

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Fund
Draft Financial Statements
For the Year Ended June 30, 2023**

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, 2023**

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The Department of Employment Security's *State Compliance Examination* for the two years ended June 30, 2023, will be issued under a separate cover.

**State of Illinois
Department of Employment Security**

**Agency Officials
June 30, 2023**

Director (01/17/2023 – Present) Director (08/10/2020 – 01/16/2023)	Mr. Raymond Marchiori Ms. Kristin Richards
Chief of Staff (04/01/2023 – Present) Chief of Staff (01/17/2023 – 03/31/2023) Chief of Staff (06/18/2019 – 01/16/2023)	Ms. Melissa Coultas Vacant Mr. Raymond Marchiori
Deputy Director Service Delivery Bureau (07/26/2021 – Present) Deputy Director Service Delivery Bureau (07/16/2021 – 07/25/2021) Deputy Director Service Delivery Bureau (02/16/2015 – 07/15/2021)	Ms. Mireya Hurtado Vacant Ms. Trina Taylor
Deputy Director Business Services Bureau (02/1/2021 – Present)	Ms. Carrie Thomas
Chief Legal Counsel (01/16/2020 – Present)	Mr. Kevin Lovellette
Chief Financial Officer (01/01/2024 – Present) Acting Chief Financial Officer (09/13/2023 – 12/31/2023) Chief Financial Officer (12/01/2019 – 09/12/2023); (Medical Leave 09/13 – 10/30/2023)	Mr. Brett Cox Mr. L. Briant Coombs Mr. Isaac Burrows
Chief Operating Officer (03/04/2024 – Present) Chief Operating Officer (12/1/2020 – 01/31/2024)	Mr. Jared Walkowitz Ms. Stacey Howlett
Chief Internal Auditor (05/16/2021– Present)	Mr. Noe G. Reyes
Manager, Accounting Services Division (07/01/2019 – Present)	Mr. L. Briant Coombs
Manager, Economic Information and Analysis Division (01/01/2024 – Present) Manager, Economic Information and Analysis Division (12/16/2019 – 12/31/2023)	Ms. Marty Johnson 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, 2023**

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, 2023.

Based on their audit, the auditors expressed an unmodified opinion on the Department's Statement of Net Position and a qualified 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	8	5
Repeated Findings	4	3
Prior Recommendations Implemented or Not Repeated	1	0

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
CURRENT FINDINGS				
2023-001	24	2022/2021	Failure to Maintain Accurate and Complete Pandemic Unemployment Assistance Claimant Data	Material Weakness and Noncompliance
2023-002	25	2022/2020	Weaknesses over Service Providers and Failure to Implement General Information Technology Controls over the Pandemic Unemployment Assistance System	Material Weakness and Noncompliance
2023-003	27	New	Inadequate Controls over Receivables and Allowances	Material Weakness and Noncompliance
2023-004	29	New	Improper Classification of Revenue Transactions	Material Weakness and Noncompliance
2023-005	30	2022/2020	Failure to Perform Timely Cash Reconciliations	Material Weakness and Noncompliance
2023-006	31	New	Improper Reporting of Interest Expense	Material Weakness and Noncompliance
2023-007	32	New	Weaknesses in IBIS and BCS Application	Significant Deficiency and Noncompliance
2023-008	34	2022/2022	Inadequate Controls over GenTax Access	Significant Deficiency and Noncompliance
PRIOR FINDINGS NOT REPEATED				
A	36	2022/2022	Lack of Internal Controls over Financial Accounting and Reporting	

**State of Illinois
Department of Employment Security**

**Financial Statements
For the Year Ended June 30, 2023**

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on July 18, 2024.

Attending were:

Illinois Department of Employment Security:

Ray Marchiori	Director
Brett Cox	Chief Financial Officer
Melissa Coultas	Chief of Staff
Noe Reyes	Chief Internal Auditor
Kevin Lovellette	Chief Legal Counsel
Jim Schreiber	Audit Liaison
Kelly McGrath	Manager of Accounting and Reporting
Samantha Oliver	UI Trust Fund Manager
Briant Coombs	Accounting Services Manager
Marcia Armstrong	Director's Office Representative
Adrienne Burt	Special Projects

Office of the Auditor General:

Dennis Gibbons	Audit Manager
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RSM US LLP:

Dan Sethness	Partner
Erik Ginter	Senior Manager
Adam Trynieszewski	Senior Associate
Shereen Ashraf	Associate

The responses to the recommendations were provided by Jim Schreiber, Audit Liaison, in a correspondence dated July 26, 2024.



Independent Auditor's Report

RSM US LLP

Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on the Audit of the Financial Statements

Qualified Opinion

As Special Assistant Auditors for the Auditor General, we have audited 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, 2023, 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.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Trust Fund as of June 30, 2023, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

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

Matter Giving Rise to Qualified Opinion

The Department outsourced unemployment benefit claims processing to a service organization for the Pandemic Unemployment Assistance (PUA) programs as well as several other pandemic related programs. The system processing these claims had material weaknesses in the design and operation of internal controls and we were unable to obtain sufficient appropriate audit evidence to determine, or verify by alternative means, whether amounts paid to claimants met eligibility requirements. The Department recorded approximately \$75 million in expenses paid to claimants, and approximately \$6 million in related revenues from the federal government, net of refunds. Due to the material weaknesses in internal control over the system, we were unable to obtain sufficient appropriate audit evidence to conclude that amounts recorded for PUA and related programs on the statements of revenues, expenses, and changes in net position and cash flows were free of material misstatement.

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, 2023, 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. Our opinion is not modified with respect to this matter.

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

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 opinions. 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 basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2024, 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 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, 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
July 31, 2024

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Fund
Statement of Net Position
Year Ended June 30, 2023
(Amounts in \$000's)**

	Unemployment Compensation Trust Fund
Current assets	
Cash and cash equivalents	\$ 1,775,334
Receivables, net	
Taxes	427,921
Due from Other Government - Federal - Unemployment Insurance and related programs	677
Due from Other Government - Federal - Pandemic Unemployment Assistance (PUA)	2,477
Due from Other Government - Federal - Federal Pandemic Unemployment Compensation (FPUC) associated with Pandemic Unemployment Assistance (PUA)	32
Due from Other Government - Local	39,385
Other Receivable - Unemployment Insurance and related programs	358,025
Other Receivable - Federal Government	52,047
Due from other Department and State funds	3,929
Due from component units of the State	80
Total current assets	<u>2,659,907</u>
Current liabilities	
Accounts Payable and Accrued Liabilities	99,315
Benefits Accrual - Other Unemployment Insurance and related programs	35,300
Benefits Accrual - Pandemic Unemployment Assistance (PUA)	31
Benefits Accrual - Federal Pandemic Unemployment Compensation (FPUC) associated with Pandemic Unemployment Assistance (PUA)	32
Refund due on Overpayment	10,391
Due to Other Government - Federal	
Due to Federal Government - Waiting Week Reimbursement	26,074
Benefits Payable - Pandemic Unemployment Assistance (PUA)	790
Benefits Payable - Lost Wage Assistance (LWA)	37
Benefits Payable - Federal Pandemic Unemployment Compensation (FPUC) associated Stop Payments	655
Contingency/Lost Wages Assistance associated with Regular Unemployment Benefits	19,466
Contingency/Lost Wages Assistance associated with Pandemic Unemployment Assistance	49,505
Due to Other Government - Local	3,644
Due to other State funds	47,802
Total current liabilities	<u>293,042</u>
Noncurrent liabilities	
Due to Other Fund - Noncurrent	405,000
Total noncurrent liabilities	<u>405,000</u>
Total liabilities	<u>698,042</u>
Net position	
Restricted for payment of benefits	<u>\$ 1,961,865</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, 2023
(Amounts in \$000's)

	Unemployment Compensation Trust Fund
Operating revenues	
Contributions - Unemployment taxes	\$ 1,629,442
Total operating revenues	<u>1,629,442</u>
Operating expenses	
Benefit payments and refunds - Unemployment Insurance and related programs	953,540
Benefit payments and refunds - Pandemic Unemployment Assistance (PUA) - unaudited	28,449
Benefit payments and refunds - Federal Pandemic Unemployment Compensation (FPUC) associated with Pandemic Unemployment Assistance (PUA) - unaudited	44,448
Benefit payments and refunds - Lost Wages Assistance associated with Pandemic Unemployment Assistance (PUA) - unaudited	2,471
Total operating expenses	<u>1,028,908</u>
Operating income	<u>600,534</u>
Nonoperating revenues	
Interest and investment income	7,695
Interest expense, non-operating	
Miscellaneous revenue	119,282
Contributions - Other unemployment insurance and related programs	(2,201)
Contributions - Pandemic Unemployment Assistance (PUA) - unaudited	5,350
Contributions - Federal Pandemic Unemployment Compensation (FPUC) associated with Pandemic Unemployment Assistance (PUA) - unaudited	461
Total nonoperating revenues	<u>130,587</u>
Income before transfers	731,121
Transfers in	1,362,871
Transfers out	16,315
Change in net position	<u>2,077,677</u>
Net position (deficit), July 1, 2022 as previously reported	(115,812)
Net position, June 30, 2023	<u>\$ 1,961,865</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, 2023
(Amounts in \$000's)**

	Unemployment Compensation Trust Fund (unaudited)
Cash flows from operating activities	
Contributions - Unemployment taxes received	\$ 2,406,695
Unemployment benefits paid - Other Unemployment Insurance and related programs	(1,904,602)
Unemployment benefits paid - Pandemic Unemployment Assistance (PUA)	(43,967)
Unemployment benefits paid - Federal Pandemic Unemployment Compensation (FPUC) associated with Pandemic Unemployment Assistance (PUA)	(3,277)
Net cash provided by operating activities	<u>454,849</u>
Cash flows from noncapital financing activities	
Miscellaneous receipts - FUTA credit	119,282
Contributions - Other Unemployment Insurance and related programs	34,448
Contributions - Pandemic Unemployment Assistance (PUA)	164,849
Contributions - Federal Pandemic Unemployment Compensation (FPUC) associated with Pandemic Unemployment Assistance (PUA)	5
Contributions - Lost Wage Assistance (LWA) associated with Pandemic Unemployment Assistance (PUA)	655
Transfers out to Other Fund	(14,779)
Transfer in from Other Fund	1,362,872
Principal paid on revenue bonds and other borrowing	(1,812,645)
Proceeds from revenue Bonds and other borrowing - Loan Activity	450,000
Net cash provided by noncapital financing activities	<u>304,687</u>
Cash flows from investing activity	
Interest and investment income	7,695
Net cash provided by investing activity	<u>7,695</u>
Net increase in cash and cash equivalents	767,231
Cash and cash equivalents, July 1, 2022	<u>1,008,103</u>
Cash and cash equivalents, June 30, 2023	<u>\$ 1,775,334</u>

(Continued)

State of Illinois
Department of Employment Security

Individual Nonshared Proprietary Fund
Statement of Cash Flows (Continued)
Year Ended June 30, 2023
(Amounts in \$000's)

	Unemployment Compensation Trust Fund (unaudited)
<hr/>	
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 600,534
Adjustments to reconcile operating income to net cash provided by operating activities:	
Provision for uncollectible	
Other Unemployment Insurance and related programs	(37,218)
Changes in assets and liabilities:	
Taxes and other receivables - Unemployment Insurance and other Programs	(183,980)
Taxes and other receivables - Pandemic Unemployment Assistance (PUA)	2,799
Taxes and other receivables - Federal Pandemic Unemployment Compensation (FPUC) associated with Pandemic Unemployment Assistance (PUA)	10,646
Taxes and other receivables - Lost Wage Assistance (LWA) associated with Pandemic Unemployment Assistance (PUA)	(4,623)
Intergovernmental receivables - Other Unemployment Insurance and related programs	(2,060)
Due from State funds	2,981
Due from component units	7
Accounts Payable and Accrued Liabilities	20,172
Benefit Accrual - Other Unemployment Insurance and related programs	17,259
Benefit Accrual - Pandemic Unemployment Assistance (PUA)	(1,299)
Benefit Accrual - Federal Pandemic Unemployment Compensation (FPUC) associated with Pandemic Unemployment Assistance (PUA)	(1,486)
Intergovernmental payables	31,112
Due to other Component Unit	5
Net cash provided by operating activities	<u>\$ 454,849</u>

See Notes to Financial Statements.

**State of Illinois
Department of Employment Security**

**Unemployment Compensation Trust Fund
Notes to the Financial Statements
Year Ended June 30, 2023
(Amounts in \$000's)**

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 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, 2023, 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 the Financial Statements (Continued)
Year Ended June 30, 2023
(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 the Financial Statements (Continued)
Year Ended June 30, 2023
(Amounts in \$000's)**

Note 2. Summary of Significant Accounting Policies (Continued)

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 trust 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**

**Unemployment Compensation Trust Fund
Notes to the Financial Statements (Continued)
Year Ended June 30, 2023
(Amounts in \$000's)**

Note 2. Summary of Significant Accounting Policies (Continued)

G. Non-Operating Revenues (unaudited)

Program	Revenue
Unemployment Compensation for Federal Employees	\$ 10,146
Unemployment Compensation for Ex-service members	3,740
Temporary Extended Unemployment Compensation	(22)
Emergency Unemployment Compensation 2008 (General Revenue funded)	(6,003)
Emergency Unemployment Compensation 2008 (FUTA funded)	(47)
Federal Additional Compensation	(5,455)
Extended Benefits	(620)
Emergency Unemployment Compensation 2008 (Non- General Revenue)	(2,274)
Federal Pandemic Unemployment Compensation	461
Pandemic Emergency Unemployment Compensation	(1,924)
Pandemic Unemployment Assistance	5,350
FUTA	119,282
STC	258
Total	\$ 122,892

H. 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.

I. 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 the Financial Statements (Continued)
Year Ended June 30, 2023
(Amounts in \$000's)**

Note 3. Deposits and Investments

At June 30, 2023, cash and cash equivalents for the UTF for a locally held fund had a carrying amount in the accompanying financial statements of \$1,775,334 and a bank balance of \$24,705.

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, 2023, 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 \$1,767,634 as of June 30, 2023 and represents an external investment 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. On June 30, 2023, 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 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, 2023, are as follows:

Unemployment taxes	\$ 673,865
Interest and penalties receivables on taxes	<u>168,119</u>
Total taxes receivable	841,984
Less allowance for uncollectible taxes	<u>(414,063)</u>
Taxes receivable, net	<u><u>\$ 427,921</u></u>

**State of Illinois
Department of Employment Security**

**Unemployment Compensation Trust Fund
Notes to the Financial Statements (Continued)
Year Ended June 30, 2023
(Amounts in \$000's)**

Note 5. Intergovernmental Receivables

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 \$39,385 and \$3,186, respectively, at June 30, 2023. These receivables are expected to be fully collectible.

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, 2023, are as follows:

Other receivables	\$ 1,761,210
Less allowance for uncollectible receivables	<u>(1,403,185)</u>
Other Receivable - Unemployment Insurance and related programs, net	<u>\$ 358,025</u>
Other Receivable - Federal	\$ 68,012
Less: allowance for uncollectible receivables	<u>(15,965)</u>
Other Receivable - Federal Government, net	<u>\$ 52,047</u>

**State of Illinois
Department of Employment Security**

**Unemployment Compensation Trust Fund
Notes to the Financial Statements (Continued)
Year Ended June 30, 2023
(Amounts in \$000's)**

Note 7. Interfund Balances and Activities

(a) Balances Due to and from Other Funds

The following balances on June 30, 2023 represent amounts due from and due to other Department and State of Illinois funds.

Description/Purpose	Due From Other Funds	Due to Other Funds
Due from General Revenue Fund for reimbursement of unemployment benefits paid	\$ 2,448	\$ -
Due from Title III for reimbursement of unemployment benefits paid	-	5
Due from the Department of Transportation for reimbursement of unemployment benefits to former employees of the Department	1,481	-
To record repayment of 1138 loan from GRF	-	450,000
Due to Operating Fund for discretionary transfers of penalties and interests	-	2,792
Due to Operating fund for discretionary transfers of nonsufficient funds (NSF) fees	-	5
Totals	\$ 3,929	\$ 452,802

Due from component units of the State of Illinois balance at June 30, 2023 of \$80 represents reimbursement of unemployment benefits paid to employees of State universities.

**State of Illinois
Department of Employment Security**

**Unemployment Compensation Trust Fund
Notes to the Financial Statements (Continued)
Year Ended June 30, 2023
(Amounts in \$000's)**

Note 8. Intergovernmental Transfers

Description/Purpose	Transfer to	Transfer from
Transfer in from GRF	\$ -	\$ 1,362,871
Transfer out of Penalties and Interest	14,763	-
Discretionary Transfer of NSF Fees	12	-
Transfer of Excess Funds to Fund 55	59	-
Accruals	1,481	-
Totals	\$ 16,315	\$ 1,362,871

Intergovernmental transfers represent transfers between Governmental Agencies. The \$1,362,871 Transfer In represents a transfer from the State's General Revenue Fund for repayment of the Federal Loan. The \$16,315 Transfer Out of penalties and interest comes from the collection of penalties and interest on late unemployment taxes. These funds are transferred to Fund 55 to cover expenditures not covered by Federal grants. The Trust Fund cannot pay any fees. As a result, NSF fees are transferred to Fund 52 to pay.

Note 9. 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 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 Loss Wage Assistance (LWA) program funded by FEMA requires the repayment of LWA overpayments unless recovery of the overpayment has been waived. The Department recognized the \$68,971 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 the Financial Statements (Continued)
Year Ended June 30, 2023
(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 Loss 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 program 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 the Financial Statements (Continued)
Year Ended June 30, 2023
(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 benefits of \$446,218 and \$514,853, respectively. For SFY 2023, the Department paid out PUA benefits and FPUC benefits of \$3,532 and \$3,298, respectively.

As of June 30, 2023, the Department recorded a liability for PUA related benefit claims that were owed but not paid of \$63.

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.

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. On September 27, 2022, \$450,000 from the Trust Fund was applied to pay down the loan principal. On January 25, 2023, the remaining outstanding balance of \$1,362,645 was paid from a State appropriation (P.A. 102-0698, Article 65, Section 35).

**State of Illinois
Department of Employment Security**

**Unemployment Compensation Trust Fund
Notes to the Financial Statements (Continued)
Year Ended June 30, 2023
(Amounts in \$000's)**

Note 11. Title XII Federal Loan (continued)

Title XII Loan Advances accrued interest at an annual rate of:

2.27769855%	from July 1, 2021, to December 31, 2021
1.59089995%	from January 1, 2022, to December 31, 2022
1.67759840%	from January 1, 2023, to January 25, 2023

The Department incurred interest from September 7, 2021, through September 30, 2021, in the amount of \$6,384,286 which was paid by the due date of September 30, 2021, through the Unemployment Compensation Special Administration Fund. The Department also incurred interest from October 1, 2021, through September 30, 2022, in the amount of \$57,331,438 which was paid by the due date of September 30, 2022, from a State appropriation (P.A. 102-0017, Article 53, Section 40). Finally, the Department incurred interest from October 1, 2022, through January 25, 2023, in the amount of \$7,029,858 which will be paid by the due date of September 30, 2023.

Note 12. Interfund Borrowing

The State of Illinois appropriated a loan to the Department in SB2801 as enacted in PA 102-1121, Sec. 40 noting: "The sum of \$450,000,000 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."

A \$450 million appropriation was made in Calendar Year 2023 from the State Treasury to the Unemployment Insurance Trust Fund (UTF) as an interest-free loan solely for purposes of paying unemployment insurance benefits. Under Section 2101.1B of the Unemployment Insurance Act (820 ILCS 405), the Department is required to transfer \$45 million from the UTF to the State's Budget Stabilization Fund prior to July 1 of each year, beginning in 2024, until the \$450 million loan is repaid. However, in any calendar year in which the balance of the UTF is below \$1.2 billion as of June 1, the \$45 million loan payment shall not be made that year.

**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 (*Government Auditing Standards*), 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, 2023, and the related notes to the financial statements, which collectively comprise the Trust Fund's financial statements, and have issued our report thereon dated July 31, 2024. That report contains a qualified opinion on those financial statements due to material weaknesses in internal control over 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 financial statements, 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 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 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 as items 2023-001 through 2023-008, 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 2023-001 through 2023-006 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 deficiencies described in the accompanying Schedule of Findings as items 2023-007 and 2023-008 to be significant deficiencies.

Report on 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 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 2023-001 through 2023-008.

Department's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Department's responses to the findings identified in our audit and described in the accompanying Schedule of Findings. The Department's responses were not subjected to the other 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 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
July 31, 2024

**State of Illinois
Department of Employment Security**

**Schedule of Findings
For the Year Ended June 30, 2023**

Current Findings – Government Auditing Standards

Finding 2023-001 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, for the year ending June 30, 2023, 2,828 claimants received payments totaling \$6,171,258.

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).

Department management indicated the PUA system limitations were due to time constraints with starting up the system during the pandemic, 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 2023. Therefore, we are issuing a modified opinion over the Department's Fiscal Year 2023 Unemployment Compensation Trust Fund Statements of Revenues, Expenses, and Changes in Net Position and Cash Flows. (Finding Code No. 2023-001, 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 a 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 conclusion of that SOC report was that the controls were suitably designed and operated effectively. The PUA system itself is time-limited due to the close-out of the federal pandemic programs. The Department continues to focus on data controls for ongoing programs and emergency planning and preparedness.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2023**

Finding 2023-002 Weaknesses over Service Providers and 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 (GITCs) over the Pandemic Unemployment Assistance (PUA) System (System) and had weaknesses over the review of internal controls over its service providers.

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, 2022 to June 30, 2023 over the Department's PUA System. 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.

In addition, the Department utilized a myriad of service providers for transaction processing, software as a service, and hosting services. As part of our testing, we requested the Department provide a population of its service providers. Although the Department provided a list of service providers, we noted the list did not include all known service providers of the Department. Therefore, 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 Accounts (AU-C § 500.08 and AT-C § 205.36).

Even given the population limitation noted above, we reviewed a sample of four service providers, noting the Department had not performed the following:

- Reviewed the System and Organization Control (SOC) reports for four (100%) service providers.
- Monitored and documented the operation of the Complementary User Entity Controls (CUECs) relevant to its operations for four (100%) service providers.
- Timely obtained and reviewed SOC reports for subservice providers or performed alternative procedures to determine the impact on its internal control environment. Two of four (50%) service providers' SOC reports had subservice providers.
- Conducted an analysis to determine the impact of noted deviations within the SOC reports for four (100%) service providers.
- Maintained a formal process to monitor service providers for performance, problems encountered, and compliance with contractual terms.

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. Lastly, the Maintenance and System and Service Acquisition sections requires entities outsourcing their information technology environment or operations to obtain assurance over the entities' internal controls related to the services provided. Such assurance may be obtained through SOC reports or independent reviews.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2023**

Finding 2023-002 Weaknesses over Service Providers and Failure to Implement General Information Technology Controls over the Pandemic Unemployment Assistance System (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 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.

Department management indicated that the Department did not have a formal process for evaluating and monitoring service providers during the audit cycle due to limitations in hiring staff with requisite knowledge of managing technology service providers.

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. In addition, without adequate controls over the review of internal controls over its service providers, the Department did not have assurance the service providers' internal controls were adequate to ensure its critical and confidential data were secure and available. (Finding Code No. 2023-002, 2022-001, 2021-001, 2020-001)

Recommendation

We recommend the Department strengthen its controls over the implementation of GITC's for the PUA System and its review of service providers. Specifically, we recommend the Department:

- Implement controls to achieve the control objectives documented in the service providers' SOC reports.
- Develop a process to document/maintain all service providers utilized by the Department.
- Develop a formal process for reviewing, evaluating, and monitoring service providers and their associated risks including:
 - Review of SOC Reports and Bridge Letters.
 - Document compliance with Complementary User Entity Controls.
 - Conduct an analysis to determine impact of noted deviations within the SOC reports.
 - Either obtain and review SOC reports for subservice providers or perform alternative procedures to satisfy the use of the subservice providers would not impact the Department's internal control environment.
- Maintain a formal process to monitor service providers for performance, problems encountered, and compliance with contractual terms.

Department Response

The Department accepts the auditor's recommendation. The Department continues to focus on general IT control efforts for traditional programs and planning for future emergency and one-time programs. The PUA system itself is time-limited due to the close-out of the federal pandemic programs. The Department is formalizing a process for reviewing service providers and the associated risks as well as ensuring the Department has staff with the proper knowledge, skills and abilities to effectively carry out the process.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2023**

Finding 2023-003 Inadequate Controls over Receivables and Allowances

The Department of Employment Security (Department) improperly determined the receivable and allowance for taxes receivable and the allowance for other receivables.

As part of our audit, we requested supporting documentation of the balances reported as taxes receivable as well as support for the Department's determinations of allowances reported against all receivables.

The Department improperly calculated the allowance and receivable for taxes receivable and the allowance for other receivables based on the following:

- The Department prepares the receivable and allowance for taxes receivable using two different inputs, one for amounts billed and not yet collected and one for an estimated unbilled amount performed in the first quarter of the subsequent fiscal year. The Department improperly calculated its estimate for the unbilled amount and overstated its receivables by \$32,026,000, contribution revenue by \$31,211,000, and the allowance for uncollectible accounts by \$815,000. An adjustment was recorded to correct these errors.
- The Department prepares an allowance for receivables associated with ID Theft, classified within other receivables. During Fiscal Year 2022, the Department was notified of an ongoing investigation by the federal government for amounts identified that would be paid to the Department upon completion of the investigation. However, the Department did not account for the amounts that could be valid payments and thus would not be received by the Department. In addition, the federal government identified additional amounts that would be paid to the Department as a result of follow-up by the Department. As a result, the Department understated other receivables and benefit payments expense by \$2,479,000. An adjustment was recorded to correct these errors.
- The Department prepares an allowance for receivables associated with Pandemic Unemployment Assistance (PUA), classified within other receivables. During Fiscal Year 2023, and review of subsequent collections in Fiscal Year 2024, the Department recovered minimal amounts on these receivables and an adjustment was booked to reduce the overstated other receivables and benefit payments expense by \$7,653,000.

Governmental Accounting Standards Board (GASB) Codification Section N50, *Nonexchange Transactions*, paragraph 113 states, "Revenues should be recognized, net of estimated refunds and estimated uncollectible amounts", and paragraph 125 states, "If notification by the provider government is not available in a timely manner, recipient governments should use a reasonable estimate of the amount to be accrued." The determination of the estimate should be reasonable, should be based on the most up-to-date information, and should be calculated properly.

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.

Department management indicated the inputs for the Department's revenue model were not up to date, and ID Theft and PUA updates were made after other receivables were booked.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2023**

Finding 2023-003 Inadequate Controls over Receivables and Allowances (Continued)

The Department is required to use taxes collected for unemployment benefits of citizens within the State of Illinois. If the Department does not properly report the amounts expected to be collected, citizens will not be properly aware of the financial position of the Department and its ability to pay for benefits of those in need within the State. Failure to properly identify amounts to be collected could also result in the financial statements being materially misstated. (Finding Code No. 2023-003)

Recommendation

We recommend the Department perform an analysis comparing the actual known billed amounts in the first quarter of the subsequent fiscal year to the estimate calculated to determine whether the estimate is reasonable. We also recommend the Department perform a review of allowances through the financial statement date to confirm that inputs into the determination of the allowances continue to be reasonable and do not require any updates.

Department Response

The Department accepts the auditor's recommendation. The Department will review its economic revenue projection model annually to incorporate a comparison of the previous year's estimate vs. actual and update the model as appropriate to improve the accuracy of our estimates and review allowances for reasonableness. The anticipated expiration of federal pandemic programs will also limit the risk of this finding in the future, as limited historical data was available for estimating activity within these programs.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2023**

Finding 2023-004 Improper Classification of Revenue Transactions

The Department of Employment Security (Department) improperly recorded year-end entries relating to Federal Unemployment (FUTA) Tax Credit revenue and benefit payments and refunds.

As part of our audit, we requested supporting documentation for the miscellaneous revenue and other federal contributions financial statement line items. However, the information in the supporting documentation did not agree to the amounts reported by the Department in the financial statements.

The Department recorded year-end adjustments based on an analysis of the State generally accepted accounting principles (GAAP) package submission to the Office of Comptroller (Comptroller). Upon reviewing the support for the related entries, we found that the miscellaneous revenue was understated by \$119,282,000, benefit expense was understated by \$78,889,000, employer contribution revenue was overstated by \$42,791,000, federal contribution revenue was understated by \$2,122,000, and other receivables were overstated by \$276,000. An adjustment was recorded to correct these errors.

Governmental Accounting Standards Board (GASB) Codification Section 1800, *Classification and Terminology*, paragraph 139 states, "Proprietary fund revenues should be reported by major sources." Revenues should be classified in such a way to enable a reader to easily understand the various revenue streams of the Department.

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.

Department management indicated the miscalculation was due to the complexity of entries needed to convert the general ledger from cash to accrual running through the State GAAP system.

Improperly recording revenues and expenses can lead to a reader of the financial statements not properly understanding the operations of the Department and misrepresent the standard operations of the Department. Failure to properly classify the various revenues of the Department could also result in the financial statements being materially misstated. (Finding Code No. 2023-004)

Recommendation

We recommend the Department record and classify revenue and expense transactions in line with the operations of the Department. We recommend the Department performs reconciliations of transactional details and report adjustments made to confirm that details align with the amounts reported in the financial statements.

Department Response

The Department accepts the auditor's recommendation. The Department is in the process of updating its annual GAAP financial reporting process to more closely align the complexities of the federally-held Unemployment Insurance Trust Fund with the Comptroller's financial reporting system (Wedge).

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2023**

Finding 2023-005 Failure to Perform Timely Cash Reconciliations

The Department of Employment Security (Department) did not prepare its year-end bank reconciliations timely and did not record all reconciling items identified in the reconciliation.

As part of our audit, we requested copies of the June 30, 2023 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 2023 reconciliations on January 16, 2024. In addition, the Department did not record all reconciling items identified in the reconciliation which resulted in an understatement of benefit expense by \$40,125,000, an overstatement of cash reported by \$32,414,000, and an understatement of benefits payable by \$7,711,000.

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. In addition, recording all reconciling items identified in the reconciliation is required to ensure cash is properly reported at year-end.

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 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 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. 2023-005, 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.

Department Response

The Department accepts the auditor's recommendation. The Department is working with an outside accounting firm to assist in timely completion of and improved controls over cash reconciliations. The Department is also in the process of evaluating proposals for a new banking contract, through which benefit payments will no longer be issued via check, and improved reporting functionality is an issue that the proposals will be evaluated upon. Both of these matters are anticipated to improve the timeliness and effectiveness of cash reconciliations.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2023**

Finding 2023-006 Improper Reporting of Interest Expense

The Department of Employment Security (Department) improperly recorded interest expense in the Unemployment Compensation Trust Fund.

The Department received a Title XII loan during Fiscal Year 2021 to provide funding for the additional unemployment benefits issued as a result of the COVID-19 pandemic and was required to pay interest on the loan based on rates set by the U.S. Department of Treasury.

The Department improperly recorded \$64,138,000 in interest expense, \$57,108,000 in transfers in, and \$7,030,000 in accounts payable and accrued liabilities in the Unemployment Compensation Trust Fund. An adjustment was recorded to correct these errors.

The Code of Federal Regulations (20 CFR § 606.33) states that no payment of interest on Title XII loans can be paid from an unemployment fund.

Governmental Accounting Standards Board (GASB) Codification Section 1100, *Summary Statement of Principles*, paragraph 101 states, "A governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions."

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.

Department management indicated the interest expense was recorded in the source fund where the loan was recorded, the Unemployment Compensation Trust Fund, and this was in error due to an associated payback transfer from the General Revenue Fund.

Improperly reporting interest expense in the Unemployment Trust Fund could indicate the improper use of funds and result in noncompliance with federal statutes as well as the Department overstating interest expense, transfers in, and accounts payable and accrued liabilities. (Finding Code No. 2023-006)

Recommendation

We recommend the Department review transactions to confirm amounts are reported in accordance with the Code of Federal Regulations and generally accepted accounting principles (U.S. GAAP).

Department Response

The Department accepts the auditor's recommendation. The Title XII loan has been paid in full to the Federal government and the last interest payment was due and paid by September 30, 2023 (SFY 2024). The Department will make sure to properly account for this on the SFY 2024 Financial Statements.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2023**

Finding 2023-007 Weaknesses in IBIS and BCS Application

The Department of Employment Security (Department) had inadequate controls over the Illinois Benefit Information System (IBIS) and Benefit Charging System (BCS) applications.

IBIS and BCS are key systems used by the Department to intake, maintain, and process unemployment claims for the State of Illinois. IBIS and BCS store and process confidential information such as Social Security Numbers and other personally identifiable information.

During testing, we noted for 17 of 25 (68%) separated users selected for testing, the Department was unable to provide documentation that user access to the IBIS/BCS application was removed timely.

Additionally, we requested the Department provide a population of application incidents. The Department provided a listing; however, the Department could not provide documentation to ensure the listing was complete and accurate. As such, 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 Accounts (AU-C § 500.08 and AT-C § 205.36).

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 and System and Communication Protection sections, requires entities to implement adequate internal controls over access to their environment, applications and data.

Additionally, 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.

Finally, the Department's Information Technology Security Policy requires employees' access to be removed upon separation.

Department management indicated they relied on the Department of Innovation and Technology (DoIT) to manage requirements related to terminating user access and had not formalized a procedure to ensure staff were removed at time of offboarding. Additionally, Department management indicated the inability to generate a complete listing of application incidents was due to a lack of resources.

Failure to timely deactivate separated users' access could result in unauthorized access to the Department's systems and data. Also, failure to maintain an accurate listing of application incidents could result in incidents not being resolved in accordance with the Department's requirements. (Finding Code No. 2023-007)

Recommendation

We recommend the Department maintain documentation to ensure separated users' access is timely terminated, and maintain a formal listing of IBIS and BCS incidents.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2023**

Finding 2023-007 Weaknesses in IBIS and BCS Application (Continued)

Department Response

The Department accepts the auditor's recommendation. The Department is working to include DoIT notification through the Departments' electronic service request notification process, ensuring timely termination of access to systems when staff are offboarded. The Department will also work with DoIT to ensure the daily history of batch job schedule completion status is maintained to document a complete population of application incident activity.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2023**

Finding 2023-008 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, we noted the following:

- We tested 21 individuals granted GenTax access during the audit period and noted:
 - For 2 (10%) tested individuals, the Department was unable to provide documentation to substantiate they had successfully completed background checks.
 - For 1 (5%) tested individual, the Department was unable to provide documentation to substantiate the access request was approved by an authorized approver.
- We tested 33 individuals with GenTax access removed during the audit period and noted:
 - For 1 (3%) tested individual, the individual's access to GenTax was not terminated timely. The access was terminated 29 days after separation.
 - For 3 (9%) tested individuals, their access terminations were requested by individuals who were not authorized approvers.

The Department's GenTax Security Procedures (Procedures) require individuals requesting access to GenTax to complete a background check, and require authorized approvers to approve access. Additionally, the Procedures require an authorized approver to submit a completed Department's Security Notification Form to terminate access to GenTax.

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.

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.

The State Records Act (5 ILCS 160/8) requires the Department to make and preserve records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions of the Department to furnish information to protect the legal and financial rights of the State and of persons directly affected by the Department's activities.

Department management indicated the weaknesses were due to lack of training on offboarding processes and human error.

Failure to ensure adequate security over GenTax puts the Department at risk of unauthorized access to the system. (Finding Code No. 2023-008, 2022-005)

Recommendation

We recommend the Department strengthen its controls over GenTax security to ensure the security of the system.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2023**

Finding 2023-008 Inadequate Controls over GenTax Access (Continued)

Department Response

The Department accepts the auditor's recommendation. The Department has implemented a twice-a-month communication process to ensure separated personnel with GenTax user access are removed from the system. In addition, the Department implemented an electronic ticketing system that limits access to the termination and modification of GenTax credentialing to authorized managers.

**State of Illinois
Department of Employment Security**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2023**

Prior Findings Not Repeated – Government Auditing Standards

A. Lack of Internal Controls over Financial Accounting and Reporting

In the prior financial audit, the Department did not maintain appropriate controls over financial reporting.

During the current financial audit, the auditors identified several issues relating to financial reporting. However, due to the varied natures of the issues noted, the auditors determined they should be reported as separate findings. As such, these issues were reported as Findings 2023-003, 2023-004, and 2023-006 in the Department's *Financial Audit Report*. (Finding Code No. 2022-003)