

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Fund
Financial Statements
For the Year Ended June 30, 2022**

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, 2022

Table of Contents

Agency Officials	1
Financial Statement Report Summary	2 – 3
Independent Auditor’s Report	4 – 6
Individual Nonshared Proprietary Fund Financial Statements:	
Statement of Net Position	7
Statement of Revenues, Expenses, and Changes in Net Position (unaudited)	8
Statement of Cash Flows (unaudited)	9 – 10
Notes to Financial Statements	11 – 20
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 <i>Government Auditing Standards</i>	21 – 22
Schedule of Findings	
Current Findings	23 – 29

**State of Illinois
Department of Employment Security**

**Agency Officials
June 30, 2022**

Acting Director (01/17/23 – Present) Director (8/10/20 – 01/16/23)	Mr. Raymond Marchiori Ms. Kristin Richards
Chief of Staff (04/01/23 – Present) Chief of Staff (01/17/23 – 03/31/23) Chief of Staff (06/18/19 – 01/16/23)	Ms. Melissa Coultas Vacant Mr. Raymond Marchiori
Deputy Director Service Delivery Bureau (07/26/21 – Present) Deputy Director Service Delivery Bureau (07/16/21 – 07/25/21) Deputy Director Service Delivery Bureau (02/16/15 – 07/15/21)	Ms. Mireya Hurtado Vacant Ms. Trina Taylor
Deputy Director Business Services Bureau (02/1/2021 – Present)	Ms. Carrie Thomas
Chief Legal Counsel (01/16/20 – Present)	Mr. Kevin Lovellette
Chief Financial Officer (12/01/19 – Present)	Mr. Isaac Burrows
Chief Operating Officer (12/1/2020 – Present)	Ms. Stacey Howlett
Chief Internal Auditor (05/16/21 – Present)	Mr. Noe G. Reyes
Manager, Accounting Services Division (07/01/19 – Present)	Mr. L. Briant Coombs
Manager, Economic Information and Analysis Division (12/16/19 – Present)	Mr. George Putnam, PhD

The Department's primary administrative offices are located at:
33 S. State Street
Chicago, IL 60603-2802

607 E. Adams, 9th Floor
Springfield, IL 62701-1606

**State of Illinois
Department of Employment Security**

**Financial Statements
For the Year Ended June 30, 2022**

FINANCIAL STATEMENT REPORT SUMMARY

The audit of the accompanying financial statements of the Unemployment Compensation Trust Fund 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, 2022.

Based on their audit, the auditors expressed a qualified opinion on the Department's Statement of Net Position and a disclaimer of opinion on the Department's Statements of Revenues, Expenses, and Changes in Net Position and Cash Flows.

SUMMMARY OF FINDINGS

Number of	<u>Current Report</u>	<u>Prior Report</u>
Findings	5	3
Repeated Findings	3	2
Prior Recommendations Implemented or Not Repeated	0	5

SUMMMARY OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
CURRENT FINDINGS				
2022-001	23	2021/2020	Failure to Implement General Information Technology Controls over the Pandemic Unemployment Assistance System	Material Weakness and Noncompliance
2022-002	24	2021/2021	Failure to Maintain Accurate and Complete Pandemic Unemployment Assistant Claimant Data	Material Weakness and Noncompliance
2022-003	25	New	Lack of Internal Controls over Financial Accounting and Reporting	Material Weakness and Noncompliance
2022-004	27	2021/2020	Failure to Perform Timely Cash Reconciliations	Material Weakness and Noncompliance
2022-005	29	New	Inadequate Control over GenTax Access	Significant Deficiency and Noncompliance

**State of Illinois
Department of Employment Security**

**Financial Statements
For the Year Ended June 30, 2022**

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on June 1, 2023.

Attending were:

Illinois Department of Employment Security:

Ray Marchiori	Acting Director
Isaac Burrows	Chief Financial Officer
Melissa Coultas	Chief of Staff
Noe Reyes	Chief Internal Auditor
Stacy Howlett	Chief Operation Officer
Thomas Revane	Chief Information Officer
James Schreiber	Audit Liaison
Kelly McGrath	Manager of Accounting and Financial Reporting
Samantha Oliver	UI Trust Fund Manager
Briant Coombs	Accounting Services Manager
Mireya Hurtado	Executive Deputy Director of Service Delivery
Carrie Thomas	Executive Deputy Director for Business Services
Marcia Armstrong	Director's Office Representative
Adrienne Burt	Special Projects
Derek Michaels	Senior Executive Assistant

Office of the Auditor General:

Dennis Gibbons	Audit Manager
Reddy Bommareddi	IS Audit Manager

RSM US LLP:

Joseph Evans	Partner
Dan Sethness	Senior Manager
Adam Trynieszewski	Senior Associate

The responses to the recommendations were provided by Jim Schreiber, Audit Liaison, in a correspondence dated June 2, 2023.



Independent Auditor's Report

RSM US LLP

Honorable Frank J. Mautino
Auditor General
State of Illinois

Qualified and Disclaimer of Opinion

As Special Assistant Auditors for the Auditor General, we have audited the statement of net position 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 June 30, 2022, and were engaged to audit the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Trust Fund's basic financial statements as listed in the table of contents.

Qualified Opinion on the Statement of Net Position

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion on the Statement of Net Position section of our report, the accompanying statement of net position presents fairly, in all material respects, the financial position of the Trust Fund as of June 30, 2022, in accordance with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on the Statements of Revenues, Expenses, and Changes in Net Position and Cash Flows

We do not express an opinion on the statements of revenues, expenses, and changes in net position and cash flows of the Trust Fund for the year ended June 30, 2022. Because of the significance of the matters described in the Basis for Disclaimer of Opinion on the Statements of Revenues, Expenses, and Changes in Net Position and Cash Flows section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statements of revenues, expenses, and changes in net position and cash flows for the year ended June 30, 2022.

Basis for Qualified Opinion on the Statement of Net Position

We conducted our audit of the statement of net position in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion on the statement of net position.

The Department outsourced unemployment benefit claims processing to a service organization for the Pandemic Unemployment Assistance (PUA) program as well as several other pandemic related programs. The system processing these claims had material weaknesses in the design and operation of internal control and we were unable to obtain sufficient appropriate audit evidence to determine or verify by alternative means whether accrued claims and certain other paid claims met eligibility requirements. The Department recorded approximately \$73 million in receivables related to these programs, primarily reimbursements expected from the federal government. They also recorded approximately \$391 million in payables related to these programs, primarily due to the federal government. Due to the material weaknesses in internal control over the system, we were unable to obtain sufficient appropriate audit evidence to conclude that the PUA and related program payables and receivables were free of material misstatement.

Basis for Disclaimer of Opinion on the Statements of Revenues, Expenses, and Changes in Net Position and Cash Flows

During fiscal years ending June 30, 2021 and 2022, the Department did not maintain certain accounting records and supporting documents for the Trust Fund relating to transactions with its beneficiaries, nor was the Department's internal control adequate to provide safeguards over Trust Fund assets and to assure the proper recording of transactions. As such, we were unable to satisfy ourselves by performing other auditing procedures concerning both the opening net position at July 1, 2021, as well as the activity for the year ended June 30, 2022. Since opening balances enter in the determination of revenues, expenses, and cash flows, we were unable to determine whether any adjustments might have been necessary in respect of the changes in net position for the year reported in the statement of revenues, expenses, and changes in net position and the cash flows reported in the cash flow statement.

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, 2022, the changes in their financial position, or their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Further, as discussed in Note 13 to the financial statements, the Trust Fund net position as of July 1, 2021 has been restated to correct a misstatement.

Our opinions are not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Auditor's Responsibilities for the Audit of the Statements of Revenues, Expenses, and Changes in Net Position and Cash Flows

Our responsibility is to conduct an audit of the Trust Fund's financial statements in accordance with auditing standards generally accepted in the United States of America and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion on the Statements of Revenues, Expenses, and Changes in Net Position and Cash Flows section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statements of revenues, expenses, and changes in net position and cash flows for the year ended June 30, 2022.

We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

Auditor's Responsibilities for the Audit of the Statement of Net Position

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2023, 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
June 15, 2023

State of Illinois
Department of Employment Security

Individual Nonshared Proprietary Fund
Statement of Net Position
June 30, 2022
(Amounts in \$000's)

	Unemployment Compensation Trust Fund
Current assets	
Cash and cash equivalents	\$ 1,008,103
Receivables, net	
Taxes	377,546
Intergovernmental - Other Unemployment Insurance and related programs	527,584
Intergovernmental - Pandemic Unemployment Assistance (PUA) - unaudited	3,230
Intergovernmental - Federal Pandemic Unemployment Compensation (FPUC) associated with Pandemic Unemployment Assistance (PUA) - unaudited	1,518
Due from Other Government - Local	37,325
Other Receivable - Unemployment Insurance and related programs	180,272
Other Receivable - Pandemic Unemployment Assistance (PUA) - unaudited	2,219
Other Receivable - Federal Pandemic Unemployment Compensation (FPUC) associated with Pandemic Unemployment Assistance (PUA) - unaudited	64,119
Other Receivable - Lost Wage Assistance (LWA) associated with Pandemic Unemployment Assistance (PUA) - unaudited	1,461
Due from other Department and State funds	6,911
Due from component units of the State	87
Total current assets	<u>2,210,375</u>
Current liabilities	
Accounts Payable and Accrued Liabilities	96,160
Benefit Accrual - Other Unemployment Insurance and related programs	10,394
Benefits Accrual - Pandemic Unemployment Assistance (PUA) - unaudited	1,330
Benefits Accrual - Federal Pandemic Unemployment Compensation (FPUC) associated with Pandemic Unemployment Assistance (PUA) - unaudited	1,517
Pending Refunds on OP Waivers	1,022
Due to Other Government - Federal	
Due to Federal Government - Reimbursable	14,212
Benefits Payable - Pandemic Unemployment Assistance (PUA) - unaudited	167,868
Benefits Payable - Federal Pandemic Unemployment Compensation (FPUC) associated with Pandemic Unemployment Assistance (PUA) - unaudited	151,514
Contingency/Lost Wages Assistance associated with Pandemic Unemployment Assistance (PUA) - unaudited	68,972
Due to Other Government - Local	(708)
Due to other Department and State funds	1,261
Short-Term Notes Payable	1,812,645
Total current liabilities	<u>2,326,187</u>
Net position (deficit)	
Restricted for payment of benefits	<u>\$ (115,812)</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 (Unaudited)
Year Ended June 30, 2022
(Amounts in \$000's)**

	(Unaudited) Unemployment Compensation Trust Fund
Operating revenues	
Contributions - Unemployment taxes	\$ 1,829,342
Total operating revenues	<u>1,829,342</u>
Operating expenses	
Benefit payments and refunds - Unemployment Insurance and related programs	4,396,479
Benefit payments and refunds - Pandemic Unemployment Assistance (PUA)	438,105
Benefit payments and refunds - Federal Pandemic Unemployment Compensation (FPUC) associated with Pandemic Unemployment Assistance (PUA)	399,776
Benefit payments and refunds - Lost Wages Assistance associated with Pandemic Unemployment Assistance (PUA)	(513)
Total operating expenses	<u>5,233,847</u>
Operating loss	<u>(3,404,505)</u>
Nonoperating revenues (expenses)	
Miscellaneous Revenue	101,305
Contributions - Other Unemployment insurance and related programs	2,295,128
Contributions - Pandemic Unemployment Assistance (PUA)	280,627
Contributions - Federal Pandemic Unemployment Compensation (FPUC) associated with Pandemic Unemployment Assistance (PUA)	364,856
Contingency /Lost Wage Assistance (LWA) associated with Pandemic Unemployment Assistance (PUA)	(66,969)
Total nonoperating revenues	<u>2,974,947</u>
Loss before transfers	(429,558)
Transfers in	2,800,030
Transfers out	(13,879)
Change in net position	<u>2,356,593</u>
Net position (deficit), July 1, 2021 as previously reported	(2,966,021)
Beginning balance correction	493,616
Net position (deficit), July 1, 2021 as restated	<u>(2,472,405)</u>
Net position (deficit), June 30, 2022	<u>\$ (115,812)</u>

See Notes to Financial Statements.

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Fund
Statement of Cash Flows (Unaudited)
Year Ended June 30, 2022
(Amounts in \$000's)**

	(Unaudited) Unemployment Compensation Trust Fund
Cash flows from operating activities	
Contributions - Unemployment taxes received	\$ 2,136,123
Cash receipts from Unemployment Grant	
Unemployment benefits paid - Other Unemployment Insurance and related programs	(4,379,643)
Unemployment benefits paid - Pandemic Unemployment Assistance (PUA)	(644,243)
Unemployment benefits paid - Federal Pandemic Unemployment Compensation (FPUC) associated with Pandemic Unemployment Assistance (PUA)	(665,900)
Unemployment benefits paid - Lost Wage Assistance (LWA) associated with Pandemic Unemployment Assistance (PUA)	(6,073)
Net cash used in operating activities	<u>(3,559,736)</u>
Cash flows from noncapital financing activities	
Miscellaneous receipts - FUTA credit	101,305
Contributions - Other Unemployment Insurance and related programs	2,370,129
Contributions - Pandemic Unemployment Assistance (PUA)	446,218
Contributions - Federal Pandemic Unemployment Compensation (FPUC) associated with Pandemic Unemployment Assistance (PUA)	514,853
Contributions - Lost Wage Assistance (LWA) associated with Pandemic Unemployment Assistance (PUA)	2,003
Transfers out to Other Fund	(13,755)
Transfer in from Other Fund	2,800,029
Principal paid on revenue bonds and other borrowing	(2,700,000)
Proceeds from revenue Bonds and other borrowing - Loan Activity	279,772
Net cash provided by noncapital financing activities	<u>3,800,554</u>
Net increase in cash and cash equivalents	240,818
Cash and cash equivalents, July 1, 2021	<u>767,285</u>
Cash and cash equivalents, June 30, 2022	<u>\$ 1,008,103</u>

(Continued)

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Fund
Statement of Cash Flows (Unaudited) (Continued)
Year Ended June 30, 2022
(Amounts in \$000's)**

	(Unaudited) Unemployment Compensation Trust Fund
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (3,404,505)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Provision for uncollectible	
Other Unemployment Insurance and related programs	1,197,287
Changes in assets and liabilities:	
Taxes and other receivables - Unemployment Insurance and other Programs	(803,069)
Taxes and other receivables - Pandemic Unemployment Assistance (PUA)	(168,976)
Taxes and other receivables - Federal Pandemic Unemployment Compensation (FPUC) associated with Pandemic Unemployment Assistance (PUA)	(171,170)
Taxes and other receivables- Lost Wage Assistance (LWA) associated with Pandemic Unemployment Assistance (PUA)	(8,878)
Intergovernmental receivables - Other Unemployment Insurance and related programs	7,387
Due from State funds	(6,176)
Due from component units	(79)
Accounts Payable and Accrued Liabilities	(8,800)
Benefit Accrual - Other Unemployment Insurance and related programs	(76,563)
Benefit Accrual - Pandemic Unemployment Assistance (PUA)	(71,702)
Benefit Accrual - Federal Pandemic Unemployment Compensation (FPUC) associated with Pandemic Unemployment Assistance (PUA)	(31,666)
Benefit Accrual - Lost Wage Assistance(LWA) associated with Pandemic Unemployment Assistance (PUA)	(1,562)
Intergovernmental payables	(10,679)
Due to other Component Unit	(47)
Due to Other Fund	(538)
Net cash used in operating activities	<u>\$ (3,559,736)</u>

See Notes to Financial Statements.

**State of Illinois
Department of Employment Security**

**Unemployment Compensation Trust Fund
Notes to Financial Statements
Year Ended June 30, 2022
(Amounts in \$000's)**

Note 1. Description of Fund

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 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. As a result of the Pandemic, a number of new Federally mandated benefit programs were added to the UCTF; most significantly, the Pandemic Unemployment Assistance (PUA) program and the Federal Pandemic Unemployment Compensation (FPUC) program. The PUA program provides up to 39 weeks of temporary unemployment benefits for individuals who have exhausted their entitlement to regular unemployment compensation (UC) as well as those who are not eligible for regular UC, individuals who are self-employed or have limited recent work history. The FPUC program provides a temporary emergency increase of \$600 per week in unemployment compensation benefits to eligible individuals. As of September 6, 2021, these new federally mandated pandemic related programs expired.

The UCTF is not appropriated by the Illinois General Assembly and is intended to be self-supporting. However, an unprecedented increase in unemployment benefit payments, arising from the COVID-19 labor market disruption, outpaced trust fund reserves. Therefore, the Department initiated borrowing from the federal government to fulfill its mandate to pay benefits as required by law (see Note 11 for more information).

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.

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, 2022 nor changes in its financial position or cash flows for the year then ended in conformity with GAAP.

**State of Illinois
Department of Employment Security**

**Unemployment Compensation Trust Fund
Notes to Financial Statements (Continued)
Year Ended June 30, 2022
(Amounts in \$000's)**

Note 2. Summary of Significant Accounting Policies (Continued)

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. Historically in the State of Illinois, when the Unemployment Trust Fund has been in deficit status, representatives from the business and labor communities meet and reach agreement, through what is commonly referred to as the agreed bill process, on solutions to restore the Trust Fund to solvency through legislative change.

Operating revenues, collections of unemployment tax contributions from employers, 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. Nonoperating revenues, Federally mandated programs including programs as the result of COVID-19 and investment earnings, result from nonexchange transactions or ancillary activities.

**State of Illinois
Department of Employment Security**

**Unemployment Compensation Trust Fund
Notes to Financial Statements (Continued)
Year Ended June 30, 2022
(Amounts in \$000's)**

Note 2. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

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.

C. 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.

D. 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.

E. Nonoperating Contribution Revenues (Unaudited)

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**

**Unemployment Compensation Trust Fund
Notes to Financial Statements (Continued)
Year Ended June 30, 2022
(Amounts in \$000's)**

Note 2. Summary of Significant Accounting Policies (Continued)

E. Nonoperating Contribution Revenues by Program (Continued) (Unaudited)

Program	Revenue
Unemployment Compensation for Federal Employees	\$ 13,748
Unemployment Compensation for Ex-service Members	4,571
Temporary Extended Unemployment Compensation	(12)
Emergency Unemployment Compensation 2008 (General Revenue funded)	(3,987)
Emergency Unemployment Compensation 2008 (FUTA funded)	(51)
Extended Benefits	42,857
Emergency Unemployment Compensation 2008 (Non- General Revenue)	(555)
Federal Pandemic Unemployment Compensation	1,934,903
Pandemic Emergency Unemployment Compensation	892,903
Pandemic Unemployment Assistance	446,176
Lost Wage Assistance	2,131
MEUC	517
Accruals	(459,559)
Total	\$ 2,873,642

F. 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.

G. 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**

**Unemployment Compensation Trust Fund
Notes to Financial Statements (Continued)
Year Ended June 30, 2022
(Amounts in \$000's)**

Note 3. Cash and Cash Equivalents

At June 30, 2022, cash and cash equivalents for the UTF locally held funds had a carrying amount in the accompanying financial statements of \$89,040 and a bank balance of \$102,411.

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, 2022, 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.

Cash and cash equivalents held by the Federal government totaled \$919,063 as of June 30, 2022 and represents an external pool in which the Department's funds are pooled along with other participating States' funds. This pool is valued at amortized cost. It is not rated regarding credit risk.

Custodial credit risk is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2022, the Department did not have any investments subject to this risk.

Note 4. Taxes Receivable

Taxes receivables 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, 2022, are as follows:

Unemployment taxes	\$ 624,991
Interest and penalties receivables on taxes	<u>161,925</u>
Total taxes receivable	786,916
Less allowance for uncollectible taxes	<u>(409,370)</u>
Taxes receivable, net	<u><u>\$ 377,546</u></u>

Note 5. Intergovernmental Receivables (Unaudited)

Intergovernmental receivables represent reimbursements due from other State and local governments for unemployment benefits paid to those governments' ex-employees and receivables due from the Federal government for regular Unemployment Compensation, Pandemic Unemployment Assistance (PUA) and Federal Pandemic Unemployment Compensation (FPUC) associated with PUA. These totaled \$37,325 and \$532,332, respectively, at June 30, 2022. The \$532,332 due from the Federal government consists of \$527,584 for regular Unemployment Compensation, \$3,230 for PUA, and \$1,518 for FPUC associated with PUA at June 30, 2022.

**State of Illinois
Department of Employment Security**

**Unemployment Compensation Trust Fund
Notes to Financial Statements (Continued)
Year Ended June 30, 2022
(Amounts in \$000's)**

Note 6. Other Receivables (Unaudited)

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, 2022, are as follows:

Other receivables	\$ 4,912,374
Less allowance for uncollectible receivables	<u>(4,664,303)</u>
Other receivable, net	<u>\$ 248,071</u>

Note 7. Interfund Balances and Activities

(a) Balances Due to and from Other Funds

The following balances at June 30, 2022 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	\$ 6,028	\$ -
Due from Title III for reimbursement of unemployment benefits paid	22	-
Due from the Department of Transportation for reimbursement of unemployment benefits to former employees of the Department	860	-
Replenish balance for Court Filings	1	-
Due to Operating Fund for discretionary transfers of penalties and interests	-	1,261
Totals	<u>\$ 6,911</u>	<u>\$ 1,261</u>

Due from component units of the State of Illinois balance at June 30, 2022 of \$87 represents reimbursement of unemployment benefits paid to employees of State universities.

**State of Illinois
Department of Employment Security**

**Unemployment Compensation Trust Fund
Notes to Financial Statements (Continued)
Year Ended June 30, 2022
(Amounts in \$000's)**

Note 8. Transfers (Unaudited)

<u>Description/Purpose</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Transfer In from ARPA	\$ 2,700,000	\$ -
Transfer In from General Revenue Fund	100,030	-
Transfer Out to General Revenue Fund	-	13,879
Totals	<u>\$ 2,800,030</u>	<u>\$ 13,879</u>

The intergovernmental transfers represent transfers between State Funds. The Transfers In consist of a \$2,700,000 transfer from the ARPA Fund for repayment of the Title XII Federal Loan and a \$100,030 transfer from the General Revenue Fund to increase the solvency of the Trust Fund. The Transfer Out consists of \$13,753 of employers' penalties and interest, \$14 of NSF fees and \$112 of claimant judgement interest.

Note 9. Contingencies (Unaudited)

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 as part of the ordinary course of business will not have a material effect on the UCTF financial statements.

The Department recognizes there are inherent risks within any unemployment insurance program. Overpayments exist within any unemployment program resulting from the implementation process, administration process, claimant miscommunications or misunderstandings, and due process which allows for employers and claimants to appeal department decisions. There is also an inherent risk of fraud. Unlike in Regular UI, the PUA program does not provide for a database of earnings and wages to support the program, and consequently, there are unique and pervasive opportunities for fraud within PUA.

Overpayments associated with the Lost Wage Assistance (LWA) program funded by FEMA requires the repayment of LWA overpayments unless recovery of the overpayment has been waived. At present, the Department has mailed LWA overpayment waivers to claimants and recognizes the \$68,972 in LWA overpayments as a contingent liability with a probability of loss as probable.

Note 10. COVID/PUA/Overpayment (Unaudited)

On March 11, 2020, the World Health Organization declared the coronavirus outbreak a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantine in certain areas and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread have had, and are expected to continue to have, an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Department operates.

**State of Illinois
Department of Employment Security**

**Unemployment Compensation Trust Fund
Notes to Financial Statements (Continued)
Year Ended June 30, 2022
(Amounts in \$000's)**

Note 10. COVID/PUA/Overpayment (Unaudited) (Continued)

In response to the pandemic, on March 27, 2020, President Trump signed into law the CARES Act (P.L. 116-136) which includes the Relief for Workers Affected by Coronavirus Act set out in Title II, Subtitle A. The CARES Act created new temporary programs to mitigate the economic effects of the pandemic. These new programs included but are not limited to:

- 1) Pandemic Unemployment Assistance (PUA): PUA provided up to 39 weeks of unemployment benefits to individuals who exhausted their entitlement to regular unemployment compensation (UC) as well as coverage for individuals who were not eligible for regular UC such as individuals who are self-employed or who have limited recent work history.
- 2) Federal Pandemic Unemployment Compensation (FPUC): FPUC provided an emergency increase in unemployment compensation (UC). This program provided an additional \$600 per week to weekly benefits for eligible individuals until July 31, 2020.
- 3) Pandemic Emergency Unemployment Compensation (PEUC): PEUC provided up to 13 weeks of additional unemployment compensation (UC) to individuals who exhausted their regular unemployment benefits.

On August 8, 2020, President Trump issued a memorandum to make available other needs assistance for lost wage in accordance with Section 408(e)(2) of the Stafford Act. This memorandum created the Lost Wage Assistance (LWA) program. LWA was administered by states and territories through a grant agreement with FEMA. Once the grant was awarded by FEMA, states were eligible to pay out an additional \$300 per week in benefits. This \$300 was intended to help claimants who lost the \$600 of additional benefits when the first iteration of FPUC expired on July 31, 2020.

On December 27, 2020, President Trump signed into law the Continued Assistance to Unemployment Workers Act of 2020 (Division N, Title II, Subtitle A of PL 116-260) (CAA) which amended the CARES Act to extend PUA and PEUC through March 14, 2021. The CAA also reinstated FPUC, from December 27, 2020, through March 14, 2021, but at \$300 per week for eligible individuals.

On March 11, 2021, President Biden signed the American Rescue Plan Act of 2021 (ARPA) into law. This Act amends certain provisions of the Emergency Unemployment Insurance Stabilization and Access Act (EUISAA) and the CARES Act, as amended, extending with some modification the expiration date of March 14, 2021, to September 6, 2021. The following is a summary of amendments to the major programs:

- 1) PUA was extended, without interruption, to weeks of unemployment ending on or before September 6, 2021. The maximum number of weeks of PUA benefits were increased to 79 weeks.
- 2) The FPUC programs was extended at \$300 per week for eligible individuals for weeks of unemployment through the week ending on or before September 6, 2021.
- 3) Period end applicability for the PEUC program was extended, without interruption, for weeks of unemployment through the week ending on or before September 6, 2021.

**State of Illinois
Department of Employment Security**

**Unemployment Compensation Trust Fund
Notes to Financial Statements (Continued)
Year Ended June 30, 2022
(Amounts in \$000's)**

Note 10. COVID/PUA/Overpayment (Unaudited) (Continued)

Under normal circumstances, individuals who are self-employed or have limited recent work history are ineligible to collect unemployment benefits. As a result of the CARES Act, the CAA, and ARPA, the Department had to implement and maintain a new system for the PUA program. This system initially went online May 14, 2020.

For SFY 2021, the Department paid out PUA benefits and FPUC benefits of \$3,643,128 and \$3,830,162, respectively. For SFY 2022, the Department paid out PUA benefits and FPUC PUA benefits of \$438,105 and \$399,776, respectively. As of June 30, 2022, the Department recorded a liability for PUA and FPUC PUA related benefit claims that were owed but not paid of \$2,847.

All CARES Act/American Rescue Plan Act programs which include PUA, FPUC, and PEUC expired effective September 6, 2021. Benefit payments related to these federally mandated programs have stopped, except for claims pending the appeals process.

The Department recognizes there are inherent risks within any unemployment insurance program. Overpayments exist within any unemployment program resulting from the administering department's implementation process, claimant miscommunication or misunderstanding, and the due process that allows for employers and claimants to appeal decisions. There is also an inherent risk of fraud. Unlike in regular UI, the PUA program does not provide for a database of earnings and wages to support the program, and consequently, there are unique and pervasive opportunities for fraud within PUA.

Other Net Receivables represents the amount of overpayments the Department estimates it will collect. For SFY 2022, Other Net Receivables for PUA and FPUC associated with PUA were \$2,219 and \$64,119, respectively.

Note 11. Title XII Federal Loan

The Unemployment Insurance Trust Fund ("UTF") entered a deficit position on June 23, 2020, as a direct result of the labor market disruption arising from the COVID-19 pandemic that began in March 2020. Therefore, and pursuant to the provisions of Title XII of the Social Security Act, as amended by the Emergency Unemployment Insurance Stabilization and Access Act of 2020, the Department initiated borrowing from the federal government to fulfill its mandate to pay benefits as required by law. Interest on these federal advances is due and payable to the federal government on September 30 of each year and may not be paid from the UTF. The interest rate for a given calendar year equals the earnings yield on the UTF for the quarter ending December 31 of the previous calendar year.

During the state fiscal year ending June 30, 2022, the Trust Fund incurred additional loan advances under Title XII in the amount of \$279,772 resulting in total advances since June 23, 2020, of \$4,512,645. A repayment of principal in the amount of \$2,700,000 was made in March 2022 from State ARPA funds resulting in an outstanding loan balance of \$1,812,645 as of June 30, 2022. Title XII Loan Advances accrued interest at a rate of 2.27769855% per annum from July 1, 2021, to December 31, 2021, and at a rate of 1.59089995% from January 1, 2022, to June 30, 2022. The Department incurred interest from September 7, 2021, through September 30, 2021, in the amount of \$6,384 which was paid by the due date of September 30, 2021, through the Unemployment Compensation Special Administration Fund. The Department accrued interest from October 1, 2021, through June 30, 2022, in the amount of \$50,121 and will make the interest payment due September 30, 2022 from a State appropriation (P.A. 102-0017, Article 53, Section 40).

**State of Illinois
Department of Employment Security**

**Unemployment Compensation Trust Fund
Notes to Financial Statements (Continued)
Year Ended June 30, 2022
(Amounts in \$000's)**

Note 12. Net Position (Deficit) (Unaudited)

The Unemployment Trust Fund reported a \$2,966,021 deficit net position during fiscal year 2021 as a direct result of the labor market disruption the State of Illinois experienced during the COVID-19 pandemic which began in March of 2020. The Unemployment Trust Fund reported a \$2,356,593 increase in its net trust fund balance during fiscal year 2022 primarily due to the \$2,700,000 principal repayment of the Title XII Federal Loan as described in Note 11.

Under current federal requirements, if a state has outstanding Title XII federal loan balances (see Note 11) at the beginning of two consecutive calendar years, and does not repay all outstanding federal Title XII advances by November 10 of the year in which the second January 1st occurs, employers are subject to a reduction of the Federal Unemployment Tax Act (FUTA) credit; revenues attributable to the credit reduction are applied toward the advances, until the advances are repaid.

The Department is working with the legislature and stakeholders from business and labor, through the established agreed bill process, on a possible alternative to addressing the UTF deficit through FUTA credit reductions. Through this process, the Department is providing impact analyses and technical guidance, along with ensuring any changes to state law to address UTF solvency, conform with federal requirements.

Note 13. Restatement of Opening Net Position

During Fiscal Year 2022, a correction of an error resulted in a restatement to the beginning net position for the Department as follows:

	Illinois Department of Employment Security Net Position	
	(In thousands)	
07/01/2021, as previously reported	\$	(2,966,021)
Error Correction		493,616
07/01/2021, as restated	<u>\$</u>	<u>(2,472,405)</u>

The correction of an error occurred due to the identification of receivables from the federal government that were not recognized in the proper year. The impact to the change in net position for the year ended June 30, 2021 was \$249,455.

Note 14. Subsequent Events

On January 23, 2023, PA 102-1121 approved an appropriation to the Department from the General Revenue Fund in the amount of \$1,370,000 for repayment of all outstanding advances pursuant to Title XII of the federal Social Security Act. On January 25, 2023, the Department paid off the remaining balance of the loan, \$1,362,645.

A \$450,000 loan was appropriated by the State to the Department as enacted in PA 102-1121, Sec. 40: "The sum of \$450,000 is appropriated from the General Revenue Fund to the Department of Employment Security as a loan for payment to the Illinois Unemployment Insurance Trust Fund solely for purposes of paying unemployment insurance benefits, without the accrual of interest, to be repaid pursuant to the provisions of the Unemployment Insurance Act." As of April 24, 2023, the total loan appropriation of \$450,000 had been transferred to the UTF.



**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***

RSM US LLP

Independent Auditor's Report

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 statement of net position 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, 2022, and were engaged to audit the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Trust Fund's basic financial statements, and have issued our report thereon dated June 15, 2023. Our report qualifies and disclaims an opinion on such financial statements due to material weaknesses in internal control over one of the benefit payment systems, for which we were unable to obtain sufficient appropriate audit evidence over related amounts.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the statement of net position and in connection with our engagement to audit the statements of revenues, expenses, and changes in net position and cash flows, we considered the Department's internal control over financial reporting (internal control) as a basis for designing 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 Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section 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 have not been identified. However, as described in the accompanying Schedule of Findings as items 2022-001 through 2022-005, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

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 2022-001 through 2022-004 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 2022-005 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's statement of net position is free from material misstatement, and in connection with our engagement to audit the statements of revenues, expenses, and changes in net position and cash flows, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 2022-001 through 2022-005. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the financial statements of the Trust Fund, other instances of noncompliance or other matters may have been identified and reported herein.

Department's Responses to the Findings

The Department's responses to the findings identified in our engagement are described in the accompanying Schedule of Findings. The Department's responses were not subjected to the auditing procedures applied in the engagement to audit 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 entity's internal control or on compliance. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Restricted Use of this 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, and Department management and is not intended to be and should not be used by anyone other than these specified parties.

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
June 15, 2023

**State of Illinois
Department of Employment Security**

**Schedule of Findings
For the Year Ended June 30, 2022**

Current Findings – Government Auditing Standards

Finding 2022-001 Failure to Implement General Information Technology Controls over the Pandemic Unemployment Assistance System

The Department of Employment Security (Department) failed to implement general Information Technology (IT) controls over the Pandemic Unemployment Assistance (PUA) System (System).

In order to determine if GITCs were suitably designed and operating effectively over the System, we obtained the service provider's System and Organization Control (SOC) report for the period July 1, 2021 to June 30, 2022. Although the SOC report opinion contained an unmodified opinion, it also stated certain control objectives which could only be achieved if the State of Illinois controls were suitably designed and operating effectively.

As part of our testing, we requested documentation demonstrating the Department had implemented the controls to achieve the control objective documented in the service provider's SOC report. However, the Department stated it had not implemented these controls.

This finding was first reported in the financial audit for the year ended June 30, 2020. In subsequent years, the Department has failed to implement corrective actions to remedy the deficiencies.

The *Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology (NIST), Access Control section requires the implementation of internal controls over access. The Configuration Management section also requires enforcement of controls over changes to systems. Further, the Contingency Planning section makes compulsory the development of detailed disaster recovery plans and testing.

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 maintain accountability over the State's resources.

The Department indicated the lack of resources and competing priorities resulted in the weaknesses.

As a result of the lack of general IT controls over the System, we are once again unable to rely on the System and the proper determination of claimant eligibility data and benefits paid. Furthermore, as a result of the lack of internal controls identified in this finding and finding 2022-002, we are unable to obtain sufficient documentation to determine if the Department's Fiscal Year 2022 financial statements are fairly presented. Therefore, we are issuing a modified opinion over the Department's Fiscal Year 2022 financial statements. (Finding Code No. 2022-001, 2021-001, 2020-001)

Recommendation

We recommend the Department establish, monitor, and document the complimentary user controls contained within the service provider's SOC report.

Department Response

The Department accepts the auditor's recommendation and will continue to implement further technology controls as outlined in the complimentary user controls contained within the service provider's SOC report.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2022**

Finding 2022-002 Failure to Maintain Accurate and Complete Pandemic Unemployment Assistance Claimant Data

The Department of Employment Security (Department) failed to maintain accurate and complete Pandemic Unemployment Assistance (PUA) claimant data.

On March 27, 2020, the President of the United States signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act which provided states the ability to provide unemployment insurance to individuals affected by the pandemic, including those who would not normally be eligible for unemployment. Based on the Department's records, as of June 30, 2022, 11,213 claimants received payments totaling \$3,026,210,633.

In order to determine if claimants were eligible for benefits, we requested claimant data. Although the claimant data was provided, the data required considerable manipulation in order to make the data auditable and organized. Therefore, we were unable to determine if the data was complete and accurate. As a result, we were unable to conduct detailed testing to determine whether the claimants were entitled to benefits.

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 maintain accountability over the State's resources.

Additionally, due to these conditions, we were unable to conclude the claimant data records were complete and accurate under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AU-C § 500 and AT-C § 205).

The Department indicated the PUA system limitations and data errors resulted in the weaknesses.

Due to the inability to conduct detailed claimant testing, we were unable to determine whether the Department's financial statements accurately documented the PUA benefits paid during Fiscal Year 2022. Therefore, we are issuing a modified opinion over the Department's Fiscal Year 2022 Unemployment Compensation Trust Fund financial statements. (Finding Code No. 2022-002, 2021-002)

Recommendation

We recommend the Department implement controls to ensure the claimants' data is complete and accurate.

Department Response

The Department accepts the auditor's recommendation. Following the FY21 audit, an outside audit firm completed an SOC report related to the vendor-run PUA system. As part of compiling the SOC report, the audit team tested the claim process, weekly certification process, and validated the Weekly Benefit Amount (WBA) calculation along with the process to create payments. The SOC contains a variety of actions that the Department continues to work through and is implementing best practices Department-wide. Additionally, the PUA system itself is time-limited due to the wind-down of the federal pandemic programs.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2022**

Finding 2022-003 Lack of Internal Controls over Financial Accounting and Reporting

The Department of Employment Security (Department) did not maintain appropriate controls over financial reporting.

During the audit, several adjustments were posted to correct errors identified by the auditors as noted below:

- Receivables due from the Federal Government relating to the waiver of the first waiting week for new claimants was improperly recorded and a large portion was found to relate to prior periods, resulting in a restatement of opening net position. The impact of this error is receivables being overstated by \$12,547,000, revenue being overstated by \$506,163,000, and opening net position being understated by \$493,616,000. Management elected to record the adjusting entry for this error.
- Receivables for overpayments that are still in the adjudication and appeals processes were improperly recorded, as the Department does not have a claim to the monies until the adjudication and appeals processes are complete. The impact of this error is receivables being overstated by \$393,731,000, allowance for uncollectible accounts being overstated by \$378,582,000, revenue being overstated by \$369,507,000, and expenses being overstated by \$354,358,000. Management elected to record the adjusting entry for this error.
- Allowances for uncollectible accounts relating to overpayment receivables were not appropriately evaluated and recorded based on historical and subsequent collection data. The impact of this error was expenses and allowance for uncollectible accounts being understated by \$201,497,000. Management elected to record the adjusting entry for this error.
- Outstanding and voided checks were not appropriately accounted for while reconciling cash. The impact of this error was cash being overstated by \$31,591,000, benefit expense being understated by \$32,057,000, benefit payable being understated by \$2,461,000, and other receivables being understated by \$1,995,000.
- Loan interest payable that will be paid by another fund was incorrectly accrued to the trust fund. The impact of this error was an overstatement of interest payable and related expense by \$50,121,000.

Under a good system of internal control, all significant accounts should be reconciled on a regular basis to the underlying documentation, and thoroughly reviewed by a supervisory employee (other than the preparer), with any necessary adjustments recorded timely. Additionally, the Department's policy for year-end financial reporting requires that accounting staff reconcile account balances to supporting information/documentation and that account balances and the related support be reviewed and approved by a supervisor.

Statement No. 33 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Nonexchange Transactions* (GASBS 33, paragraph 21), states recipients should recognize receivables and revenues when all applicable eligibility requirements are met.

According to generally accepted accounting principles (GAAP), the allowance for uncollectible accounts should represent management's best estimate of the amount of receivables that will not be collected. The allowance for doubtful accounts is a significant estimate that requires proper analysis and evaluation of past and current events as well as the assumptions used.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2022**

**Finding 2022-003 Lack of Internal Controls over Financial Accounting and Reporting
(continued)**

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 ensure State resources are used efficiently and effectively.

Department management indicated the weaknesses were due to staff shortages and the volume of work as the Department is still recovering from the increased transactions and associated workload driven from the new Coronavirus Aid, Relief, and Economic Security (CARES) Act programs.

The financial statements of the department would have been materially misstated without recording several audit adjustments. (Finding Code No. 2022-003)

Recommendation

We recommend the Department implement controls to ensure receivables and the related activity are recorded in the correct period and that allowance estimates are appropriate and based on all available data. In addition, we recommend cash reconciliations be prepared timely and include appropriate reconciling items such as outstanding and voided checks. Finally, we recommend the Department strengthen its internal review processes over financial statement entries to prevent errors.

Department Response

The Department accepts the auditor's recommendation. The Department continues to implement improved internal controls, analyzing operational management, review and approval, in coordination with Department of Innovation and Technology (DoIT) technology resources, including looking at best practices with outside consultants. The timeliness of the cash reconciliation and inadequate controls is largely due to the discontinuation of paying unemployment insurance benefits via debit cards and the implementation of paying benefits via paper check to claimants who do not have a bank account or who choose not to set up automatic payment via direct deposit; the Department did not have an established reconciliation process in place for paper checks. Management is working with an outside accounting firm to evaluate best practices and provide subject matter expertise through temporary staff augmentation in coordination with strategic hiring.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2022**

Finding 2022-004 Failure to Perform Timely Cash Reconciliations

The Department of Employment Security (Department) did not prepare its year end bank reconciliations timely.

As part of our audit, we requested copies of the June 30, 2022 bank reconciliations. The reconciliations are between cash as recorded in the Department's general ledger, and cash as reported by the bank for each account. The Department did not have the reconciliations prepared timely for audit fieldwork and we received the final versions of the June 2022 reconciliations on April 5, 2023.

The timely reconciliation of cash accounts is a basic control procedure that should occur every month to determine the recorded amount of cash is accurate. Normally this procedure is performed shortly after the end of the month upon receipt of the bank statement. Most organizations have a regular monthly accounting schedule whereby the monthly general ledger cannot be closed without the preparation of the cash reconciliation.

Concepts Statement No. 1 of the Governmental Accounting Standards Board, *Objectives of Financial Reporting* (GASBCS 1, paragraph 64), states, "Financial reporting should be reliable; that is, the information presented should be verifiable and free from bias and should faithfully represent what it purports to represent. To be reliable, financial reporting needs to be comprehensive." The reconciliation of cash accounts is a basic control to ensure the accuracy and reliability of financial reports.

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 ensure State resources are used efficiently and effectively. This includes the timely performance of bank reconciliations.

Department management indicated the weakness was due to the change in payment methods from debit cards to checks, the manual process for reconciling checks and the ability to get information in a format the Department can use from the bank.

Since the Department has numerous cash transactions every month, the risk of error due to misapplied cash transactions is significant. Monthly there can be over \$500 million that flows through the Department's various cash accounts. Monthly and annual financial statements could be materially misstated due to the lack of timely bank reconciliations. Failure to properly complete timely bank reconciliations could also result in a misuse or misappropriation of cash that could go undetected. (Finding Code No. 2022-004, 2021-003, 2020-004)

Recommendation

We recommend the Department prepare a monthly reconciliation for every cash account, reconciling the bank and general ledger balances. We also recommend each monthly bank reconciliation be timely completed and reviewed and approved by a supervisor.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2022**

Finding 2022-004 Failure to Perform Timely Cash Reconciliations (Continued)

Department Response

The Department accepts the auditor's recommendation. The Department continues to implement improved internal controls, analyzing operational management, review and approval, in coordination with Department of Innovation and Technology (DoIT) technology resources. The timeliness of the cash reconciliation and inadequate controls is largely due to the discontinuation of paying unemployment insurance benefits via debit cards and the implementation of paying benefits via paper check to claimants who do not have a bank account or who choose not to set up automatic payment via direct deposit, as well as a change in vendors. The Department did not have an established reconciliation process in place for paper checks and continues to work with the vendor to provide complete and accurate reporting. Management is working with an outside accounting firm to evaluate best practices, improve efficiency, and establish proper controls.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2022**

Finding 2022-005 Inadequate Controls over GenTax Access

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

During our testing of GenTax security for eight individuals, we noted:

- 6 (75%) individuals' access was not terminated timely. The delays ranged from two to 100 days after termination.
- 3 (38%) individuals did not have a Security Notification Form submitted by their supervisor.
- 3 (38%) individuals' Security Notification Forms were not submitted timely. The delays ranged from two to 52 days after termination.
- 1 (13%) individual's Security Notification Form was approved by someone other than an authorized individual.

The Department's GenTax Security Procedures (Procedures) require an authorized approver to submit a completed Department's Security Notification Form to terminate access to GenTax.

Further, the *Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology, Access Control section, requires entities to comply with stated policies and procedures and terminate user access upon separation.

In addition, 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 ensure State resources are used efficiently and effectively.

Department management indicated the weaknesses were due to oversight and the Department was updating their offboarding checklist to ensure proper termination of user access upon separation.

Failure to properly complete all required forms, ensure forms are submitted by an authorized individual, and terminate users' access in a timely manner put the Department at risk of unauthorized access to GenTax. (Finding Code No. 2022-005)

Recommendation

We recommend the Department strengthen its controls over GenTax security, including controls over terminated users, to ensure the security of GenTax data.

Department Response

The Department accepts the auditor's recommendation. The Department did not have a formalized system in place for Revenue supervisors and Human Resource Management (HRM) staff to communicate the offboarding of personnel to ensure GenTax user access had been revoked. Management has since worked with HRM and implemented a monthly communication process to ensure separated personnel with GenTax user access are removed from the system. In addition, the Department is developing an electronic request system to better regulate the process of terminating and modifying GenTax access.