

State of Illinois
Department of Employment Security

State Compliance Examination
For the Two Years Ended June 30, 2023

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

**STATE OF ILLINOIS
DEPARTMENT OF EMPLOYMENT SECURITY
STATE COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2023**

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**State of Illinois
Department of Employment Security**

**Agency Officials
June 30, 2023**

Director (01/17/2023 – Present)	Mr. Raymond Marchiori
Director (08/10/2020 – 01/16/2023)	Ms. Kristin Richards
Chief of Staff (04/01/2023 – Present)	Ms. Melissa Coultas
Chief of Staff (01/17/2023 – 03/31/2023)	Vacant
Chief of Staff (06/18/2019 – 01/16/2023)	Mr. Raymond Marchiori
Deputy Director Service Delivery Bureau (07/26/2021 – Present)	Ms. Mireya Hurtado
Deputy Director Service Delivery Bureau (07/16/2021 – 07/25/2021)	Vacant
Deputy Director Service Delivery Bureau (02/16/2015 – 07/15/2021)	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)	Mr. Brett Cox
Acting Chief Financial Officer (09/13/2023 – 12/31/2023)	Mr. L. Briant Coombs
Chief Financial Officer (12/01/2019 – 09/12/2023); (Medical Leave 09/13 – 10/30/2023)	Mr. Isaac Burrows
Chief Operating Officer (03/04/2024 – Present)	Mr. Jared Walkowitz
Chief Operating Officer (02/01/2024 – 03/03/2024)	Vacant
Chief Operating Officer (12/01/2020 – 01/31/2024)	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)	Ms. Marty Johnson
Manager, Economic Information and Analysis Division (12/16/2019 – 12/31/2023)	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

JB Pritzker
Governor



Raymond P. Marchiori
Director

September 5, 2024

RSM US LLP
1450 American Lane, Suite 1400
Schaumburg, IL 60173

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the State of Illinois, Illinois Department of Employment Security (Department). We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Department's compliance with the following specified requirements during the two-year period ended June 30, 2023. Based on this evaluation, we assert that during the years ended June 30, 2022, and June 30, 2023, the Department has materially complied with the specified requirements listed below.

- A. The Department has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Department has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. Other than what has been previously disclosed and reported in the Schedule of Findings, the Department has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. Other than what has been previously disclosed and reported in the Schedule of Findings, State revenues and receipts collected by the Department are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- E. Other than what has been previously disclosed and reported in the Schedule of Findings, money or negotiable securities or similar assets handled by the Department on behalf of the State or held in trust by the Department have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Yours truly,

Illinois Department of Employment Security

SIGNED ORIGINAL ON FILE

Ray Marchiori, Director

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Brett Cox, Chief Financial Officer

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Kevin Lovellette, Chief Legal Counsel

**State of Illinois
Department of Employment Security**

**State Compliance Examination
For the Two Years Ended June 30, 2023**

STATE COMPLIANCE REPORT

SUMMARY

The State compliance testing performed during this examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the *Audit Guide*.

ACCOUNTANT'S REPORT

The Independent Accountant's Report on State Compliance and on Internal Control Over Compliance contains a qualification over internal control over compliance.

SUMMARY OF FINDINGS

	<u>Current</u>	<u>2022</u>	<u>2021</u>
GAS Findings	8	5	3
State Compliance Findings	15	N/A	23
Total Compliance Findings	23	5	26

	<u>Current</u>	<u>2022</u>	<u>2021</u>
GAS New Findings	4	2	1
GAS Repeated Findings	4	3	2
GAS Not Repeated Findings	1	0	5

	<u>Current</u>	<u>2022</u>	<u>2021</u>
State Compliance New Findings	3	N/A	17
State Compliance Repeated Findings	12	N/A	6
State Compliance Not Repeated Findings	11	N/A	5

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
Current Findings				
2023-001	11	2022/2021	Failure to Maintain Accurate and Complete Pandemic Unemployment Assistance Claimant Data	Material Weakness and Material Noncompliance
2023-002	12	2022/2020	Weaknesses over Service Providers and Failure to Implement General Information Technology Controls over the Pandemic Unemployment Assistance System	Material Weakness and Material Noncompliance
2023-003	14	New	Inadequate Controls over Receivables and Allowances	Material Weakness and Material Noncompliance
2023-004	16	New	Improper Classification of Revenue Transactions	Material Weakness and Material Noncompliance

**State of Illinois
Department of Employment Security**

**State Compliance Examination
For the Two Years Ended June 30, 2023**

STATE COMPLIANCE REPORT (Continued)

SCHEDULE OF FINDINGS (Continued)

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
2023-005	17	2022/2020	Failure to Perform Timely Cash Reconciliations	Material Weakness and Material Noncompliance
2023-006	18	New	Improper Reporting of Interest Expense	Material Weakness and Material Noncompliance
2023-007	19	New	Weaknesses in IBIS and BCS Application	Significant Deficiency and Noncompliance
2023-008	21	2022/2022	Inadequate Controls over GenTax Access	Significant Deficiency and Noncompliance
2023-009	23	2021/2017	Inadequate Controls over Monthly Reconciliations	Significant Deficiency and Noncompliance
2023-010	24	2021/2017	Noncompliance with the Election Code	Significant Deficiency and Noncompliance
2023-011	26	2021/2021	Noncompliance with Statutes and Regulations on Internal Auditing	Significant Deficiency and Noncompliance
2023-012	28	2021/2015	Inadequate Controls over Property and Equipment Records	Significant Deficiency and Noncompliance
2023-013	30	2021/2003	Performance Evaluations Not Completed Timely	Significant Deficiency and Noncompliance
2023-014	31	2021/2021	Inadequate Controls over Contractual Agreements	Significant Deficiency and Noncompliance
2023-015	32	2021/2021	Noncompliance with Department's Policies and Procedures on Timekeeping	Significant Deficiency and Noncompliance
2023-016	35	2021/2021	Weaknesses in Security and Control of Confidential Information	Significant Deficiency and Noncompliance
2023-017	36	2021/2019	Weaknesses in Cybersecurity Programs and Practices	Significant Deficiency and Noncompliance
2023-018	38	2021/2021	Weaknesses in Security and Control of Remote Access	Significant Deficiency and Noncompliance
2023-019	39	2021/2021	Disaster Recovery Planning Weaknesses	Significant Deficiency and Noncompliance

**State of Illinois
Department of Employment Security**

**State Compliance Examination
For the Two Years Ended June 30, 2023**

STATE COMPLIANCE REPORT (Continued)

SCHEDULE OF FINDINGS (Continued)

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
2023-020	40	2021/2021	Payment Card Industry (PCI) Compliance Weaknesses	Significant Deficiency and Noncompliance
2023-021	42	New	Untimely Publishing of State's Average Weekly Wage	Significant Deficiency and Noncompliance
2023-022	43	New	Inadequate Controls over Telecommunication Devices	Significant Deficiency and Noncompliance
2023-023	45	New	Inadequate Controls over Voucher Processing	Significant Deficiency and Noncompliance

Prior Findings Not Repeated

A	46	2021/2021	Inadequate Controls over Determination of Overtime Pay and Calculation of Final-Termination Gross Pay
B	46	2021/2021	Untimely Submission of FCIAA Certification
C	46	2021/2021	Failure to Prepare Monthly Reconciliations
D	46	2021/2021	Noncompliance with State Library Act
E	46	2021/2021	Noncompliance with Report Filing Requirements
F	46	2021/2021	Inadequate Controls over Required Employee Training Requirements
G	47	2021/2021	Inadequate Accounts Receivable Reports and Quarterly Reports not Filed Timely
H	47	2021/2021	Inadequate Personal Information Protection Policy
I	47	2022/2018	Inadequate Controls over GenTax Access
J	47	2021/2021	Inadequate Controls over GenTax Change Control
K	47	2021/2021	Inadequate Controls over Service Providers

**State of Illinois
Department of Employment Security**

**State Compliance Examination
For the Two Years 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 August 22, 2024.

**Independent Accountant's Report
on State Compliance and on Internal Control over Compliance**

Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on State Compliance

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois, Department of Employment Security's (Department) compliance with the specified requirements listed below, as more fully described in the *Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide)* as adopted by the Auditor General, during the two years ended June 30, 2023. Management of the Department is responsible for the Department's compliance with the specified requirements. Our responsibility is to express an opinion on the Department's compliance with the specified requirements based on our examination.

The specified requirements are:

- A. The Department has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Department has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. The Department has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Department are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Department on behalf of the State or held in trust by the Department have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Illinois State Auditing Act (Act), and the *Audit Guide*. Those standards, the Act, and the *Audit Guide* require that we plan and perform the examination to obtain reasonable assurance about whether the Department complied with the specified requirements in all material respects. An examination involves performing procedures to obtain evidence about whether the Department complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance with the specified requirements, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our modified opinion.

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

Our examination does not provide a legal determination on the Department's compliance with the specified requirements.

Our examination disclosed material noncompliance with the following specified requirements applicable to the Department during the two years ended June 30, 2023. Items 2023-001 through 2023-006 are each considered to represent material noncompliance with the specified requirements.

Specified Requirement C

As described in the accompanying Schedule of Findings as items 2023-001 through 2023-006, the Department had not complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

Specified Requirement D

As described in the accompanying Schedule of Findings as items 2023-001 through 2023-006, the Department had not ensured the State revenues and receipts collected by the Department were in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts was fair, accurate, and in accordance with law.

Specified Requirement E

As described in the accompanying Schedule of Findings as items 2023-001 through 2023-006, money or negotiable securities or similar assets handled by the Department on behalf of the State or held in trust by the Department had not been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

In our opinion, except for the material noncompliance with the specified requirements described in the preceding paragraph, the Department complied with the specified requirements during the two years ended June 30, 2023, in all material respects. However, the results of our procedures disclosed instances of noncompliance with the specified requirements, which are required to be reported in accordance with criteria established by the *Audit Guide* and are described in the accompanying Schedule of Findings as items 2023-007 through 2023-0023.

The Department's responses to the compliance findings identified in our examination are described in the accompanying Schedule of Findings. The Department's responses were not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the responses.

The purpose of this report is solely to describe the scope of our testing and the results of that testing in accordance with the requirements of the *Audit Guide*. Accordingly, this report is not suitable for any other purpose.

Report on Internal Control Over Compliance

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the specified requirements (internal control). In planning and performing our examination, we considered the Department's internal control to determine the examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Department's compliance with the specified requirements and to test and report on the Department's internal control in accordance with the *Audit Guide*, 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 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, we did identify 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, noncompliance with the specified requirements on a timely basis. A material weakness in internal control is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material noncompliance with the specified requirements 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 in internal control 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 through 2023-023 to be significant deficiencies.

As required by the *Audit Guide*, immaterial findings excluded from this report have been reported in a separate letter.

The Department's responses to the internal control findings identified in our examination are described in the accompanying Schedule of Findings. The Department's responses were not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the responses.

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing based on the requirements of the *Audit Guide*. Accordingly, this report is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
September 5, 2024

**State of Illinois
Department of Employment Security**

**Schedule of Findings
For the Two Years Ended June 30, 2023**

Current Findings

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.

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 Accountants (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:

- 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, 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.

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

The Department has the ultimate responsibility for ensuring service providers are reviewed and monitored. Specifically, we recommend the Department:

- 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 Two Years 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 Two Years 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 Two Years 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 Two Years 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 Two Years 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 Two Years 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 Accountants (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 Two Years 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 Two Years 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 Two Years 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 Two Years Ended June 30, 2023**

Finding 2023-009 Inadequate Controls over Monthly Reconciliations

The Department of Employment Security (Department) did not have adequate controls over the required reconciliations of its records with the reports from the Office of Comptroller (Comptroller).

During our testing of Agency Contract Report (SC14) reconciliation reports, we noted 23 of 24 (96%) SC14 reconciliation reports were performed 25 to 722 days late. Additionally, 21 of 24 (88%) SC14 reconciliation reports were performed using inaccurate information, resulting in discrepancies between the reconciliation and the Comptroller's reports.

Additionally, during testing of the Monthly Revenue Status Report (SB04) reconciliations, we noted 20 of 48 (42%) monthly SB04 reconciliations were not prepared in a timely manner. These were prepared 6 to 496 days late. Also, all 48 (100%) SB04 reconciliations were not reviewed in a timely manner. The reconciliations were reviewed 69 to 762 days late.

Additionally, during testing of the Monthly Cash Status Report (SB05) reconciliations, we noted 41 of 48 (85%) monthly SB05 reconciliations were not prepared in a timely manner. These were prepared 2 to 415 days late. Also, all 48 (100%) SB05 reconciliations were not reviewed timely. These were reviewed 106 to 799 days late.

Finally, during testing of the Monthly Appropriation Status Report (SB01) reconciliations, we noted 36 of 52 (69%) monthly reconciliations were not prepared in a timely manner. These were prepared 24 to 656 days late. Additionally, 40 of 52 (77%) SB01 reconciliations were not reviewed in a timely manner. These were reviewed 145 to 839 days late. Lastly, 12 of 52 (23%) SB01 reconciliations did not include evidence to indicate when the reconciliations were performed; thus, timeliness of the reconciliations could not be determined.

The Statewide Accounting Management System (SAMS) (Procedure 07.30.20) requires the Department to reconcile its records to the SAMS system on a monthly basis. These reconciliations must be completed within 60 days of the month end. The key reports to be used for reconciliations includes the SC14, SB01, SB04, and SB05.

Department management indicated the issues arose due to staff turnover and shortages as well as a lack of training.

Failure to perform monthly reconciliations in a timely manner hinders necessary and reasonable corrective action to locate differences and correct the accounting records between Department and Comptroller records timely. (Finding Code No. 2023-009, 2021-012, 2019-006, 2017-010)

Recommendation

We recommend the Department complete required monthly reconciliations using appropriate data and in a timely manner.

Department Response

The Department accepts the recommendation. The Department has assigned clear responsibility to staff for preparing and reviewing reconciliations. IDES is working to establish standard formats to ensure clear documentation of preparation and review of reconciliations. IDES is working with DoIT's ERP team to use and receive training on HANA reporting tools to assist in streamlining the reconciliation process and working through CMS to fill staff vacancies for positions responsible for reconciliation activities.

**State of Illinois
Department of Employment Security**

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

Finding 2023-010 Noncompliance with the Election Code

The Department of Employment Security (Department) did not fully comply with the requirements of the State's Election Code (Code).

During testing of the Department's compliance with the Code, we noted the following:

- The Department has not established and operated a voter registration system capable of transmitting voters' registration information to the State Board of Elections' portal.
- The Department has not entered into an agreement with the State Board of Elections to transmit information required under the Electronic Registration Information Center Membership Agreement.
- The Department's voter registration form posted on its website did not contain a space for the person to fill in his or her e-mail address, if he or she chooses to provide that information.

The Code (10 ILCS 5/1A-16.6) requires designated government agencies, one of which is the Department, to maintain a data transfer mechanism capable of transmitting voter registration application information, including electronic signatures where available, to the online voter registration system established by the State Board of Elections. The designated government agencies were required to establish and operate this voter registration system by July 1, 2016.

The Code (10 ILCS 5/1A-45 (b-5)) also requires the Department to enter into an agreement with the State Board of Elections to transmit member data under the Electronic Registration Information Center Membership Agreement. The Director of the Department is required to deliver the information on an annual basis to the State Board of Elections pursuant to the agreement between the entities.

The Code (10 ILCS 5/1A-17(a)) also requires the Department to make available on its World Wide Web site a downloadable, printable voter registration form that complies with the content requirement as set out in the Code (10 ILCS 5/1A-16(d)). The Code (10 ILCS 5/1A-16(d)(15)) requires the form to have a space for the person to fill in his or her e-mail address, if he or she chooses to provide that information.

The Department was first cited for noncompliance with the Code during the compliance examination for the two years ended June 30, 2017. In the years since the finding was first noted, the Department has not been successful in correcting the finding.

Department officials stated that regulatory issues surrounding confidential unemployment insurance data has delayed the implementation of the required voter registration system along with the transmission of the applicable data. They also stated that the wrong form being posted to the website was an oversight.

Failure to establish and operate the voter registration system, as well as failure to include an updated downloadable, printable voter registration form on the Department's website resulted in noncompliance with the Code. In addition, lack of an agreement precludes transmission of member data required by the Code. (Finding Code No. 2023-010, 2021-009, 2019-014, 2017-009)

**State of Illinois
Department of Employment Security**

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

Finding 2023-010 Noncompliance with the Election Code (Continued)

Recommendation

We recommend the Department seek funding necessary to fulfill the requirements of the Code. In addition, we recommend the Department enter into an agreement with the State Board of Elections to deliver the related required information under the Electronic Registration Information Center Membership Agreement, as well as provide a downloadable version of the voter registration form on its website which contains a space for an e-mail address.

Department Response

The Department accepts this finding and will continue to work with the State Board of Elections. Due to an issue with data sharing under the Electronic Registration Information Center (ERIC) umbrella, a new process was created to achieve the transfer and safeguarding of confidential data. An agreement is under negotiation with the State Board of Elections, and after finalization the technology systems will be programmed to transfer and safeguard data. Legislation was recently passed to remove the requirement that ERIC be a part of the agreement. The downloadable, printable voter registration form has been updated to include an option for the e-mail address.

Finding 2023-011 Noncompliance with Statutes and Regulations on Internal Auditing

The Department of Employment Security (Department) failed to comply with internal auditing requirements.

During our testing, we noted the following:

- The Department's internal audit function did not undergo internal assessments including ongoing monitoring of the performance of the internal audit activity and periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.
- The Department's internal audit function did not evaluate the implementation and effectiveness of the Department's ethics-related objectives, programs, and activities in accordance with Section 2110.A1 of the International Standards for the Professional Practice of Internal Auditing (IPPIA Standards).
- The Department's internal audit function did not undergo an external assessment in the last five years by a qualified, independent assessor or assessment team from outside of the organization, in accordance with Section 1312 of the IPPIA Standards. The Department's most recent external assessment was conducted in 2017.
- During testing of the internal audit reports during the examination period, we noted the following:
 - One of the four (25%) internal audit reports tested did not include acceptance or denial of findings by persons responsible for the agency function.
 - All four (100%) internal audit reports tested lacked a review of the Department's implementation of corrective actions after the reports were completed.
- The Department's internal audit function failed to conduct audits of testing of grants received or made by the Department to determine that the grants are monitored, administered, and accounted for in accordance with applicable laws and regulations.

The IPPIA Standards (Sections 1300-1311) requires the chief audit executive to develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. A quality assurance and improvement program must include both internal and external assessments. Internal assessments must include ongoing monitoring of the performance of the internal audit activity and periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of the internal audit practices.

Additionally, the IPPIA Standards (Section 1312) requires external assessments to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization.

Additionally, the IPPIA Standards (Section 2110.A1) requires the internal audit activity to evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities.

The IPPIA Standards (Section 2440) require the chief audit executive to communicate results to the appropriate parties. The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

**State of Illinois
Department of Employment Security**

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

**Finding 2023-011 Noncompliance with Statutes and Regulations on Internal Auditing
(continued)**

The Fiscal Control and Internal Auditing Act (30 ILCS 10/2003) requires the chief executive officer of the Department to ensure that the internal auditing program includes audits of major systems of internal accounting and administrative control conducted on a periodic basis so that all major systems are reviewed at least once every two years. The audits must include testing of grants received or made by the Department to determine that the grants are monitored, administered, and accounted for in accordance with applicable laws and regulations.

Department officials stated the Department was unable to comply with IPPIA Standard 1312 requiring an external quality assurance assessment once every five years as adopted by the State Internal Advisory Board due to the fact that it had not been able to find an external validator during the examination period. In addition, a grant audit that was part of the Fiscal Year 2023 Audit Plan was not completed due to staffing shortages and competing priorities.

Failure to comply with internal auditing requirements diminishes the effectiveness of the internal audit function, may result in financial and administrative inefficiencies, and may expose the Department to legal risk. (Finding Code No. 2023-011, 2021-017)

Recommendation

We recommend the Department comply with the requirements of the Fiscal Control and Internal Auditing Act and International Standards for the Professional Practice of Internal Auditing. We further recommend the Department:

- Develop procedures to internally and externally evaluate the internal audit function.
- Evaluate the implementation and effectiveness of ethics-related objectives
- Establish policies requiring internal audit reports to include the proper acceptance or disagreement with findings and recommendations by management.
- Ensure testing of grants received or made by the Department in accordance with applicable laws and regulations.

Department Response

The Department accepts the recommendation. The Department will develop and implement changes to ensure the Department is in compliance with the Fiscal Control and Internal Auditing Act and International Standards for the Professional Practice of Internal Auditing. A Self-Assessment with independent external validation has now been completed.

State of Illinois
Department of Employment Security

Schedule of Findings (Continued)
For the Two Years Ended June 30, 2023

Finding 2023-012 Inadequate Controls over Property and Equipment Records

The Department of Employment Security (Department) did not have adequate controls over its property and equipment and related records.

During our testing of a sample of 24 assets selected from the Department's inventory records, we noted the following:

- 6 of 24 (25%) items were found on site, but the identification tags did not indicate they were property of the State of Illinois.
- 1 of 24 (4%) items was scrapped prior to the examination period but was still included in the inventory records.

During our testing of a sample of 24 assets selected from the Department's premises, we noted the following:

- 4 of 24 (17%) items were found on site, but the identification tags did not indicate they were property of the State of Illinois.

During our testing of property deletions, we noted the following:

- 11 of 40 (28%) equipment items were removed from the Department's State property records before the Authorization for Equipment Transfer Form (OS-5 form) was signed by Department of Central Management Services (DCMS) staff for pickup from the Department's premises.
- 11 of 40 (28%) equipment items were removed from the Department's State property records more than 90 days after the items were picked up by DCMS staff. Specifically, the equipment items were removed from the property records between 518 and 1,381 days late.
- 5 of 40 (13%) equipment items were removed from the Department's property records without proper documentation.

During testing of 2 equipment vouchers, one voucher, amounting to \$6,623, was not tagged nor added to the Department's property listing as of June 30, 2022 or June 30, 2023. Moreover, this was not included in the annual inventory certification field with DCMS for both Fiscal Years 2022 and 2023.

Additionally, the Department has not adopted a policy clearly delineating the categories of equipment considered subject to theft.

The State Property Control Act (30 ILCS 605/4) requires responsible officers at the Department to be accountable for the supervision, control, and inventory of all property under their jurisdiction.

The Statewide Accounting Management System (SAMS) Manual (Procedure 29.10.10) provides agencies with guidance on how to maintain property records and states that detailed records are to be organized by major asset category and include certain information for each asset to include: cost (or other value); function and activity; reference to acquisition source document; acquisition date and date placed in service; name and address of vendor; short description of asset; organization unit charged with custody; location; and date, method and authorization of disposition.

Finding 2023-012 Inadequate Controls over Property and Equipment Records (continued)

The Illinois Administrative Code (Code) (44 Ill. Admin. Code 5010.210(a)) requires the Department to mark each piece of State-owned equipment in its possession to indicate that it is the property of the State of Illinois. Also, the Code (44 Ill. Admin. Code 5010.210(c)) states equipment with a value that is greater than \$1,000 (\$2,500, effective January 23, 2023), and equipment that is subject to theft with a value less than \$1,000 (\$2,500, effective January 23, 2023), must be marked with a unique identification number to be assigned by the agency holding the property, and that all agencies shall consider all vehicles and firearms to be subject to theft. Additionally, the Department is responsible for adopting policies clearly delineating categories of equipment considered to be subject to theft.

The Code (44 Ill. Admin Code 5010.400) requires the Department to adjust property records within 90 days after acquisition, change or deletion of equipment items. Furthermore, the Code (44 Ill. Admin. Code 5010.230) requires the Department to maintain records including identification number, location code number, description, date of purchase, purchase price, object code and voucher number.

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 that resources are utilized efficiently, effectively, and in compliance with applicable law; and that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation.

The Department was first cited for inadequate controls over property and equipment records during the compliance examination for the two years ended June 30, 2015. In the years since the finding was first noted, the Department has not been successful in correcting the finding.

Department management indicated the issues were caused by human error, and wear and tear on equipment labels which rendered the label information visually unclear.

Failure to maintain adequate property records and inaccurate reporting of property items increases the risk of equipment theft or loss occurring without detection and results in inaccurate property reporting which also exposes the Department to risk of misappropriation of assets. (Finding Code No. 2023-012, 2021-010, 2019-009, 2017-008, 2015-008)

Recommendation

We recommend the Department implement procedures to comply with the requirements of the State Property Control Act, the Illinois Administrative Code, the Fiscal Control and Internal Auditing Act, and the Statewide Accounting Management System.

Department Response

The Department accepts the recommendation. The Department is working internally to improve processes and accountability around equipment acquisition, transfer, removal and associated property record accuracy and timeliness. New property tags clearly identifying equipment as property of the Department have been ordered and will be adhered to existing inventory with worn or missing information and to cover numbered property tags for items below the asset threshold that were previously removed from asset records. A definition of high-theft assets has been adopted and added to the Department's property control policy and procedures. The Department has initiated cross-functional discussions to assess and improve our current processes, communications and related policies and procedures.

**State of Illinois
Department of Employment Security**

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

Finding 2023-013 Performance Evaluations Not Completed Timely

The Department of Employment Security (Department) did not complete employee performance evaluations timely.

During our testing of 60 employee personnel files, we noted the following:

- Three (5%) employees' annual performance evaluations were 14 to 34 days late.
- Four (7%) employees' midpoint probationary performance evaluations were 20 to 138 days late.
- Seven (12%) employees' final probationary performance evaluations were 7 to 133 days late.
- Five (8%) employees' annual performance evaluations were not on file.
- Five (8%) employees' midpoint probationary performance evaluations were not on file.
- Three (5%) employees' final probationary performance evaluations were not on file.

The Illinois Administrative Code (Code) (80 Ill. Admin. Code 302.270(d)) requires that, for a certified employee, the Department shall prepare an employee performance evaluation not less often than annually. Additionally, the Code (80 Ill. Admin. Code 310.450(c)) requires that evaluations be completed prior to when annual merit increases are awarded. In addition, the Department's Procedures Manual (2020.202) requires the Department to complete performance evaluations for newly appointed employees upon completion of the first probationary period (3 months) and 15 days prior to the completion of the final probationary period (6 months).

The Department was first cited for not completing performance evaluations timely during the compliance examination for the two years ended June 30, 2003. In the years since the finding was first noted, the Department has not been successful in correcting the finding.

The Department indicated that staffing constraints and competing priorities caused the issues identified.

Employee performance evaluations are a systematic and uniform approach used for the development of employees and to communicate performance expectations. The evaluation measures actual work performance against the performance criteria established at the beginning of the appraisal period. Without timely completion of an employee's performance evaluation, the employee will not be provided with formal feedback, which could lead to continued poor performance. (Finding Code No. 2023-013, 2021-013, 2019-008, 2017-003, 2015-003, 2013-003, 11-4, 09-7, 07-03, 05-5 and 03-2)

Recommendation

We recommend the Department monitor the status of performance evaluations to ensure they are completed in a timely manner.

Department Response

The Department accepts the recommendation. Department staff continuously monitor the status of performance evaluations and send a monthly notice of both upcoming and overdue performance evaluations to managers. The Department has developed and administered supervisor training which stresses the importance of timely and accurate evaluations. IDES continues to work with CMS on Human Capital Management (HCM) system upgrades which will include the evaluation process once fully implemented. Until implementation, the Department is evaluating alternate mechanisms to provide enhanced notice and accountability for delinquent performance evaluations.

**State of Illinois
Department of Employment Security**

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

Finding 2023-014 Inadequate Controls over Contractual Agreements

The Department of Employment Security (Department) did not maintain adequate controls over contracts.

During our review of emergency contracts, we noted that one of four (25%) emergency contracts was not published in the online electronic bulletin within five days after the contract was awarded.

Additionally, during our review of real property lease contracts, we noted that for one of two (50%) real property lease contracts tested, the Department filed the Contract Obligation Document with the Office of Comptroller (Comptroller) 21 days late.

The Illinois Procurement Code (30 ILCS 500/20-30(b)) states that notice of all emergency procurements shall be provided to the Procurement Policy Board and the Commission on Equity and Inclusion and published in the online electronic Bulletin no later than 5 calendar days after the contract is awarded.

The Statewide Accounting Management System (SAMS) Manual (Procedure 15.20.40) states that leases for real property must be filed with the Comptroller within 30 calendar days after execution.

The Department indicated the weaknesses in processing emergency contracts were due to the vendor not providing the scope of work in a timely manner. The Department also indicated the late filing of the real property lease contract with the Comptroller was due to technology related delays.

Failure to timely file the required notices of emergency purchases reduces transparency and accountability of emergency procurement actions by State government. Failure to timely file leases for real property with the Comptroller may hinder governmental oversight. (Finding Code No. 2023-014, 2021-007)

Recommendation

We recommend the Department implement procedures to ensure that emergency contracts are published online within five days of the contract being awarded, and that real property lease contracts are filed timely with the Comptroller.

Department Response

The Department accepts the recommendation. The Department has enhanced controls to improve compliance with execution and filing requirements for emergency and real property lease contracts. The Department has initiated a contract alert system which includes Emergency contracts and leases that alerts the entire unit of the final date to publish contracts in BidBuy and file with the Illinois Office of the Comptroller.

**State of Illinois
Department of Employment Security**

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

Finding 2023-015 Noncompliance with Department's Policies and Procedures on Timekeeping

The Department of Employment Security (Department) did not exercise adequate controls over its employee attendance.

During testing of 60 employee time and attendance records, we noted two (3%) employees did not submit the Time and Attendance Report (Form FI-43) or a timesheet during the pay period tested.

During testing of 60 employee time and attendance records, for 45 employees who took leave during the examination period (134 instances of leave), we noted the following:

- Four (9%) employees (11 total leave instances) had leave requests that were approved 1 to 153 days late.
- Two (4%) employees (2 total leave instances) did not have leave reported in the Form FI-43.
- For two (4%) employees (2 total leave instances), their leave types reported in their Application For Leave Approval (Form PO-4) did not match the type of leave reported in the Time Distributions and Attendance Report (Form FI-46).
- One (2%) employee's (1 total leave instance) leave hours per the Form PO-4 did not agree with the hours reported on Forms FI-43 and FI-46.
- Three (7%) employees had flex-time requests that were not approved in advance.

During testing of 60 employee time and attendance records, for 14 employees (81 instances of overtime) who worked overtime during the examination period, we noted the following:

- Four (29%) employees' (44 total overtime instances) overtime requests were approved 1 to 248 days late.
- Four (29%) employees' (24 total overtime instances) overtime was not reported in the Form FI-43.
- Two (14%) employees' (10 total overtime instances) overtime were not supported by the Overtime Authorization and Attendance Report (Form FI-44).

The State Officials and Employees Ethics Act (5 ILCS 430/5-5(c)) states the executive branch shall adopt and implement personnel policies for all State employees under his, her, or its jurisdiction and control and policies shall include policies relating to work time requirements, documentation of time worked, documentation for reimbursement for travel on official State business, compensation, and the earning or accrual of State benefits for all State employees who may be eligible to receive those benefits.

The Department Procedures Manual (2005.40.401) states that preparation, reporting and maintenance of time and attendance reports (Form FI-43 for full-time employees, Form FI-43Y for intermittent and part-time employees, Form FI-43T for temporary employees including 75-day appointees, and Form FI-43M for merit compensation and non-code employees) are designed to document hours worked. They are prepared at the beginning of each pay period. Each day all employees must enter actual reporting and departing time. Employees shall comply with the work time requirements set forth in the Procedures Manual, applicable laws, statutes, administrative rules, and policies.

**State of Illinois
Department of Employment Security**

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

**Finding 2023-015 Noncompliance with Department's Policies and Procedures on Timekeeping
(continued)**

The Department Procedures Manual (2005.40.402) states that Overtime Authorization and Attendance Reports (Form FI-44) are designed to document overtime hours worked and work of part-time employees. The form must also be completed for employees who work 12.5 hour shifts and who receive compensatory time for a holiday that falls on a non-scheduled day.

The Department Procedures Manual (2005.40.404) states that Time Distribution and Attendance Reports (Form FI-46) are the data entry source documents for recording hours of work, rounded to the nearest quarter-hour, by budget activity and leave usage for each pay period. The document ensures that all paid hours are authorized by the cost center manager. The Form FI-46 is entered each pay period by authorized staff in each cost center using the Form FI-46 Online Entry System. Department staff are to complete the electronic Form FI-46, print it out, sign it and turn it in to their supervisors early on the day prior to the last working day of the pay period.

The Department Procedures Manual (2005.30.313) states that an employee who requires time off from work for any reason except illness or other emergencies shall prepare Form PO-4 in advance and submit it in duplicate to the immediate supervisor. Immediately upon return to duty, an employee who was absent due to illness or other emergency shall submit Form PO-4 to the supervisor. The only exception to this occurs when the Director specifies that no Form PO-4 is required for other paid leave, as may happen in the case of severe weather office closing. Form PO-4's must be submitted to the employee's immediate supervisor. Then, whether approved or disapproved, the Form PO-4 and any required documentation will be routed through supervisory channels to the supervisor authorized by the division manager to give final approval. Form PO-4 and documentation for specific types of leave must be submitted to human resource management and/or the leave coordinator upon request. Form PO-4 for all types of leave shall be approved or disapproved by the final authorizing supervisor.

The Department Procedures Manual (2005.20) states the Department may establish business hours and work schedules in addition to or different from the regular business hours and work schedules when necessary and may require employees to work overtime or during hours outside their regular scheduled work hours consistent with applicable laws, rules, and union contract provisions. Employees may not work overtime, or outside their regular work hours, without express authorization from management prior to working the additional or outside hours.

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

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 that resources are utilized efficiently, effectively, and in compliance with law.

The Department indicated that inadequate training and technology limitations, combined with staff turnover, led to late reviews and improper completion of forms.

**State of Illinois
Department of Employment Security**

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

**Finding 2023-015 Noncompliance with Department's Policies and Procedures on Timekeeping
(continued)**

Failure to properly submit and complete time reports, leave forms and earned compensatory time reports may result in employees using time or earning time not approved by management. (Finding Code No. 2023-015, 2021-016)

Recommendation

We recommend the Department improve its controls over timekeeping in order to comply with the Department Procedures Manual and State laws.

Department Response

The Department accepts the recommendation. The Department has developed guidance to clarify roles and responsibilities within the timekeeping process. Once approved, this guidance will be used as a basis for training staff, managers, cost center managers and timekeepers of their responsibilities for completing, reviewing, entering, and retaining timekeeping documentation, and for monitoring and enforcing timekeeping policies and procedures to comply with the Department Procedures Manual. Additionally, the Department is assessing its existing processes and related policies and procedures for potential updates and improvements while continuing to wait for the rollout of payroll and timekeeping functionality and controls within the State's enterprise resource planning (ERP) system.

State of Illinois
Department of Employment Security

Schedule of Findings (Continued)
For the Two Years Ended June 30, 2023

Finding 2023-016 Weaknesses in Security and Control of Confidential Information

The Department of Employment Security (Department) had inadequate controls over security of confidential information.

The Department had established a myriad of applications in order to meet its mission and mandate. The Department processed and maintained confidential and personal information within these applications, such as names, addresses, dates of birth and Social Security numbers.

During our review of the Department policies and procedures, we noted the Department had not:

- Developed a formal process for performing a risk assessment over its environment, applications and data to identify confidential or personal information in electronic form and enhancing security controls over the protection of such data.
- Ensured encryption was installed on 22 of 25 (88%) laptops selected for testing.

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, Personally Identifiable Information Processing and Transparency section, requires entities to develop policies and procedures to ensure security, integrity, and confidentiality of personal information is maintained in their environment and applications.

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 controls to provide assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation.

The Department indicated it believes internal policies and procedures were sufficient to address responsibilities for security and control of confidential information.

Failure to adequately secure confidential or personal information could result in the exposure of such information to unauthorized parties or breaches. Failure to secure laptops through encryption could result in confidential data being easily accessible to inappropriate internal and external users. (Finding Code No. 2023-016, 2021-021)

Recommendation

We recommend the Department develop a formal risk assessment process to identify confidential or personal information in electronic form and enhance security controls over the protection of data. Further, we recommend the Department ensure its laptops are adequately encrypted.

Department Response

The Department accepts the recommendation. The Department worked in conjunction with DoIT and conducted a formal risk assessment. IDES will continue to work with DoIT to ensure all state-owned laptops are adequately encrypted.

**State of Illinois
Department of Employment Security**

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

Finding 2023-017 Weaknesses in Cybersecurity Programs and Practices

The Department of Employment Security (Department) had not implemented adequate internal controls related to cybersecurity programs and practices.

The Department had established a myriad of applications in order to meet its mission and mandate. The Department processed and maintained confidential and personal information within these applications, such as names, addresses, Federal Tax Information, dates of birth and Social Security numbers.

The Illinois State Auditing Act (30 ILCS 5/3-2.4) requires the Auditor General to review State agencies and their cybersecurity programs and practices. During our examination, we noted the Department had not:

- Reviewed/updated policies and procedures on a routine basis.
- Developed policies and procedures documenting configuration management, incident management, and data classification methodology describing classification based on risk and associated protection based on classification.
- Established and maintained a cybersecurity plan describing the Department security programs, polices, and procedures.
- Developed a comprehensive risk management methodology, performed a comprehensive risk assessment periodically, implemented risk-reducing internal controls, created security solutions over assets, or implemented a process to ensure environment is being monitored.
- Developed a formal project management framework.
- Reviewed vulnerability scans performed during the examination period.
- Communicated policies and procedures to employees and contractors.

The Department was first cited for not implementing adequate internal controls related to cybersecurity programs and practices during the compliance examination for the two years ended June 30, 2019. In the years since the finding was first noted, the Department has not been successful in correcting the finding.

The *Framework for Improving Critical Infrastructure Cybersecurity* and 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) requires entities to consider risk management practices, threat environments, legal and regulatory requirements, mission objectives and constraints in order to ensure the security of their applications, data and continued business mission.

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.

The Department indicated not implementing a risk or project management methodology, performing risk assessments on a timely basis, or creating and updating necessary cybersecurity policies and procedures were due to resource constraints.

**State of Illinois
Department of Employment Security**

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

Finding 2023-017 Weaknesses in Cybersecurity Programs and Practices (continued)

The lack of adequate cybersecurity programs and practices could result in unidentified risk and vulnerabilities, which could ultimately lead to the Department's confidential and personal information being susceptible to cyber-attacks and unauthorized disclosure. (Finding Code No. 2023-017, 2021-019, 2019-011).

Recommendation

We recommend the Department implement internal controls related to cybersecurity programs and practices. Specifically, we recommend the Department:

- Review/update cybersecurity policies and procedures on a routine basis.
- Develop configuration management, incident management, and data classification policies and procedures.
- Establish and maintain a cybersecurity plan that addresses and describes Department security programs, policies, and procedures.
- Develop a comprehensive risk management methodology, perform a comprehensive risk assessment periodically, implement risk-reducing internal controls, create security solutions over assets, and implement tools to ensure environment is being monitored.
- Develop a project management framework.
- Establish a formal process to review vulnerability scan reports.
- Communicate policies and procedures to employees and contractors on a periodic basis.

Department Response

The Department accepts the recommendation. The Department initiated a plan of action to address these issues. Management has upgraded the documentation both with more specifics in legal agreements between the Department and DoIT and the Department's formal acceptance of DoIT policies. The Department worked in conjunction with DoIT and conducted a formal risk assessment. The Department has established and hired a new IT liaison position to act as a liaison between DoIT and IDES for equipment and software needs. The Department is also preparing to establish a Compliance Office, including an IT Compliance Specialist to lead implementation of IT related corrective action plans and assist DoIT and IDES staff in the development of IT security best practices. Additionally, the Department has scheduled vulnerability scans to be performed by DoIT after which the results will be reviewed and cybersecurity procedures clarified as necessary.

**State of Illinois
Department of Employment Security**

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

Finding 2023-018 Weaknesses in Security and Control of Remote Access

The Department of Employment Security (Department) had inadequate controls over remote access to its environment, applications and data.

To establish the ability to work from home, the Department allowed staff remote access to its environment, applications and data. Our review noted the Department had not:

- Periodically reviewed employees' remote access.
- Maintained authorization forms for 10 of 25 (40%) remote access users; therefore, we were unable to determine if access was approved prior to provisioning.

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.

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.

Department management indicated they believed the Department of Innovation and Technology (DoIT) policies and procedures were formally acquired by the Department and believed they were sufficient. Additionally, Department management indicated due to lack of resources the Department did not review remote access and maintained authorization forms.

Without adequate controls over remote access, unauthorized individuals may have access, resulting in potential malicious activity. (Finding Code No. 2023-018, 2021-022)

Recommendation

We recommend the Department implement controls to ensure the security over remote access to its environment, applications and data. Specifically, we recommend the Department periodically review Department staff members' remote access and maintain authorization forms to document access was authorized prior to provisioning.

Department Response

The Department accepts the recommendation. The Department has implemented quarterly reviews and updates of all IDES hybrid/remote work authorization forms. IDES employees participating in hybrid/remote work are required to acknowledge and adhere to appropriate policies. The Department has created and hired a position to serve as liaison with DoIT and will improve the timeliness of service requests to DoIT. The Department has updated its Technology Requests (ESR) form to improve the facilitation of onboarding and off-boarding requests for equipment, software and system access. Assigned equipment software and system access is updated and tracked through Service Now with monthly validation of dormant users. The Department continues to identify and update policies and procedures to align with hybrid/remote work agreements.

Finding 2023-019 Disaster Recovery Planning Weaknesses

The Department of Employment Security (Department) had weaknesses in its disaster recovery planning process.

The Department obtains and processes significant amounts of Federal Tax Information and confidential information in its applications.

During our review of the Department's disaster recovery plans and processes, we noted the Department had not:

- Maintained formal application recovery plans for its critical applications.
- Performed recovery testing since 2017.
- Developed policies and procedures for restoring data backups for the Illinois Benefit Information System (IBIS).

The *Contingency Planning Guide for Information Technology Systems* published by the National Institute of Standards and Technology (NIST) requires entities to develop a comprehensive disaster recovery plan, regularly exercise the plan, and update the plan based on lessons learned.

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.

Department management indicated not having a formal plan for application recovery and other exceptions were due to lack of resources.

Failure to maintain a comprehensive disaster recovery plan and conduct testing could result in the Department being unable to execute its core functions in the event of an emergency situation. (Finding Code No. 2023-019, 2021-018)

Recommendation

We recommend the Department develop a comprehensive disaster recovery plan that includes recovery plans and data backup restoration processes for all critical applications. Additionally, we recommend the Department conduct application recovery testing at least annually.

Department Response

The Department accepts the recommendation. The Department continues to develop its comprehensive plans and updated the Benefit Information System Contingency Plan to include the disaster recovery plan for critical systems. A data recovery exercise is planned in SFY25, and disaster recovery policies and procedures will be updated accordingly.

**State of Illinois
Department of Employment Security**

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

Finding 2023-020 Payment Card Industry (PCI) Compliance Weaknesses

The Department of Employment Security (Department) had inadequate controls over Payment Card Industry Data Security Standards (PCI DSS).

The Department processed 14,000 credit card transactions totaling \$5,500,000 in Fiscal Year 2023 via credit card processors.

During review, we noted the Department had not:

- Formally assessed each program accepting credit card payments, the methods in which payments could be made, and matched these methods to the appropriate Self-Assessment Questionnaire (SAQ);
- Completed a SAQ or review of an Attestation of Compliance (AOC) addressing all elements of its environment utilized to store, process and transmit cardholder data; and
- Ensured credit card processors utilized to process the Departments' card transactions were PCI compliant.

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.

PCI DSS was developed to detail security requirements for entities that store, process, or transmit cardholder data. Cardholder data is any personally identifiable data associated with a cardholder. To assist merchants in the assessments of their environments, the PCI Council has established Self-Assessment Questionnaires (SAQ) for validating compliance with PCI's core requirements.

Further, the Department Policy 1028 – *External Audit Procedures* requires the Department to assess AOCs, complete SAQs on an annual basis, and ensure credit card processors are PCI compliant.

Department management indicated a lack of formal assessments and reviews was due to lack of resources.

Failure to adhere to PCI compliance responsibilities could result in fines or the loss of ability to process card transactions in the event of a breach of the Department or non-compliant service provider processing credit cards on the Department's behalf. (Finding Code No. 2023-020, 2021-020)

Recommendation

We recommend the Department implement controls over Payment Card Industry Data Security Standards to include the following:

- At least annually, assess each program accepting credit card payments, the methods in which payments can be made, and match these methods to the appropriate SAQ;
- Complete the appropriate SAQ addressing all elements of its environment utilized to store, process, and transmit cardholder data and an Attestation of Compliance Form; and,
- At least annually, ensure credit card processors utilized to process transactions have maintained valid PCI compliance.

**State of Illinois
Department of Employment Security**

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

Finding 2023-020 Payment Card Industry (PCI) Compliance Weaknesses (continued)

Department Response

The Department accepts the recommendation. The Department is working with the Department of Innovation and Technology to complete the appropriate SAQ and is preparing to establish a Compliance Office which will be responsible for facilitating PCI compliance activities, and for managing and enforcing the related policies and procedures

**State of Illinois
Department of Employment Security**

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

Finding 2023-021 Untimely Publishing of State's Average Weekly Wage

The Department of Employment Security (Department) did not timely publish the semi-annual State's Average Weekly Wage reports in covered industries under the Unemployment Insurance Act.

During our testing, we noted three of four (75%) semi-annual State's Average Weekly Wage reports in Fiscal Years 2022 and 2023 were published on the Department's website between 57 and 62 days late.

The Workers' Compensation Act (Act) (820 ILCS 305/8(b)(6) requires the Department to publish on the first day of each December and June of each year the State's average weekly wage in covered industries under the Unemployment Insurance Act.

Department management indicated the issue was caused because the Department's policies and procedures governing the development of the semi-annual State's Average Weekly Wage reports and coordination of its dissemination failed to specify the online posting requirement.

Failure to timely publish the semi-annual State's Average Weekly Wage reports can directly impact the computation of compensation rates in relation to the provisions of the Act. (Finding Code No. 2023-021)

Recommendation

We recommend the Department implements policies and procedures to ensure the State's Average Weekly Wage reports are published timely in accordance with the Act.

Department Response

The Department accepts the recommendation. The Department has communicated the need to publish the report timely with staff involved with the online posting. IDES had compiled a central list of due dates and is developing a method to automate notification of deadlines to relevant stakeholders. IDES will identify procedures that can be amended to include meeting reporting deadlines.

**State of Illinois
Department of Employment Security**

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

Finding 2023-022 Inadequate Controls over Telecommunication Devices

The Department of Employment Security (Department) did not maintain adequate controls over issuance and cancellation of telecommunication devices.

During our testing of issued and cancelled telecommunication devices, we noted the following:

- Three of thirteen (23%) cell phones issued were missing the corresponding Cellular Phone Application Form.
- Five of six (83%) cancelled telecommunication devices were missing the corresponding Telephone Service Request Form.
- Three of six (50%) cancelled telecommunication devices were returned between 45 days and 69 days after the employees' separations from the Department.
- Two of six (33%) cancelled telecommunication devices were not returned.
- Two of six (33%) cancelled telecommunication devices were deactivated between 17 days and 81 days after the return of the devices to the Department.

The Department Procedures Manual (1113.30.3034) states cost center managers shall complete and submit a Cellular Phone Application form, with a written justification to the regional/division manager for approval.

The Department Procedures Manual (1113.40.403) states cost center managers shall ensure that employees who separate from State service or transfer out of the cost center, return any air cards, cellular telephones or other equipment/services assigned to them before they leave.

The Department Procedures Manual (1113.40.402) states cost center managers shall request the disconnection of telephone lines as soon as they are no longer needed.

The State Records Act (5 ILCS 160/8) requires the Department to preserve records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions 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 that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation. A strong system of internal controls would include procedures requiring sufficient documentation of purchases to ensure accuracy, reasonableness and necessity for operations, and approvals.

Department management stated the exceptions noted were attributed to communication breakdowns between departments, a consequence of the COVID-19 pandemic and the transition to remote work.

Inadequate controls over issuance and cancellation of telecommunication devices could result in unnecessary expenditures for the Department, as well as inappropriate use of State funds. (Finding Code No. 2023-022)

**State of Illinois
Department of Employment Security**

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

Finding 2023-022 Inadequate Controls over Telecommunication Devices (continued)

Recommendation

We recommend the Department implement controls to ensure the proper forms are used in applying for, and terminating, assigned cell phones, as well as to ensure cell phone terminations are timely and that all cancelled devices are properly returned.

Department Response

The Department accepts the recommendation. The Department has implemented and improved the offboarding process which includes notifications to Telecom staff when employees are leaving the Agency. These offboarding notifications are also assisting Managers with allowing enough time to collect cellphones from employees before they leave.

**State of Illinois
Department of Employment Security**

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

Finding 2023-023 Inadequate Controls over Voucher Processing

The Department of Employment Security (Department) did not maintain adequate controls over its voucher processing.

Due to our ability to rely upon the processing integrity of the Enterprise Resource Planning (ERP) System operated by the Department of Innovation and Technology (DoIT), we were able to limit our voucher testing at the Department to determine whether certain key attributes were properly entered by the Department's staff into the ERP. In order to determine the operating effectiveness of the Department's internal controls related to voucher processing and subsequent payment of interest, we selected a sample of key attributes (attributes) to determine if the attributes were properly entered into the State's ERP System based on supporting documentation. The attributes tested were 1) vendor information, 2) expenditure amount, 3) object(s) of expenditure, and 4) the later of the receipt date of the proper bill or the receipt date of the goods and/or services.

We conducted an analysis of the Department's expenditures data processed through the ERP System and noted the following:

- 2,454 of 3,434 (71%) vouchers, totaling \$122,361,582, were approved between 31 and 356 days after receipt of the bill for Fiscal Year 2022.
- 2,537 of 3,747 (68%) vouchers, totaling \$79,544,410, were approved between 31 and 383 days after receipt of the bill for Fiscal Year 2023.

In addition, during our testing over 35 vouchers, we noted the expenditure amount per the State's ERP System for 1 (3%) voucher tested did not match with the invoice, resulting in a variance of \$12,595.

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 that resources are utilized efficiently, effectively, and in compliance with applicable law. Additionally, good business practices endorse the use of a proper internal control structure to promote operational efficiency, which includes reviewing and approving vouchers within a reasonable time after receipt, and ensuring vouchers are recorded at the appropriate value.

Department management stated the delays in approving vouchers were primarily caused by federal budget delays that delayed the Department's ability to access federal funds as well as reversals and corrections that needed to be made prior to processing. The inaccurate voucher was due to oversight.

Failure to approve vouchers within a reasonable time after receipt and inputting incorrect amounts contributes to inefficiencies with the State's timely payment of bills. (Finding Code No. 2023-023)

Recommendation

We recommend the Department implement controls to ensure vouchers are approved timely and that amounts entered match the underlying supporting documentation.

Department Response

The Department accepts the recommendation. The Department will assess and update its controls as needed to ensure voucher amounts match supporting documentation. The Department will also explore other options to approve vouchers more timely if the federal government fails to pass a budget, noting that the Department's options may be limited if the Department cannot access the funds needed to make the payments.

State of Illinois
Department of Employment Security

Schedule of Findings (Continued)
For the Two Years Ended June 30, 2023

Prior Findings Not Repeated

A. Inadequate Controls over Determination of Overtime Pay and Calculation of Final-Termination Gross Pay

During the prior examination, the Department did not exercise adequate controls over calculations of final-termination gross pay.

During the current examination, our testing did not identify any errors over these calculations. (Finding Code No. 2021-004)

B. Untimely Submission of FCIAA Certification

During the prior examination, the Department did not file its Fiscal Year 2020 Fiscal Control and Internal Auditing Act (FCIAA) certification timely.

During the current examination, our testing noted the applicable certifications were filed timely. (Finding Code No. 2021-005)

C. Failure to Prepare Monthly Reconciliations

During the prior examination, the Department did not perform a required reconciliation of its contract records to the Office of Comptroller's records.

During the current examination, these reconciliations were not completed timely and will be reported as part of Finding 2023-009. (Finding Code No. 2021-006)

D. Noncompliance with State Library Act

During the prior examination, the Department failed to file reports and promulgate policies and procedures to comply with the requirements of the State Library Act (15 ILCS 320/21(a)).

During the current examination, testing revealed no noncompliance with the State Library Act. (Finding Code No. 2021-008)

E. Noncompliance with Report Filing Requirements

During the prior examination, the Department did not comply with the requirement for filing reports and publications.

During the current examination, testing found that applicable reports and publications were filed timely. (Finding Code No. 2021-011)

F. Inadequate Controls over Required Employee Training Requirements

During the prior examination, the Department did not have adequate controls over the employee training requirements mandated by State laws, rules, and regulations.

During the current examination, our sample testing over employee training did not indicate significant errors that would need to be reported. (Finding Code No. 2021-014)

Prior Findings Not Repeated (continued)

G. Inaccurate Accounts Receivable Reports and Quarterly Reports not Filed Timely

During the prior examination, the Department did not maintain an accurate aging of accounts receivable record and did not file in a timely manner quarterly accounts receivable reports with the Office of Comptroller as required by SAMS.

During the current examination, our sample testing did not indicate any exceptions related to accounts receivable records and all quarterly reports were filed timely. (Finding Code No. 2021-015)

H. Inadequate Personal Information Protection Policy

During the prior examination, the Department did not have an adequate Personal Information Protection Policy.

During the current examination, our detailed testing indicated the policy had been updated and included all types of personal information required by the Personal Information Protection Act. (Finding Code No. 2021-023)

I. Inadequate Controls over GenTax Access

During the prior examination, the Department did not ensure adequate security over the enterprise-wide tax system (GenTax).

During the current examination, our testing indicated additional exceptions over GenTax access, and these issues will be reported as part of Finding 2023-008. (Finding Code No. 2021-024, 2020-007, 2019-005, 2018-008)

J. Inadequate Controls over GenTax Change Control

During the prior examination, the Department did not ensure adequate controls over the changes implemented within its enterprise-wide tax system (GenTax).

During the current examination, our testing did not identify any issues attributable to the Department's change controls over GenTax. (Finding Code No. 2021-025)

K. Inadequate Controls over Service Providers

During the prior examination, the Department did not ensure adequate controls over its service providers.

During the current examination, our testing indicated additional exceptions over controls related to service providers and these issues were reported as part of Finding 2023-002. (Finding Code No. 2021-026)