 2,319,419

State of Illinois  
Department of Employment Security

Individual Nonshared Proprietary Fund  
Combining Statement of Revenues, Expenses, and Changes in Net Position  
Year Ended June 30, 2018  
(Amounts in \$000's)

	Unemployment Compensation Trust Fund	Master Bond Fund	Eliminations	Total
<b>Operating revenues</b>				
Contributions - unemployment taxes	\$ 1,900,277	\$ -	\$ -	\$ 1,900,277
Contributions - Federal government	6,901	-	-	6,901
Total operating revenues	1,907,178	-	-	1,907,178
<b>Operating expenses</b>				
Benefit payments and refunds	1,727,817	-	-	1,727,817
<b>Operating income</b>	179,361	-	-	179,361
<b>Nonoperating revenues</b>				
Interest and investment income	36,531	400	-	36,931
Other revenues	25	-	-	25
Total nonoperating revenues	36,556	400	-	36,956
<b>Income before transfers</b>	215,917	400	-	216,317
Transfers in	155,728	-	(155,717)	11
Transfers out	(23,270)	(155,717)	155,717	(23,270)
<b>Change in net position</b>	348,375	(155,317)	-	193,058
<b>Net position, July 1, 2017</b>	1,971,044	155,317	-	2,126,361
<b>Net position, June 30, 2018</b>	\$ 2,319,419	\$ -	\$ -	\$ 2,319,419

State of Illinois  
Department of Employment Security

Individual Nonshared Proprietary Fund  
Combining Statement of Cash Flows  
Year Ended June 30, 2018  
(Amounts in \$000's)

	Unemployment Compensation Trust Fund	Master Bond Fund	Eliminations	Total
<b>Cash flows from operating activities</b>				
Contributions - unemployment taxes received	\$ 1,962,573	\$ -	\$ -	\$ 1,962,573
Contributions received from the Federal government	6,660	-	-	6,660
Unemployment benefits paid	(1,728,844)	-	-	(1,728,844)
Net cash provided by operating activities	240,389	-	-	240,389
<b>Cash flows from noncapital financing activities</b>				
Miscellaneous receipts - FUTA credit	24	-	-	24
Transfers in	155,717	49,408	(205,125)	-
Transfers out	(71,683)	(155,717)	205,125	(22,275)
Net cash provided by (used in) noncapital financing activities	84,058	(106,309)	-	(22,251)
<b>Cash flows from investing activity</b>				
Interest and investment income	36,531	400	-	36,931
Net cash provided by investing activity	36,531	400	-	36,931
<b>Net increase (decrease) in cash and cash equivalents</b>	360,978	(105,909)	-	255,069
<b>Cash and cash equivalents, July 1, 2017</b>	1,599,088	105,909	-	1,704,997
<b>Cash and cash equivalents, June 30, 2018</b>	\$ 1,960,066	\$ -	\$ -	\$ 1,960,066

State of Illinois  
 Department of Employment Security

Individual Nonshared Proprietary Fund  
 Combining Statement of Cash Flows (Continued)  
 Year Ended June 30, 2018  
 (Amounts in \$000's)

	Unemployment Compensation Trust Fund	Master Bond Fund	Eliminations	Total
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 179,361	\$ -	\$ -	\$ 179,361
Adjustments to reconcile operating income to net cash provided by operating activities:				
Changes in assets and liabilities:				
Taxes and other receivables	61,430	-	-	61,430
Intergovernmental receivables	4,441	-	-	4,441
Due from State funds	8,509	-	-	8,509
Due from component units	(1)	-	-	(1)
Benefit payments payable	(11,664)	-	-	(11,664)
Intergovernmental payables	(1,687)	-	-	(1,687)
Net cash provided by operating activities	<u>\$ 240,389</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 240,389</u>



RSM US LLP

**Independent Auditor's Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed  
In Accordance with *Government Auditing Standards***

Honorable Frank J. Mautino  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Unemployment Compensation Trust Fund (Trust Fund), an individual nonshared proprietary fund of the State of Illinois, Department of Employment Security (Department), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Trust Fund's financial statements, and have issued our report thereon dated May 20, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Departments internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as items 2018-001 through 2018-004, and 2018-006 through 2018-008 to be material weaknesses.

*A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings as item 2018-005 to be a significant deficiency.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Trust Fund's financial statements are free from material misstatement, we performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2018-001 through 2018-008.

### **Department's Response to Finding**

The Department's responses to the findings identified in our audit are described in the accompanying schedule of findings. The Department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**SIGNED ORIGINAL ON FILE**

Schaumburg, Illinois  
May 20, 2019

**State of Illinois  
Department of Employment Security**

**Schedule of Findings  
For the Year Ended June 30, 2018**

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**Current Findings – Government Auditing Standards**

**2018-001 Inadequate Controls over Taxes Receivable**

The Department of Employment Security (Department) did not have adequate controls over their taxes receivable, which caused a misstatement in the Department's draft financial statements. As a result of the inaccuracies noted during testing, the gross taxes receivable balance was adjusted by \$10,323,207.

During testing of accounts receivable, we requested the Department provide their population of taxes receivable as part of our testing of the Department's financial statements. However, the Department did not provide documentation demonstrating the completeness of the population. Due to these conditions, we were unable to conclude the Department's population records were sufficiently precise and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AU-C § 330, AU-C § 530). As a result of this condition, the auditors had to perform significant additional procedures relating to the balance of taxes receivable.

Our testing specifically noted:

- The Department did not post interest to employer accounts for the month of June 2018. This resulted in the receivable being understated by \$1,711,049.
- The Department included accounts which had been written off, but remained in the taxes receivable balance. This resulted in the receivable being overstated by \$3,406,515.
- The Department incorrectly placed the Stop Debit Write Off indicator on employer accounts. This indicator stops the debit write off process for the account or period. These accounts should have been included in taxes receivable, causing it to be understated by \$3,798,901.
- The Department determined there were accounts that should have been written off; however, they were not. As a result, taxes receivable was overstated by \$12,426,642.

The Unemployment Insurance Act (820 ILCS 405/2207) states no determination and assessment of contributions, interest, or penalties shall be made, and no action for the collection of contributions, interest, or penalties which is not based upon final determination and assessment shall be brought against any employing unit, more than four years after the last day of the month immediately following the calendar quarter in which the wages, upon which such contributions accrued, were paid.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation and funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources

The Department indicated the errors were the result of transitioning to the enterprise tax system (GenTax) in September 2017.

**State of Illinois  
Department of Employment Security**

**Schedule of Findings  
For the Year Ended June 30, 2018**

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**Current Findings – *Government Auditing Standards***

**2018-001 Inadequate Controls over Taxes Receivable (continued)**

Failure to ensure financial transactions are reported properly resulted in errors to the Department's draft financial statements and represents noncompliance with State law. (Finding Code No. 2018-001)

Recommendation

We recommend the Department develop appropriate controls to ensure all transactions are properly recorded and presented in its financial statements.

Department Response

The Department accepts the finding and has made the following corrections:

Created SQR #31455: UIT Interest must Post to the Calendar Month Accrued to correct the missing interest to employer accounts at year-end. The SQR is in the testing phase at the time of this response. Once testing is completed, the Department will put the SQR into production.

Removed all previously written off accounts that remained in taxes receivables in December of 2018 with SQR #30130: IDES data fix to reverse out soft debit write-offs to hard debit write offs.

Created SQR #30572 which includes all accounts with the Stop Debit Write-off indicators as accounts that belong in taxes receivable.

Completed draft policies and procedures for taxes receivable write-offs and is working with the Attorney General Office to conduct an immediate write-off, with regular write-offs to be scheduled.

**State of Illinois  
Department of Employment Security**

**Schedule of Findings  
For the Year Ended June 30, 2018**

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**Current Findings – Government Auditing Standards**

**2018-002 Inadequate Controls over Claimant Overpayment Receivables**

The Department of Employment Security (Department) did not have adequate controls over their claimant overpayment receivables, which led to the draft financial statements including accounts which had been written off. As a result, the accounts receivable related to claimant overpayments was materially misstated in the Department's draft financial statements. Due to the inaccuracies noted during testing, the gross accounts receivable balance was adjusted by \$312,486,000, with the net balance being adjusted by \$20,545,000.

During testing, we determined the Department's accounts receivable related to claimant overpayments included accounts that had been written off in prior years. The total of the accounts which had previously been written off was \$312,486,000. An adjustment to the allowance was also recorded for these accounts. In addition, while reviewing the approved write offs in the Illinois Benefit Information System (IBIS), we noted there were no approved write-offs during the first and second quarters of calendar year 2018.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation and funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

The Department indicated the reason for the error is due to the automatic process for populating the report not operating properly.

As a result of the Department's accounts receivable related to claimant overpayments including written off accounts, the accounts receivable reported in the Department's draft financial statement was materially misstated. (Finding Code No. 2018-002)

Recommendation

We recommend the Department implement controls to ensure written off accounts are not reflected in the Department's accounts receivable.

Department Response

The Department accepts this finding. DoIT has made corrections to the 'Illinois Benefit Information System (IBIS)' to correct the report creation process. Written off amounts are no longer included in the account receivable totals. Also, the Agency's General Ledger and the Quarterly Receivable report to IOC (C-97, C98 and C99) were adjusted accordingly.

**State of Illinois  
Department of Employment Security**

**Schedule of Findings  
For the Year Ended June 30, 2018**

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**Current Findings – Government Auditing Standards**

**2018-003 Inadequate Controls over Refund Liabilities**

The Department of Employment Security (Department) did not have adequate controls over refunds, resulting in refund liabilities in the Department' draft financial statements being misstated. As a result, an adjustment of \$11,352,058 was made to the liability.

During testing, we determined there were 51,180 accounts, totaling \$13,108,555, which were past the three-year statute of limitations at June 30, 2018. Upon review of the 51,180 accounts, the Department determined it had subsequently paid out erroneous refunds totaling \$1,756,497.

The Unemployment Insurance Act (820 ILCS 405/2201) states an employer has three years after the date upon in which an employer has paid contributions, interest, or penalties erroneously to request a refund or request the credit to be applied to another tax period.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation and funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

The Department indicated they had not approved or conducted a credit write-off process in GenTax since its September 11, 2017 implementation, resulting in the Department issuing erroneous overpayments as refunds.

The lack of adequate controls over employer credit balances resulted in refunds being erroneously paid out and refund liabilities being overstated. (Finding Code No. 2018-003)

Recommendation

We recommend the Department implement controls over refunds to prevent erroneous refunds and the proper accounting of refund liabilities.

Department Response

The Department accepts this finding. The Department agrees that Section 2201 generally requires an employer to submit a request for refund or adjustment within 3 years after the date upon which the employer paid contributions, interest, or penalties erroneously. However, there are exceptions to this rule. For example, a credit balance over 3 years old that is part of an administrative appeal is not written off while the appeal is pending. Also, in the case of an erroneous payment that occurred on or after January 1, 2015 and prior to September 8, 2017, the employing unit may file the claim for adjustment or refund not later than June 30, 2018 or 3 years after the date of the erroneous payment, whichever is later per Section 2201 of the Unemployment Insurance Act (820 ILCS 405/2201). SQR 30972 programmed GenTax to write-off credit balances. On April 8, 2019, the Department processed its first credit write-off in GenTax. Currently, credit amounts are written off on a daily basis immediately after they pass the 3-year window for refund request unless an exception applies.

**State of Illinois  
Department of Employment Security**

**Schedule of Findings  
For the Year Ended June 30, 2018**

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**Current Findings – *Government Auditing Standards***

**2018-004 Inaccurate Refunds Payable**

The Department of Employment Security (Department) refunds payable account contained amounts that were already paid resulting in the Department's draft financial statements being misstated. As a result, refunds payable was adjusted by \$15 million.

During testing, it was determined the Department's refunds payable account contained refunds for which the Department had already paid the employer. The Department included these amounts in the refunds payable account erroneously due to the employer not cashing the refund.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that revenues applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

The Department indicated a process was not in place to address refunds that were issued but not cashed by the employer.

As a result of including the refunds paid, the Department's refunds payable account and draft financial statements were overstated. (Finding Code No. 2018-004)

Recommendation

We recommend the Department implement controls to ensure that uncashed checks are not included in refunds payable.

Department Response

The Department accepts this finding. Uncashed refund checks will not be included in the Refunds Payable-Applied for future financial statements.

**State of Illinois  
Department of Employment Security**

**Schedule of Findings  
For the Year Ended June 30, 2018**

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**Current Findings – *Government Auditing Standards***

**2018-005 Incomplete Conversion of Account Details**

The Department of Employment Security (Department) did not convert complete employer account details during the conversion process from the IDES Legacy systems to GenTax.

In September 2017, the Department implemented a module of the enterprise-wide tax system (GenTax) to maintain detailed employer information which would enable the Department to monitor employer accounts and ensure all valid tax, penalties and interest amounts were assessed and collected. As part of the implementation process, the Department was required to convert detailed employer account information in order to allow the Department to continue to maintain and monitor employer accounts.

During our testing of unapplied credits, accounts which had a credit balance at June 30, it was determined the Department had failed to convert wage reports for a specific employer. At June 30, 2018, GenTax documented a credit balance of \$1,267,062; however, upon the Department entering the missing wage reports, the credit balance was zeroed out.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation and funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

The Department indicated the error was due to oversight.

Due to the Department's failure to convert all employer account information, the employer account was inaccurately stated and the Department's liabilities at June 30, 2018 were overstated in the draft financial statements. (Finding Code No. 2018-005)

Recommendation

We recommend the Department implement controls to ensure employer account detail is accurate at all times.

Department Response

The Department accepts this finding. Additional testing has been done with a population of suspended reports which were not converted into GenTax at the go-live date. This population did contain the missing reports for the single employer which led to this finding. No additional reports containing wages were discovered in the tests.

**State of Illinois  
Department of Employment Security**

**Schedule of Findings  
For the Year Ended June 30, 2018**

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**Current Findings – *Government Auditing Standards***

**2018-006 Lack of Write Off Policies**

The Department of Employment Security (Department) did not write off uncollectible debt during the fiscal year.

During the audit period, the Department did not have documented policies in place regarding the requirements of writing off uncollectible accounts. Additionally, the Department had not completed a write-off of uncollectible accounts during the audit period which caused the Department's draft financial statements to be materially misstated as noted in Findings 2018-001 and 2018-003.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation and funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

The State Collection Act of 1986 (30 ILCS 210) requires State agencies to develop procedures for the collection and write-off of uncollectible accounts.

The Statewide Accounting Management System (SAMS) Manual (Procedure 26.40.40) requires agencies to request approval from the Attorney General to certify claims which are greater than \$1,000 as uncollectible. The SAMS Manual also states an agency may certify uncollectible claims less than \$1,000 and requires agencies to maintain a listing of debt that is certified as uncollectible.

Department management indicated the Department was still developing policies and procedures due to the transition to GenTax.

The Department did not establish written write-off policies or write-off uncollectible accounts during the audit period, resulting in the Department's draft financial statements being materially misstated. (Finding Code No. 2018-006)

**Recommendation**

We recommend the Department develop written policies regarding the write-off of uncollectible accounts. In addition, we recommend the Department review accounts and once determined uncollectible ensure they are certified by the Department or the Attorney General as required.

**Department Response**

The Department accepts this finding. Draft policies have been written and are under review. In addition, an initial GenTax debit write-off is in the final stage of going to the Attorney General for certification.

**State of Illinois  
Department of Employment Security**

**Schedule of Findings  
For the Year Ended June 30, 2018**

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**Current Findings – Government Auditing Standards**

**2018-007 Inadequate Controls Over Changes to GenTax**

The Department of Revenue and the Department of Employment Security (Departments) did not maintain adequate controls over changes to the enterprise-wide tax system (GenTax).

The Department of Revenue (IDOR) utilizes GenTax to process tax returns of State residents and business employers. On September 11, 2017, the Department of Employment Security (IDES) went live with the Unemployment Insurance Tax module of GenTax in order to process employer unemployment returns and payments. During fiscal year 2018, the IDOR processed over 13.4 million transactions and \$45.1 billion in payments and the IDES processed over 1.9 million transactions and \$1.6 billion in payments from taxpayers and employers, respectively.

As part of the audit process, we requested the Departments provide the population of changes to GenTax. In response, the Departments provided a listing of changes; however, during our testing we noted changes which were not applicable to GenTax.

Due to these conditions, we were unable to conclude the Departments' population of changes to GenTax were sufficiently precise and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AU-C § 330, AU-C §530, AT-C §205).

Even given the population limitations noted above, we performed testing and noted:

During the audit period, the Departments had four different change control procedures. In order to test the procedures for compliance, we selected a sample of 137 proposed changes to GenTax made by the Departments' personnel during the audit period. Out of the 137 proposed changes, only 100 of them were deemed a required and necessary change to GenTax by the Departments' management and were subsequently made. Out of the 100 required changes to GenTax, we noted the following:

- 58 (58%) changes did not contain evidence that testing had been conducted or lacked testing documentation.
- 12 (12%) changes were not approved, or approval was by an unauthorized individual during the development stages or migration to the production environment.
- 2 (2%) changes did not follow the required change control process.

The Departments' varying iterations of change control procedures required that all changes be tested, with testing documented and approved by authorized individuals throughout the development process and migration.

The Departments indicated that prior to the integration of the IDES into the change control system utilized by the IDOR, the procedures were specific to the needs of the IDOR. During the audit period, a comprehensive review of the procedures was conducted which resulted in significant changes. Changes were implemented in stages as the need arose requiring multiple versions of procedures.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to ensure State's resources are used efficiently and effectively.

Generally accepted information technology guidance endorses the implementation of suitable change management procedures to control changes to computer systems.

**State of Illinois  
Department of Employment Security**

**Schedule of Findings  
For the Year Ended June 30, 2018**

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**Current Findings – *Government Auditing Standards***

**2018-007 Inadequate Controls Over Changes to GenTax (continued)**

Failure to implement and maintain adequate controls over changes may lead to improper changes or access, resulting in inaccurate data and security concerns. (Finding Code No. 2018-007)

Recommendation

We recommend that the IDES work with the IDOR to utilize adequate internal controls over changes to GenTax and maintain documentation to support the processes and procedures utilized to mitigate the applicable risks related to system changes.

Department Response

The Departments accept the Auditor's recommendation. Change control procedures have been revised, and an improved tracking solution has been implemented.

**State of Illinois  
Department of Employment Security**

**Schedule of Findings  
For the Year Ended June 30, 2018**

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**Current Findings – Government Auditing Standards**

**2018-008 Inadequate Controls over GenTax Access**

The Department of Employment Security (Department) did not ensure adequate security over its enterprise-wide tax system (GenTax).

During testing of security over GenTax, the auditors noted:

- For a sample of 11 terminated employees:
  - 8 (73%) employees' access was removed 32 to 129 days after termination, and,
  - 1 (9%) individual's access removal date could not be determined.
- For 1 of 10 (10%) new hired employees sampled, the Department could not provide documentation approving the employee's access to GenTax.
- The Department had not conducted a review of the users and their associated rights to GenTax during the audit period.

Generally accepted information technology guidance endorses the development of well-designed and well-managed controls to protect computer systems and data. Effective computer security controls provide for safeguarding, securing, and controlling access to hardware, software, and the information stored in the computer system.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation.

The Department indicated they were still in the process of developing controls over GenTax.

Failure to implement and maintain adequate security controls may lead to unauthorized access to unemployment tax information and data integrity issues. (Finding Code No. 2018-008)

Recommendation

We recommend the Department implement controls over GenTax security, including those over terminated and new employees. We also recommend the Department periodically conduct a review of all users and their associated access rights.

Department Response

The Department accepts this finding and is in the process of developing a security case to better track, control and monitor GenTax access and termination of access. The department will be scheduling periodic review of all users and their associated access rights.

**State of Illinois**

**Department of Employment Security**

**Schedule of Prior Year Finding  
For the Year Ended June 30, 2018**

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**Prior Finding Not Repeated – *Government Auditing Standards***

**A. Inadequate Controls over Financial Close and Reporting**

During the prior audit, the Department of Employment Security (Department) did not have adequate controls over financial reporting to allow management or employees in the normal course of performing their assigned functions to prevent or detect financial statement misstatements in a timely manner. It was noted in the Unemployment Trust Fund, amounts associated with additional contribution refunds for reimbursement-basis employers which were indicated in the Department's Benefit Funding System were not captured in the total amount of employer refunds at year-end. As a result, the payables for employer contribution refunds were understated by \$5.7 million, and associated revenues were overstated by the same amount.

Status: Not Repeated

During the current audit, the Department properly reported additional contribution refunds for reimbursement-basis employers. However, the auditors noted other issues regarding inadequate controls over financial reporting which are reported in findings 2018-001 to 2018-006. (Finding Code No. 2017-001)