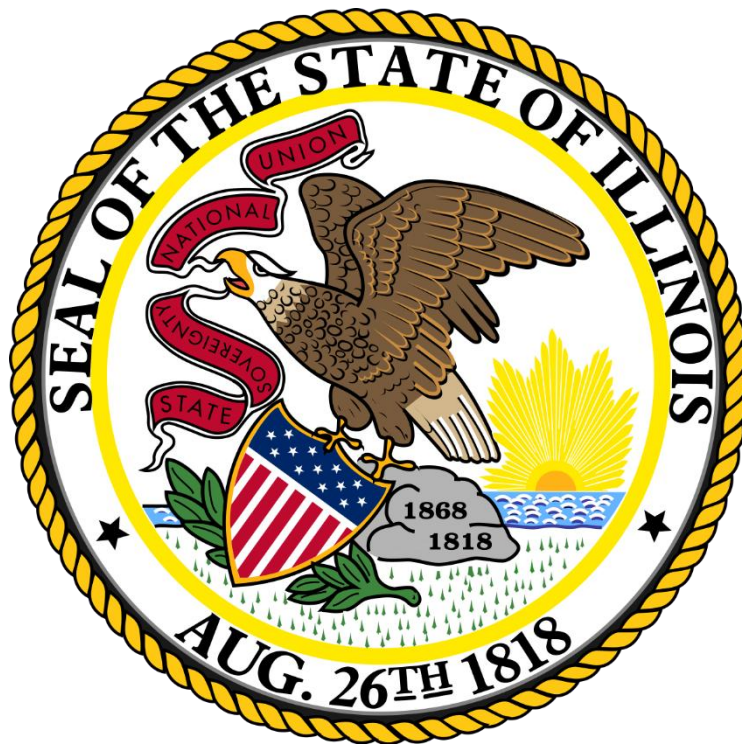


LEGISLATIVE AUDIT COMMISSION



Review of
Illinois Department of Employment Security

620 Stratton Office Building
Springfield, Illinois 62706
217/782-7097

REVIEW #4610: Department of Employment Security, FY24 Financial Audit

REVIEW #4610

YEAR ENDED JUNE 30, 2024

ILLINOIS DEPARTMENT OF EMPLOYMENT SECURITY

RECOMMENDATIONS – 5

IMPLEMENTED/PARTIALLY IMPLEMENTED – 5

REPEATED RECOMMENDATIONS – 5

PRIOR AUDIT FINDINGS/RECOMMENDATIONS – 8

This review summarizes the auditors’ report on the financial audit of the Department of Employment Security for the year ended June 30, 2024, filed with the Legislative Audit Commission on October 30, 2025. The reports were conducted in accordance with *Government Auditing Standards* and State law. The auditors stated the Department’s financial statements presented fairly.

Agency Narrative

IDES manages, administers, and safeguards the state’s unemployment insurance program and Trust Fund, provides economic stability to workers seeking reemployment through the delivery of unemployment insurance benefits and employment services, and encourages economic growth and stability across the state through analyzing and disseminating actionable labor market information to policymakers.

IDES delivers programs and services through the following general divisions:

- Service Delivery
- Administrative Appeals
- Revenue Division
- Business Services
- Economic Information and Analysis

The Director of IDES is Ray Marchiori, who has served in this role since January 2023. Prior to taking over IDES, Director Ray Marchiori served as IDES Chief of Staff from June 18, 2019 to January 16, 2023.

Appropriations and Expenditures

Appropriations (\$ thousands)	FY23		FY24	
	Approp	Expend	Approp	Expend

REVIEW #4610: Department of Employment Security, FY24 Financial Audit

GENERAL FUNDS				
Designated Purposes				
Deposit into Unemployment Insur. Trust Fd.	450,000.0	450,000.0	8,000.0	7,029.9
Diversity, Equity, Inclusion, & Accessibility Init.	0.0	0.0	155.0	0.0
Exp. Related to Automatic Voter Registration	200.0	0.0	200.0	0.0
Deposit into Title III Social Security & Employment Fund	30,000.0	30,000.0	25,000.0	25,000.0
Repayment of Principle Balance of UI Trust Advances	1,370,000.0	1,362,645.0	0.0	0.0
Homelessness Prevention Initiative	0.0	0.0	700.0	241.0
Repayment of FEMA/Lost Wage Assistance	0.0	0.0	70,000.0	70,000.0
Total Designated Purposes	1,850,200.0	1,842,645.0	104,055.0	102,270.9
Grants				
Unemployment Compensation Benefits to Former State Employees	21,000.0	12,040.7	21,000.0	12,562.8
Total Grants	21,000.0	12,040.7	21,000.0	12,562.8
TOTAL GENERAL FUNDS	1,871,200.0	1,854,685.7	125,055.0	114,833.7
OTHER STATE FUNDS				
Grants				
Unemployment Compensation Benefits to Former State Employees	4,000.0	4,000.0	4,000.0	4,000.0
TOTAL OTHER STATE FUNDS	4,000.0	4,000.0	4,000.0	4,000.0
FEDERAL FUNDS				
Other Operations & Refunds	0.0	0.0	75,000.0	0.0
Designated Purposes				
Exp. Related to Benefit Information System Redefinition	29,500.0	2,186.4	29,500.0	2,267.8
Exp. Related to Development of Training Programs	200.0	0.0	200.0	0.0
Exp. Related to Employment Security Automation	3,700.0	0.0	3,700.0	0.0
Exp. Related to Legal Assistance Required by Law	2,000.0	652.9	2,000.0	673.8
Payment of Interest on Advances Made to the Unemployment Insurance Trust Fund as Required by the Social Security Act	70,000.0	58,000.0	10,000.0	7,029.9
Interest on Refunds of Erroneously Paid Contributions, Penalties, & Interest	100.0	5.2	100.0	0.0
Operational Expenses	405,377.8	251,990.0	405,122.8	245,949.4
Workforce Innovation & Opportunity Act Hub	2,000.0	0.0	2,000.0	0.0

REVIEW #4610: Department of Employment Security, FY24 Financial Audit

Total Designated Purposes	512,877.8	312,834.5	452,622.8	255,920.9
Grants				
Tort Claims	675.0	0.0	675.0	27.6
Unemployment Compensation Benefits to Former State Employees	1,734.3	19.9	1,734.3	57.0
Total Grants	2,409.3	19.9	2,409.3	84.6
TOTAL FEDERAL FUNDS	515,287.1	312,854.4	530,032.1	256,005.5
TOTAL	2,390,487.1	2,171,540.1	659,087.1	374,839.2

Accountants' Findings and Recommendations

Condensed below are the 5 findings and recommendations included in the audit report. Of these, 5 are repeated from the previous audit. The following recommendations are classified on the basis of information provided by the Department of Employment Security, via electronic mail received April 14, 2026.

- 1. Auditors recommend the Department strengthen controls to ensure that refunds are properly recorded within the financial statements.**

FINDING: *(Inadequate Controls over Recording of Refunds) – First reported 2023, last reported 2024*

The Department of Employment Security (Department) improperly recorded refunds received related to both federal and non-federal programs.

The Department was returned approximately \$266 million related to unclaimed debit cards and other amounts that were funded during the pandemic, but the claimants were later determined to be ineligible for benefits. Of this amount, \$239 million related to federally funded programs and was returned through the Treasury, \$5 million is still owed to the federal government and is reflected as a liability at year-end, and \$22 million relates to non-federal programs, which is reflected as miscellaneous revenue. In recording the related transactions, the Department erroneously booked a large amount of negative revenue and negative expense, resulting in an overstatement of intergovernmental receivables, net by \$2 million, contributions for unemployment taxes by \$25 million, and an understatement of benefit payments and refunds by \$246 million, federal revenue by \$22 million, and miscellaneous revenues by \$247 million. An adjustment was recorded to correct these errors.

Governmental Accounting Standards Board (GASB) Codification Section N50, *Nonexchange Transactions*, paragraph 123 states, "if it is probable that the provider will not provide the resources or will require the recipient to return all or part of the resources already received, the recipient should recognize an increase in liabilities, and the provider

REVIEW #4610: Department of Employment Security, FY24 Financial Audit

should recognize a revenue". The federal funds that were returned first to the Department, and then to the federal government, should be reported as a liability. The non-federal funds which were kept by the Department should be recognized as miscellaneous revenue.

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 issues occurred as the result of the Department's expired relationship with its bank. The bank agreed to service remaining debit cards but given the large amount of funding still remaining unclaimed and the time that had passed, the bank asked the Department to claim the funds.

Improperly recording refunds can lead to a misstatement of revenues and expenses, causing a reader of the financial statements to not properly understand the current year operations of the Department. Failure to properly record transactions in accordance with applicable standards could also result in the financial statements being materially misstated.

DEPARTMENT RESPONSE:

The Department accepts the auditor's recommendation. The Department does not usually receive refunds of this size. A majority of these was related to COVID-19 programs which are now closed. While the Department does not see this as an issue going forward, the Department will review and update its procedures for recognizing refunds.

UPDATED RESPONSE:

Partially Implemented.

The Department accepts the auditor's recommendation. The Department does not usually receive refunds of this size. A majority of these was related to COVID-19 programs which are now closed. While the Department does not see this as an issue going forward, the Department will review and update its procedures for recognizing refunds.

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

FINDING: *(Inadequate Controls over Cash Reconciliations) – This finding has been repeated since 2020.*

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

REVIEW #4610: Department of Employment Security, FY24 Financial Audit

As part of the audit, auditors requested copies of the June 30, 2024 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 they received final versions of the June 2024 reconciliations on November 20, 2024.

The timely reconciliation of cash accounts is an internal 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 each month upon receipt of the bank statement.

This finding was first noted during the Department's Fiscal Year 2020 financial audit, four years ago. As such, the Department has been unsuccessful in implementing a corrective action plan to remedy this deficiency.

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.

DEPARTMENT RESPONSE:

The Department accepts the auditor's recommendation. While the Department is working with an outside accounting firm to improve the timeliness and controls over cash reconciliations, the Department has hired internal employees whose primary job will be to complete the cash reconciliation monthly once training is completed. In addition, the Department is in the process of finalizing a new banking contract through which benefit payments will no longer be issued via check and improve the reporting functionality. Both matters are anticipated to improve the timeliness of the cash reconciliation.

REVIEW #4610: Department of Employment Security, FY24 Financial Audit

UPDATED RESPONSE: **Partially Implemented.**

The Department accepts the auditor's recommendation. While the Department is working with an outside accounting firm to improve the timeliness and controls over cash reconciliations, the Department has hired internal employees whose primary job will be to complete the cash reconciliation monthly once training is completed. In addition, the Department finalized a new banking contract through which benefit payments will no longer be issued via check and improve the reporting functionality. Both matters are anticipated to improve the timeliness of the cash reconciliation.

- 3. Auditors recommend the Department strengthen its controls over its review of service providers. Specifically, they recommend the Department:**
- **Implement controls to achieve the control objectives documented in the service providers' SOC reports.**
 - **Develop a formal process for reviewing, evaluating, and monitoring service providers and their associated risks including:**
 - **Reviewing of SOC Reports and Bridge Letters.**
 - **Documenting compliance with Complementary User Entity Controls.**
 - **Conducting an analysis to determine impact of noted deviations within the SOC reports.**
 - **Maintain a formal process to monitor service providers for performance, problems encountered, and compliance with contractual terms.**

FINDING: *(Inadequate Controls over Service Providers) – This finding has been repeated since 2020.*

The Department of Employment Security (Department) did not ensure adequate internal control over monitoring and evaluating risks of service providers.

The Department utilizes several service providers for transaction processing. In order to determine whether general Information Technology controls (GITCs) were suitably designed and implemented, auditors obtained the service providers' applicable System and Organization Control (SOC) reports. The reports also stated certain control objectives which could only be achieved if the Department's controls were suitably designed and operating effectively.

During testing of the Department's external service provider program and practices, auditors tested five service providers and noted:

- The Department does not have a regular review process to monitor service providers for performance, problems, compliance with contractual terms, and the impact of the use of any subservice organizations. Additionally, for all five service

REVIEW #4610: Department of Employment Security, FY24 Financial Audit

providers reviewed (100%), the Department did not adequately map Complementary User Entity Controls.

- The Department does not maintain policies and procedures to ensure due diligence over service providers.

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 *Control Objectives for Information and Related Technologies* published by the Information Systems Audit and Control Association (ISACA), Managed Service Agreements Area, promotes controls for ensuring risks of monitoring and reviewing risks of service organizations.

The *Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53, Fifth Revision) published by National Institute of Standards and Technology (NIST), System and Services Acquisition Section, promotes controls in place to ensure external service providers comply with organization security and privacy requirements.

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

Failure to monitor and evaluate risks of utilizing service providers could result in the unauthorized or accidental disclosure, modification, or destruction of data maintained by the external service provider.

DEPARTMENT RESPONSE:

The Department accepts the auditor's recommendation and has established a new Chief Compliance Officer position and hired a Chief Compliance Officer with a start date of October 16, 2025. This position requires a background in compliance and will be responsible for formalizing and strengthening processes and controls over service providers and SOC reports.

UPDATED RESPONSE: **Partially Implemented.**

The Department accepts the auditor's recommendation and has established a new Chief Compliance Officer position and hired a Chief Compliance Officer with a start date of October 16, 2025. This position requires a background in compliance and will be responsible for formalizing and strengthening processes and controls over service providers and SOC reports.

REVIEW #4610: Department of Employment Security, FY24 Financial Audit

4. Auditors recommend the Department strengthen internal controls to ensure that system access is removed timely for all separated users.

FINDING: (*Weaknesses in IBIS Application*) – First reported 2023, last reported 2024

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

IBIS is a key system used by the Department to intake, maintain and process unemployment claims for the State of Illinois. IBIS stores and processes confidential information such as Social Security Numbers and other personally identifiable information.

During testing of 20 separated users, auditors noted that 10 (50%) did not have access removed in a timely manner (within 5 business days).

The *Control Objectives for Information and Related Technologies* published by the Information Systems Audit and Control Association (ISACA), Manage User Identity and Access area, promotes controls for ensuring that access is removed promptly upon changes in roles or termination.

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 the Department does not have a formal process for ensuring the timely removal from systems upon user transfer or separation.

Failure to remove users in a timely manner could result in the unauthorized access or destruction of data maintained within the IBIS application.

DEPARTMENT RESPONSE:

The Department accepts the auditor's recommendation. The Department has developed a new, electronic offboarding process and is in the final testing stages before implementation. This new process will eliminate the number of electronic notifications and paper forms requiring completion by supervisors when offboarding an employee from 12 to 1, and it will provide a system for the IBIS team to confirm that IBIS access has been removed. The new process will provide definitions for timely system removal.

UPDATED RESPONSE:

REVIEW #4610: Department of Employment Security, FY24 Financial Audit

Implemented.

The Department accepts the auditor's recommendation. The Department has implemented a new, electronic offboarding process. This new process eliminates the number of electronic notifications and paper forms requiring completion by supervisors when offboarding an employee from 12 to 1, and it provides a system for the IBIS team to confirm that IBIS access has been removed. The new process provides definitions for timely system removal.

5. Auditors recommend the Department strengthen controls to ensure that receivables recorded reflect all amounts expected to be collected in the future.

FINDING: *(Inadequate Controls over Estimated Receivables) – First reported 2023, last reported 2024*

The Department of Employment Security (Department) did not have adequate controls in place to record estimated receivables relating to quarterly employer contributions.

The Department initially developed an estimate relating to employer contribution receivables for the quarter ended June 30, 2024. After reviewing subsequent collections, the Department adjusted the recorded estimate by reducing taxes receivable and contribution revenue by \$21 million. Upon review by the auditors, it was determined that the amount recorded did not reflect all expected future collections and the entry made to adjust the original estimate should not have been made. An adjustment was recorded by management to reflect the original estimate amount which increased contributions for employer taxes and taxes receivable by \$21 million.

Governmental Accounting Standards Board (GASB) Codification Section N50, *Nonexchange Transactions*, paragraph 114 states, "Governments should recognize assets from imposed nonexchange revenue transactions in the period when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first." A receivable should be recorded for all amounts due to the Department relating to the quarter ended June 30, 2024.

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 stated that adjusting the amount recorded to reflect subsequent collections was an attempt to report a more accurate amount in direct response to previous audit recommendations and discussions; however, it was an oversight that the adjusting entry did not reflect all amounts that would be expected to be collected in the future.

REVIEW #4610: Department of Employment Security, FY24 Financial Audit

Improperly recording employer contribution revenue and receivables can lead to a misstatement and may cause a user of the financial statements to not obtain a proper view of the financial position of the Department.

DEPARTMENT RESPONSE:

The Department accepts the auditor's recommendation. The Department will review its controls and assumptions for estimating receivables and uncollectible accounts to ensure amounts are recorded correctly.

UPDATED RESPONSE:

Implemented.

The Department accepts the auditor's recommendation. The Department will review its controls and assumptions for estimating receivables and uncollectible accounts to ensure amounts are recorded correctly.

Emergency Purchases

The Illinois Procurement Code (30 ILCS 500/) states, "It is declared to be the policy of the state that the principles of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts...." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption when there exists a threat to public health or public safety, or when immediate expenditure is necessary for repairs to state property in order to protect against further loss of or damage to state property, to prevent or minimize serious disruption in critical state services that affect health, safety, or collection of substantial state revenues, or to ensure the integrity of state records; provided, however that the term of the emergency purchase shall not exceed 90 days. A contract may be extended beyond 90 days if the chief procurement officer determines additional time is necessary and that the contract scope and duration are limited to the emergency. Prior to the execution of the extension, the chief procurement officer must hold a public hearing and provide written justification for all emergency contracts. Members of the public may present testimony.

Notice of all emergency procurement shall be provided to the Procurement Policy Board and published in the online electronic Bulletin no later than five business days after the contract is awarded. Notice of intent to extend an emergency contract shall be provided to the Procurement Policy Board and published in the online electronic Bulletin at least 14 days before the public hearing.

A chief procurement officer making such emergency purchases is required to file a statement with the Procurement Policy Board and the Auditor General to set forth the circumstance requiring the emergency purchase. The Legislative Audit Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

REVIEW #4610: Department of Employment Security, FY24 Financial Audit

The Department had one emergency purchase during the audit period for an estimated cost of \$69,600 in federal funds for a vendor to provide an electronic Claimant Portal for unemployment insurance claimants to select the method of receiving their benefits; i.e., direct deposit or paper check during the period 8/6/23-11/2/23.

Headquarters Designations

The State Finance Act requires all state agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each state agency is required to file reports of all its officers and employees for whom official headquarters have been designated at any location other than that at which official duties require them to spend the largest part of their working time.

As of July 2024, the Department had one employee assigned to locations others than official headquarters.