State of Illinois, Illinois Workers' Compensation Commission

STATE COMPLIANCE EXAMINATION

FOR THE TWO YEARS ENDED JUNE 30, 2021

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

Roth&Co
BEYOND BUSINESS

STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
STATE COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2021

State Compliance Examination Report **Page**

Other Reports Issued Under a Separate Cover:

The financial audit of the Self-Insurers Security Fund as of and for the year ended June 30, 2021, including the *Independent Auditor's Report* and *Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, was issued under a separate cover.

STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
STATE COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2021

COMMISSION OFFICIALS

Chair	Michael Brennan
Chief Fiscal Officer	Paul Fichtner
General Counsel	Ronald Rascia

COMMISSION MEMBERS[1]

Member	Michael Brennan
Member	Maria Portela
Member	Stephen Mathis
Member (10/04/21 – Present)	Carolyn Doherty
Member (07/01/19 – 10/03/21)	Barbara Flores
Member Representative of Employees	Thomas Tyrrell
Member Representative of Employees (03/12/21 – Present)	Deborah Baker
Member Representative of Employees (01/01/21 – 03/11/21)	Vacant
Member Representative of Employees (07/01/19 – 12/31/20)	Douglas McCarthy
Member Representative of Employees	Marc Parker
Member Representative of Employers (09/23/19 – Present)	Kathryn Doerries
Member Representative of Employers (07/01/19 – 9/22/19)	Vacant
Member Representative of Employers	Deborah Simpson
Member Representative of Employers (03/22/21 – Present)	Christopher Harris
Member Representative of Employers (07/01/19 – 03/21/21)	L. Elizabeth Coppoletti

[1] The Workers' Compensation Act (820 ILCS 305/13) requires the Governor appoint three members who are representative citizens of employees, three members who are representative citizens of employers, and four members not identified with either group to the Commission.

COMMISSION OFFICES

The Commission's primary administrative offices are located at:

69 W. Washington Street, Suite 900
Chicago, Illinois 60602

401 Main Street, Suite 640
Peoria, Illinois 61602

4500 S. Sixth Street Frontage Road
Springfield, Illinois 62703

Illinois Workers' Compensation Commission

69 W. Washington St., Suite 900
Chicago, IL 60602
312-814-6500

JB Pritzker, Governor — *Michael J. Brennan, Chairman*

MANAGEMENT ASSERTION LETTER

August 8, 2022

Roth & Co., LLP
Certified Public Accountants
815 W. Van Buren Street, Suite 500
Chicago, Illinois 60607

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 Workers' Compensation Commission (Commission). 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 Commission's compliance with the following specified requirements during the two-year period ended June 30, 2021. Based on this evaluation, we assert that during the years ended June 30, 2020, and June 30, 2021, the Commission has materially complied with the specified requirements listed below.

A. The Commission 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 Commission 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 previously been disclosed and reported in the Schedule of Findings, the Commission 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 previously been disclosed and reported in the Schedule of Findings, State revenues and receipts collected by the Commission 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 Commission on behalf of the State or held in trust by the Commission have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Yours truly,

Illinois Workers' Compensation Commission

SIGNED ORIGINAL ON FILE

Michael Brennan, Chair

SIGNED ORIGINAL ON FILE

Paul Fichtner, Chief Fiscal Officer

SIGNED ORIGINAL ON FILE

Ronald Rascia, General Counsel

STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
STATE COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2021

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 does not contain scope limitations or disclaimers, but does contain a modified opinion on compliance and identifies material weaknesses in internal control over compliance.

SUMMARY OF FINDINGS

Number of	Current Report	Prior Reports*
Findings	23	14
Repeated Findings	12	6
Prior Recommendations Implemented or Not Repeated	2	4

* This column contains findings under *Government Auditing Standards* from the Commission's financial audit of the Self-Insurers Security Fund as of and for the year ended June 30, 2020, and State compliance only findings from the Commission's *State Compliance Examination Report* for the two years ended June 30, 2019.

SCHEDULE OF FINDINGS

Item No.	Page	Last/First Reported	Description	Finding Type
		Current Findings		
2021-001	14	2020/2020	Accounting and Financial Reporting Problems	Material Weakness and Material Noncompliance
2021-002	17	2020/2020	Inadequate Controls over Census Data	Significant Deficiency and Noncompliance

SCHEDULE OF FINDINGS

Item No.	Page	Last/First Reported	Description	Finding Type
		Current Findings		
2021-003	20	2019/2017	Inadequate Control over Receipts	Material Weakness and Material Noncompliance
2021-004	24	2019/2019	Inadequate Controls over Accounts Receivable	Material Weakness and Material Noncompliance
2021-005	27	2019/2003	Inadequate Controls over Property	Material Weakness and Material Noncompliance
2021-006	32	New	Failure to Establish Project Management Internal Controls	Material Weakness and Material Noncompliance
2021-007	36	New	Lack of Fiscal Controls over the CompFile! Project	Material Weakness and Material Noncompliance
2021-008	38	New	Inadequate Information Technology Access Controls	Material Weakness and Material Noncompliance
2021-009	39	New	Inadequate Controls over Service Providers	Material Weakness and Material Noncompliance
2021-010	41	New	Failure to Exercise Appropriate Controls over Leases	Material Weakness and Material Noncompliance
2021-011	48	New	Inadequate Control over Telecommunication Devices	Material Weakness and Material Noncompliance
2021-012	50	2019/2019	Weaknesses in Cybersecurity Programs and Practices	Significant Deficiency and Noncompliance

SCHEDULE OF FINDINGS

Item No.	Page	Last/First Reported	Description	Finding Type
			Current Findings	
2021-013	52	2019/2015	Change Control Weaknesses	Significant Deficiency and Noncompliance
2021-014	54	New	Weaknesses in Disaster Contingency Planning	Significant Deficiency and Noncompliance
2021-015	56	New	Lack of a Detailed Agreement Regarding Security Requirements	Significant Deficiency and Noncompliance
2021-016	58	2019/2017	Inadequate Control over Performance Evaluations	Significant Deficiency and Noncompliance
2021-017	60	New	Noncompliance with Report and Publication Requirements	Significant Deficiency and Noncompliance
2021-018	62	2019/2017	Inadequate Controls over the Annual Agency Workforce Reporting	Significant Deficiency and Noncompliance
2021-019	64	2019/2019	Inadequate Controls over Monthly Reconciliations	Significant Deficiency and Noncompliance
2021-020	67	2019/2013	Inadequate Controls over Voucher Processing	Significant Deficiency and Noncompliance
2021-021	70	2019/2019	Failure to Seek a Judgment in Circuit Court	Significant Deficiency and Noncompliance
2021-022	72	New	Failure to Design and Implement Controls over Penalties and Fines	Significant Deficiency and Noncompliance

SCHEDULE OF FINDINGS

Item No.	Page	Last/First Reported	Description	Finding Type
Current Findings				
2021-023	75	New	Inadequate Control over New Employee Training	Significant Deficiency and Noncompliance
Prior Findings Not Repeated				
A	76	2019/2019	Inadequate Controls over NSF Checks and Refunds	
B	76	2019/2019	Commission Review Board Not Fully Functioning	

EXIT CONFERENCES

Findings 2021-002 through 2021-023 and their associated recommendations appearing in this report were discussed with Commission personnel at an exit conference on June 3, 2022.

Attending were:

Illinois Workers' Compensation Commission

Paul Fichter	Chief Fiscal Officer
Ron Rascia	General Counsel
David Larson	Associate General Counsel
Eliseo Reynoso	Chief Information Officer
Maria Sarli-Dehlin	Manager of Self-Insurance
Robert Kern	Chief Accountant
Maria Parrino	Fiscal Staff

Office of the Auditor General

Daniel J. Nugent, CPA	Technical Specialist
Kathy Lovejoy, CPA, CISA	Principal of Information Systems Audits

Roth & Co., LLP

Epifanio Sadural, CPA, CGMA	Partner
Ivory Pineda	Manager

Finding 2021-001 and its associated recommendation appearing in this report was discussed with Commission personnel at an exit conference on July 27, 2022.

Attending were:

Illinois Workers' Compensation Commission

Paul Fichter	Chief Fiscal Officer
Maria Sarli-Dehlin	Manager of Self-Insurance
Robert Kern	Chief Accountant
Maria Parrino	Fiscal Staff
Tayra Brooks	Fiscal Staff

Office of the Auditor General

Daniel J. Nugent, CPA	Technical Specialist
Jose Roa, CPA	Senior Audit Manager

Roth & Co., LLP

Epifanio Sadural, CPA, CGMA	Partner
Ivory Pineda	Manager

The responses to all of the recommendations were provided by Mr. Paul Fichtner, Chief Fiscal Officer, in a correspondence dated July 29, 2022.

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 compliance by the State of Illinois, Illinois Workers' Compensation Commission (Commission) 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, 2021. Management of the Commission is responsible for compliance with the specified requirements. Our responsibility is to express an opinion on the Commission's compliance with the specified requirements based on our examination.

The specified requirements are:

A. The Commission 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 Commission 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 Commission 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 Commission 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 Commission on behalf of the State or held in trust by the Commission have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

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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 Commission complied with the specified requirements in all material respects. An examination involves performing procedures to obtain evidence about whether the Commission 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 Commission's compliance with the specified requirements.

Our examination disclosed material noncompliance with the following specified requirements applicable to the Commission during the two years ended June 30, 2021. First, as described in the accompanying Schedule of Findings as items 2021-001 and 2021-003 through 2021-011, the Commission had not complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations. In addition, as described in the accompanying Schedule of Findings as items 2021-003 and 2021-004, the Commission had not ensured the State revenues and receipts collected by the Commission 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.

In our opinion, except for the material noncompliance with the specified requirements described in the preceding paragraph, the Commission complied with the specified requirements during the two years ended June 30, 2021, 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 2021-002 and 2021-012 through 2021-023.

The Commission's responses to the compliance findings identified in our examination are described in the accompanying Schedule of Findings. The Commission'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 Commission 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 Commission's internal control to determine the examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Commission's compliance with the specified requirements and to test and report on the Commission's internal control in accordance with the *Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission'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 2021-001 and 2021-003 through 2021-011 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 2021-002 and 2021-012 through 2021-023 to be significant deficiencies.

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

The Commission's responses to the internal control findings identified in our examination are described in the accompanying Schedule of Findings. The Commission'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

Chicago, Illinois
August 8, 2022

2021-001. **FINDING** (Accounting and Financial Reporting Problems)

The Illinois Workers' Compensation Commission (Commission) did not ensure all events and transactions impacting the Self -Insurers Security Fund (Fund 940) were appropriately recorded in its internal accounting records and presented fairly in its financial statements.

During initial testing, we noted amounts recorded within Fund 940's financial statements did not internally tie out among the various statements. These errors included:

- Fund 940's ending net position within its Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position did not agree by $4,066.

- Fund 940's operating income(loss) within its Statement of Cash Flows and Statement of Revenues, Expenses, and Changes in Net Position did not agree by $40,151.

After completing our testing to identify the causes of these problems, we determined the Commission made the following eight accounting and three classification errors:

- The Commission did not record deferred outflows of contributions to the State Employees Retirement System of Illinois (SERS), totaling $4,352, paid during the State's Lapse Period.

- The Commission made a duplicate entry for a refund from SERS of excess Fiscal Year 2019 contributions, totaling $411.

- The Commission made a duplicate entry for a refund payable of an overpayment of an assessment by a self-insurer, totaling $3,366.

- The Commission did not properly account for the settlement of a prior period refund payable to an excess insurer during the current period, totaling $4,396.

- The Commission did not identify and record all of Fund 940's miscellaneous accounts receivable, totaling $1,284.

- The Commission's supporting schedule for cash activity and interest allocations within each insolvent self-insurer's security deposits account, Fund 940's account, and excess insurance activity was not completely accurate. Also, the Commission did not consider whether events subsequent to June 30, 2021, which provided new evidence about the Fund's estimated liabilities, were reflected in Fund 940's draft financial statements as of and for the year ended June 30, 2021. The net effect of these errors was an overstatement of four accounts, including total unpaid claims by $784,224, total unearned security deposits by $152, benefit claims expense by $779,612, and excess insurance receivable by $4,764.

2021-001. **FINDING** (Accounting and Financial Reporting Problems)

- The Commission made a duplicate entry for the collection of a miscellaneous receivable, totaling $2,057.

- The Commission did not record the settlement of $59 due to the Rate Adjustment Fund from Fund 940 during Fiscal Year 2021.

- The Commission did not properly classify current and noncurrent liabilities within Fund 940. We noted the following:

    - The current net other postemployment (OPEB) liability was overstated and the noncurrent net OPEB liability was understated by $640,803.

    - Current unearned security deposits were understated, while noncurrent unearned security deposits were overstated, by $6,829.

    - Current unpaid claims were understated, while noncurrent unpaid claims were overstated, by $86,990.

We proposed, and the Commission posted, adjusting entries to correct these errors in Fund 940's final financial statements.

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

In addition, complete and accurate financial statements are necessary to enable Fund 940's governing board, the Self-Insurers Advisory Board, to inform its economic, social, and political decision making and other users in assessing the financial condition and results of operations of Fund 940, as noted in Concepts Statement No. 1 of the Governmental Accounting Standards Board (paragraph 32), *Objectives of Financial Reporting*.

Commission officials indicated these problems were due to oversight.

Failure to establish and maintain adequate internal fiscal and administrative controls over Fund 940's accounting records and financial reporting could have, if not detected and corrected through the audit process, resulted in a material misstatement of Fund 940's financial statements. (Finding Code No. 2021-001, 2020-001)

2021-001. **FINDING** (Accounting and Financial Reporting Problems)

RECOMMENDATION

We recommend the Commission continue its efforts to fully understand and appropriately record and report transactions and events impacting Fund 940. Further, we recommend the Commission ensure all transactions and events impacting Fund 940 are recorded and reported in strict adherence with the generally accepted accounting principles applicable to Fund 940. Additionally, the Commission should ensure an independent supervisory review by an individual with sufficient skills, knowledge, and experience to identify and correct errors is performed during the preparation of Fund 940's supporting schedules, journal entries, and financial statements. Finally, the Commission should monitor and consider whether events subsequent to the end of the fiscal year that occur before the dating of the auditor's report provide new evidence about estimates used to develop Fund 940's draft financial statements which should be adjusted for prior to the issuance of Fund 940's final financial statements.

COMMISSION RESPONSE

The Commission agrees with the finding. Familiarity with the new accounting template has contributed to a reduction in issues compared to previous years. The Commission's fiscal staff will continue to work to reduce the remaining issues.

We would like to note the financial statements have been corrected and now tie out based on correcting all accounting and classification errors listed in this finding.

2021-002. **FINDING** (Inadequate Controls over Census Data)

The Illinois Workers' Compensation Commission (Commission) did not have a reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits (OPEB) plans was complete and accurate for the Self-Insurers Security Fund (Fund).

Census data is demographic data (date of birth, gender, years of service, etc.) of the active, inactive, or retired members of a pension or OPEB plan. The accumulation of inactive or retired members' census data occurs before the current accumulation period of census data used in the plan's actuarial valuation (which eventually flows into each employer's financial statements), meaning the plan is solely responsible for establishing internal controls over these records and transmitting this data to the plan's actuary. In contrast, responsibility for active members' census data during the current accumulation period is split among the plan and each member's current employer(s). Initially, employers must accurately transmit census data elements of their employees to the plan. Then, the plan must record and retain these records for active employees and then transmit this census data to the plan's actuary.

We noted the Commission's employees within the Fund are members of both the State Employees' Retirement System of Illinois (SERS) for their pensions and the State Employees Group Insurance Program sponsored by the State of Illinois, Department of Central Management Services (CMS) for their OPEB. In addition, we noted these plans have characteristics of different types of pension and OPEB plans, including single employer plans and cost-sharing multiple-employer plans. Finally, we noted CMS' actuaries use SERS' census data records to prepare the OPEB actuarial valuation.

During testing, we noted the following:

1) The Commission had not performed an initial complete reconciliation of its census data recorded by SERS to its internal records to establish a base year of complete and accurate census data.

2) After establishing a base year, the Commission had not developed a process to annually obtain from SERS the incremental changes recorded by SERS in their census data records and reconcile these changes back to the Commission's internal supporting records.

2021-002. **FINDING** (Inadequate Controls over Census Data)

For employers participating in plans with multiple-employer and cost-sharing characteristics, the American Institute of Certified Public Accountants' *Audit and Accounting Guide: State and Local Governments* (AAG-SLG) (§ 13.177 for pensions and § 14.184 for OPEB) notes the determination of net pension/OPEB liability, pension/OPEB expense, and the associated deferred inflows and deferred outflows of resources depends on employer-provided census data reported to the plan being complete and accurate along with the accumulation and maintenance of this data by the plan being complete and accurate. To help mitigate against the risk of a plan's actuary using incomplete or inaccurate census data within similar agent multiple-employer plans, the AAG-SLG (§ 13.181 (A-27) for pensions and § 14.141 for OPEB) recommends an employer annually reconcile its active members' census data to a report from the plan of census data submitted to the plan's actuary, by comparing the current year's census data file to both the prior year's census data file and its underlying records for changes occurring during the current year.

Further, the State Records Act (5 ILCS 160/8) requires the Commission make and preserve records containing adequate and proper documentation of its essential transactions to protect the legal and financial rights of the State and of persons directly affected by the Commission 's activities.

Finally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Commission establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

Commission officials indicated these exceptions were due to the lack of a Statewide reconciliation process before Fiscal Year 2022.

Failure to reconcile active members' census data reported to and held by SERS to the Commission's records could result in each plan's actuary relying on incomplete or inaccurate census data in the calculation of the Fund's pension and OPEB balances, which may result in a misstatement of these amounts. (Finding Code No. 2021-002, 2020-002)

2021-002. **FINDING** (Inadequate Controls over Census Data)

RECOMMENDATION

We recommend the Commission work with SERS to develop an annual reconciliation process of its active members' census data from its underlying records to a report of the census data submitted to each plan's actuary. After completing an initial full reconciliation, the Commission may limit the annual reconciliation to focus on the incremental changes to the census data file from the prior actuarial valuation, provided no risks are identified that incomplete or inaccurate reporting of census data may have occurred during prior periods.

COMMISSION RESPONSE

The Commission agrees with the finding. The census reconciliation has been completed for Fiscal Year 2022 and, upon notification from SERS for additional reconciliations, the Commission will prepare future reconciliations in a timely manner. However, we would like to note for the record that all of the agencies audited for this issue (12 primary government agencies and all nine universities) were issued this same finding.

2021-003. **FINDING** (Inadequate Controls over Receipts)

The Illinois Workers' Compensation Commission (Commission) lacked adequate internal control over its cash receipts and annual Agency Fee Imposition Report (Report).

During testing of 40 regular receipts and 18 refund receipts, we noted the following:

- Seven of 40 (18%) regular receipts tested, totaling $309,282, and 1 of 18 (6%) refund receipts tested, totaling $100, did not have the date when the receipt was received by the Commission. As such, we could not determine if the receipt was deposited timely by the Commission.

  The State Officers and Employees Money Disposition Act (Act) (30 ILCS 230/2(a)) requires the Commission "keep in proper books a detailed itemized account of all moneys received for or on behalf of the State of Illinois, showing the date of receipt, the payor, and purpose and amount, and the date and manner of disbursement."

- Two of 40 (5%) regular receipts tested, totaling $19,606, and 1 of 18 (6%) refund receipts tested, totaling $230, were deposited after the Commission's 10-day extension to deposit its receipts, between one to three business days late.

  The Act (30 ILCS 230/2(b)) grants the State's Comptroller and Treasurer to grant an extension of up to 30 days for an agency to deposit collected receipts into the State Treasury. During the entire examination period, the State's Comptroller and Treasurer granted the Commission an extension from the 24/48-hour deposit rule to 10 days.

- Four of 40 (10%) regular receipts tested, totaling $241,894, were charged against a receipt code which did not reflect the purpose of the receipt. These receipts were erroneously reported as fines, penalties, or violations when the receipts were for the annual fee collected from self-insurers under the Workers' Compensation Act (820 ILCS 305/4d).

- One of 18 (6%) refund receipts tested, totaling $600, was erroneously reported as fines, penalties, or violations when the receipt was a returned overpayment to a vendor.

  The Statewide Accounting Management System (SAMS) (Procedure 25.20.10) requires the Commission report the receipt account code as indicated within the State's Chart of Accounts for each type of revenue source, along with a written description of the revenue source charged, on the receipt's corresponding Receipts Deposit Transmittal Form (Form C-64) submitted to the Comptroller's Office.

2021-003. **FINDING** (Inadequate Controls over Receipts)

- The corresponding Form C-64 for 2 of 40 (5%) receipts tested, totaling $29,053, were submitted to the Comptroller's Office between 40 to 45 days after receiving the receipt's associated Treasurer's Draft from the Treasurer's Office.

  SAMS (Procedure 25.20.10) requires the Commission order collected deposit instruments, such as a Treasurer's Draft, into the proper receipt account and fund within the State Treasury by submitting a Form C-64. Good internal controls over cash receipts include minimizing the time between when a receipt clears the bank and when cash is ordered into the State Treasury.

During testing, we noted some of the Commission's receipt types lacked a corresponding receipt source code within the State's Chart of Accounts. We noted the following:

- The Commission did not have a receipt source code for reimbursements from employers for benefits paid deposited into the Injured Workers' Benefit Fund collected pursuant to the Workers' Compensation Act (820 ILCS 305/4(d)).

- The Commission did not have a receipt source code for penalties deposited into the Second Injury Fund and the Rate Adjustment Fund collected pursuant to the Workers' Compensation Act (820 ILCS 305/7(f)) (see Finding 2021-022 for more information on this penalty).

- The Commission did not have sufficient receipt codes to differentiate the various types of cash collections within the Self-Insurers Security Fund to facilitate the preparation of its cash flows statement in accordance with accounting principles generally accepted within the United States of America (U.S. GAAP).

  SAMS (Procedure 25.20.30) requires the Commission submit a Chart of Accounts Maintenance and Inquiry Form (Form C-45) to request the Comptroller add a receipt source code.

During testing, we noted the Commission's Report for both Fiscal Year 2020 and Fiscal Year 2021 had significant problems. We noted the following:

Fiscal Year 2020 Report

- The Commission excluded June 2020 receipts from its total fees collected during the year within the Second Injury Fund and the Illinois Workers' Compensation Commission Operations Fund.

- The Commission excluded receipts from July 2019 through May 2020 from its total fees collected during the year within the Rate Adjustment Fund.

2021-003. **FINDING** (Inadequate Controls over Receipts)

- The Commission did not consider the impact of in-transit deposits at the beginning and the end of the year within its reported fees within the Self-Insurers Security Fund, Self-Insurers Administration Fund, and Injured Workers' Benefit Fund.

Fiscal Year 2021 Report

- We noted unreconciled differences of \$2,210, \$25,796, and \$48,036 within the reported fees collected for the Second Injury Fund, Rate Adjustment Fund, and Illinois Workers' Compensation Commission Operations Fund.

- The Commission did not consider the impact of in-transit deposits at the beginning and the end of the year within its reported fees within the Self-Insurers Security Fund, Self-Insurers Administration Fund, and Injured Workers' Benefit Fund.

The State Comptroller Act (15 ILCS 405/16.2(a)) requires the Commission, if it imposes and collects fees, to prepare the Report each year. Further, SAMS (Procedure 33.16.10) states the Commission's submission shall list and describe the fees imposed by the Commission, the purpose of the fees, the amount of revenue generated by the fee, and the funds into which the fees are deposited. The amount of revenue generated is on a cash basis, which must reconcile to deposits recorded by the Comptroller's Office on the Monthly Revenue Status report (SB04) pursuant to the following formula:

Receipts, per Commission records (amount to report)
Add: Deposits in Transit, Beginning of the Year
Less: Deposits in Transit, End of the Year
Deposits, Recorded by the State's Comptroller (SB04)

Finally, this finding was first noted during the Commission's compliance examination for the period ended June 30, 2017, over four years ago. As such, Commission management has been unsuccessful in implementing a corrective action plan to remedy these problems.

The Commission's management team is responsible for implementing timely corrective action on all of the findings identified during a State compliance examination.

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

Commission officials indicated these exceptions were due to staff error and personnel inefficiencies caused by the COVID-19 pandemic.

2021-003. **FINDING** (Inadequate Controls over Receipts)

Failure to expedite cash receipts into the State Treasury reduced the amount of cash available to meet current obligations, resulted in foregone interest revenues to the Commission's funds, and resulted in noncompliance with the Act. Further, failure to properly code receipts and request the establishment of receipt source codes for all of the Commission's different receipt sources limits the usefulness of receipt data and hinders the reliability of the Commission's Report. Finally, failure to prepare and file a complete and accurate Report limits the usefulness of the Comptroller's Statewide fee report and resulted in noncompliance with the State Comptroller Act and SAMS. (Finding Code No. 2021-003, 2019-008, 2017-008)

RECOMMENDATION

We recommend the Commission review the design and operation of its internal controls over receipt processing and implement corrective action to ensure receipts are promptly remitted to correct account within the State Treasury, books and records are maintained in strict compliance with the Act, all revenue sources have a receipt code, and the annual Report is complete and accurate.

COMMISSION RESPONSE

The Commission agrees with the finding. Personnel inefficiencies due to the COVID-19 pandemic contributed to this finding.

2021-004. **FINDING** (Inadequate Controls over Accounts Receivable)

The Illinois Workers' Compensation Commission (Commission) did not (1) sufficiently monitor and pursue collection on accounts receivable or (2) properly report its accounts receivable to the Comptroller's Office.

During testing of 40 accounts receivable and 16 tested recipients of benefits paid from the Rate Adjustment Fund and/or the Second Injury Fund, we noted the following:

- Sixteen of 40 (40%) delinquent accounts receivable tested, totaling $139,915, were not actively monitored and pursued for collection, as follows:

  - Two (5%) tested accounts, totaling $94,784, were deferred payment plans arising from settlement agreements for the Injured Workers' Benefit Fund between the debtor employer and the Commission where the employers had not followed the payment plan. We noted these employers had not made any payments during the examination period and the Commission had not referred these receivables to either the IDROP system at the Comptroller's Office and the Department of Revenue's Debt Collection Bureau (Bureau).

  - Fourteen (35%) tested accounts, totaling $45,131, were overpayments by the Commission of benefits from the Rate Adjustment Fund and/or the Second Injury Fund. We noted the Commission had not referred these receivables to either the IDROP system at the Comptroller's Office or the Bureau. Further, the Commission did not send timely second notices to 11 of these debtors, as the second notice was provided between 6 and 79 months after the first notice.

- Five of 16 (31%) recipients of benefits from the Rate Adjustment Fund and/or the Second Injury Fund tested had net overpayments, totaling $10,260, outstanding when their eligibility was terminated. We noted three of the five (19% of the total tested accounts) had outstanding balances where the Commission had not sent out a second notice between 6 to 17 months after the date of the first notice.

The Illinois State Collection Act of 1986 (Act) (30 ILCS 210/3) states the public policy of the State is to aggressively pursue amounts owed to the State through all reasonable means. In addition, the Statewide Accounting Management System (SAMS) (Procedure 26.40.20) and the Act (30 ILCS 210/5(c-1)) requires the Commission places debts which exceed $250 and more than 90 days past due must be placed in the IDROP system. In addition, the Act (30 ILCS 210/5(g)) requires the Commission refer all debt to the Bureau. Finally, the Commission's *Benefit Collection Policy* states a letter to overpaid recipients must be sent to the recipient's estate or last known address with the overpaid amount that is due to the Commission with a second letter sent approximately six-months later if there is not a response.

2021-004. **FINDING** (Inadequate Controls over Accounts Receivable)

Commission officials indicated the two employer accounts with deferred payment plans were not followed up on due to employee oversight. Further, Commission officials wrote they do not believe the collection of benefit overpayments paid from the Rate Adjustment Fund and/or Second Injury Fund is good public policy because these persons are typically low income.

During testing of the Commission's Quarterly Summary of Accounts Receivable (Form C-97) reports during the examination period, we noted the following:

- Eight of eight (100%) quarterly reports for the Self-Insurers Security Fund did not include all accounts receivable, including accounts receivables for assessments, excess insurance, and miscellaneous sources, in the reports. Additionally, it does not appear the Commission makes use of all information available, such as reports filed by employers for assessments due to other Commission funds, to record and collect on assessments receivable.

- The Injured Workers' Benefit Fund's estimated uncollectible accounts balance was erroneously reported as $1,442 thousand as opposed to $1,876 thousand in the Commission's Form C-97 report for the first quarter of Fiscal Year 2020.

- The Rate Adjustment Fund has several discrepancies across several tested quarters within the Commission's Form C-97s, as noted below:

  - The amount reported as new accounts receivable and collections in the third quarter of Fiscal Year 2020 had discrepancies of $4 thousand and $5 thousand, respectively, between the Form C-97 report and the Commission's records.

  - The amount reported as new accounts receivable and collections in the fourth quarter of Fiscal Year 2020 had discrepancies of $4 thousand and $3 thousand, respectively, between the Form C-97 report and the Commission's records.

  - The amount reported as new accounts receivable and collections in the first quarter of Fiscal Year 2021 had discrepancies of $37 thousand and $34 thousand, respectively, between the Form C-97 report and the Commission's records.

SAMS (Procedure 26.30.20) requires the Commission to prepare and submit a quarterly Form C-97 summarizing its accounts receivable activity transactions during the reported quarter with reported dollar amounts rounded to the nearest thousand. Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Commission establish a system, or systems, of internal fiscal and administrative controls to provide assurance revenues and funds applicable to operations are properly recorded and accounted for to

2021-004. **FINDING** (Inadequate Controls over Accounts Receivable)

permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Commission officials indicated these exceptions were due to inefficiencies related to the COVID-19 pandemic, oversight, and other competing priorities.

Failure to timely and actively pursue amounts due decreases the likelihood these accounts receivable will be collected by the Commission, limits the amount of resources available for use within these funds, and represents noncompliance with State laws and regulations. Further, failure to submit complete and accurate quarterly Form C-97 reports hinders accountability and oversight for collections activity and limits the usefulness of Statewide accounts receivable reports. (Finding Code No. 2021-004, 2019-011)

RECOMMENDATION

We recommend the Commission review the design and operation of its internal controls over accounts receivable to ensure it timely pursues and attempts to collect amounts due to the Commission, including by referring amounts due to IDROP and the Bureau. In addition, the Commission should implement controls to ensure its quarterly Form C-97 reports are complete and accurate.

COMMISSION RESPONSE

The Commission agrees with the finding. Personnel inefficiencies related to the COVID-19 pandemic, oversight, and competing priorities contributed to this finding.

2021-005. **<u>FINDING</u>** (Inadequate Controls over Property)

The Illinois Workers' Compensation Commission (Commission) lacked adequate internal control over its equipment.

During the final months of Fiscal Year 2021, the Commission's Chicago office located in the James R. Thompson Center was relocated to the Richard J. Daley Center and George W. Dunne Cook County Office Building. Our testing of equipment was performed on August 4, 2021 and August 5, 2021, more than a month after all of the Commission's Chicago offices had completely moved into new locations.

During testing, we noted the following:

- During our review of the Commission's annual inventory, we noted Commission officials were unable to locate four computers, with an original acquisition value of $4,681. We inquired with Commission officials, who indicated they did not believe these computers, including two computers assigned to an arbitrator and a commissioner who routinely handle medical records during litigation, would have had confidential information on the items. However, the Commission could not prove these items did not have confidential information on their hard drives or that these computers had been protected with encryption technologies.

  The Commission is responsible to protect confidential information it receives and processes from disclosure and to ensure the provisions of the Personal Information Protection Act (815 ILCS 530) are followed.

- During testing of 120 items, with an acquisition cost of $279,662, either (1) found in use at the Commission traced by us to the Commission's records or (2) recorded on the Commission's records traced by us to the Commission's facilities, we noted the following:

  - We could not locate four (3%) items tested, including two laptops, a time stamp machine, and a cellular phone, with an acquisition cost of $4,042.

    The State Property Control Act (30 ILCS 605/4) requires the Commission to be accountable for the supervision, control, and inventory of property under its jurisdiction and control.

  - Two (2%) items tested, laptops with an acquisition cost of $2,931, were found in a different location than the location listed in the Commission's records.

    The Code (44 Ill. Admin. Code 5010.230) requires the Commission record an item's location.

2021-005. **FINDING** (Inadequate Controls over Property)

- o We noted 31 (26%) items tested, including laptops, mailing equipment, monitors, printers, and fax machines, with an acquisition cost of $33,957, were obsolete.

  The Illinois Administrative Code (Code) (44 Ill. Admin. Code 5010.620) requires the Commission regularly survey its equipment inventories for obsolete and transferable equipment and report it to the Department of Central Management Services (CMS).

- o Nine (8%) items tested, including eight laptops and a desktop with an acquisition cost of $3,674, were not reported by the Commission to CMS on its report after completing the annual equipment inventory.

  The Code (44 Ill. Admin. Code 5010.460(c)) requires the Commission to provide an annual report of all equipment items subject to theft and/or with an acquisition cost in excess of $1,000.

- o Nine (8%) items tested, including a laptop, printers, time stamp machines, and power converters, were found at the Commission, but could not be traced to the Commission's property listing. In addition, five (4%) items tested, a time stamp machine, computer docks, and a phone, did not have an inventory tag or other marking of its inventory tag number; as such, we could not trace these items to the Commission's property listing.

  The Code (44 Ill. Admin. Code 5010.230) requires the Commission record each item's identification number in its property records. Further, the Code (44 Ill. Admin. Code 5010.210) requires the Commission mark each item it owns as the property of the State of Illinois with its tag number.

- o One (1%) item tested, a printer with an acquisition value of $129, was incorrectly listed as a desktop on the Commission's property listing.

  The Code (44 Ill. Admin. Code 5010.240(c)(1)) requires a description of the item along with its serial number, if the item has one.

- During voucher testing (see Finding 2021-020 for more information), 4 of 10 (40%) equipment vouchers, totaling $4,033, for the acquisition of a printer, fan, books, label writer, and video conferencing system, were not recorded on the Commission's property listing. Further, the video conferencing system, with an acquisition cost of $2,445, was not reported to CMS on the Commission's annual report of all equipment items subject to theft and/or with an acquisition cost in excess of $1,000.

2021-005. **FINDING** (Inadequate Controls over Property)

- Twenty-two of 40 (55%) equipment acquisitions tested, including computers and a projector, were incorrectly recorded with an acquisition value of $52,591 as opposed to $44,881, resulting in an overstatement of $7,710.

  The Code (44 Ill. Admin. Code 5010.240(e)) requires the Commission record an item's acquisition value in its property records. Further, the Code (44 Ill. Admin. Code 5010.460(c)) requires the Commission to provide an annual report to CMS of all equipment items subject to theft and/or with an acquisition cost in excess of $1,000.

- The Commission did not request approval from CMS prior to cannibalizing 5 of 40 (13%) deleted items tested, including printers, a monitor, and a recorder, with an acquisition value of $6,873.

  The Code (44 Ill. Admin. Code 5010.310(d)) requires the Commission receive the approval of CMS prior to cannibalizing an equipment item.

- The Commission did not update its internal written high-theft equipment policy, but began using a new definition of high-theft equipment to only deem cell phones and computers as high-theft items during Fiscal Year 2020. In addition, we noted several items – including cameras, global positioning devices, typewriters, check scanners, time stamp machines, projectors, printers, fax machines, and monitors with an acquisition value of less than $1,000 – were still marked as high-theft on the Commission's property listing as of June 30, 2021.

  The Code (44 Ill. Admin. Code 5010.210(c)) notes the Commission is responsible for adopting policies clearly delineating categories of equipment subject to theft. Under the Code (44 Ill. Admin. Code 5010.460), this policy serves as the basis for the Commission's annual inventory of all high-theft items regardless of the item's acquisition value and all other equipment items with an acquisition cost of greater than $1,000.

- The Commission did not provide documentation delineating the total cost of the CompFile! project, including amounts paid for vendors, equipment, software licenses, and staff time of the Commission (see Finding 2021-007 for more information).

  SAMS (Procedures 03.30.20 and 03.30.30) requires the Commission capitalize all costs incurred during an intangible asset's application development stage, if the total cost of a non-internally generated project exceeds $25,000.

2021-005. **FINDING** (Inadequate Controls over Property)

- The Commission made tenant improvements and modifications to its space at the Richard J. Daley Center between October 2020 and mid-April 2021 without (1) capitalizing any of these leasehold improvements and (2) starting to recognize depreciation expense for these assets over the remaining 113.5 months of the lease between the Commission and PBCC beginning in mid-April 2021 (for more information, see Finding 2021-010). During Fiscal Year 2021, the Commission processed vouchers for improvements and modifications to its space at the Daley Center, totaling \$459,744. Assuming this was the total cost of the project, we estimated the Commission did not record approximately \$10,127 in depreciation expense during Fiscal Year 2021 related to these assets.

  The Statewide Accounting Management System (SAMS) (Procedure 05.50.01) defines building improvements, among other things, as capital expenditures which adapt a leased building to a new use. In addition, SAMS (Procedure 03.30.30) requires the Commission capitalize building improvements within its proprietary funds when the costs of a building improvement equal or exceed \$25,000.

Finally, this finding was first noted during the Commission's compliance examination for the period ended June 30, 2003, **over 18 years ago**. As such, Commission management has been unsuccessful in implementing a corrective action plan to remedy these problems.

The Commission's management team is responsible for implementing timely corrective action on all of the findings identified during a State compliance examination.

Commission officials indicated these exceptions were due to staff oversight, the recent move of its Chicago office from the James R. Thompson Center, and inefficiencies caused by the COVID-19 pandemic.

Failure to maintain sufficient internal control over equipment items hinders governmental oversight, increases the risk of lost assets and exposure of confidential information, and represents noncompliance with State laws and regulations. (Finding Code No. 2021-005, 2019-002, 2017-005, 2015-003, 2013-005, 11-7, 09-6, 07-4, 05-5, 03-7)

2021-005. **FINDING** (Inadequate Controls over Property)

RECOMMENDATION

We recommend the Commission develop a written high-theft equipment policy. Then, the Commission should survey its equipment to identify any obsolete items and transfer them to CMS. Next, the Commission should review its remaining property items in use and ensure these items are properly (1) marked with an inventory number and (2) recorded on its property listing. Finally, the Commission should process transactions with CMS to clean up its remaining property records so its property records only reflect inventory items in use. Thereafter, Commission officials should monitor its property and the related listing to ensure events and transactions impacting its property are timely recorded.

Further, we recommend the Commission ensure property additions, including leasehold improvements and new software, are correctly recorded and all cannibalized equipment is approved for cannibalization by CMS prior to its destruction.

Finally, we recommend the Commission ensure its equipment items with data storage capabilities which may process or store confidential data is protected from exposure with encryption.

COMMISSION RESPONSE

The Commission agrees with the finding. The logistically challenging move from the James R. Thompson Center to our current offices contributed to some of the errors and discovery of discrepancies as the auditors' testing of equipment was performed only a month after the Commission moved its offices. Also, personnel inefficiencies caused by the COVID-19 pandemic contributed to some of this finding.

2021-006. **FINDING** (Failure to Establish Project Management Internal Controls)

The Illinois Workers' Compensation Commission (Commission) failed to establish internal controls to conduct due diligence or ensure project management controls over the CompFile! project.

In order to modernize the Case Management System, the Commission executed two contracts for the development and oversight of CompFile!, totaling $6,405,934. As of June 30, 2021, the Commission had implemented three releases which consisted of registration, settlements, and case maintenance.

As part of our testing, we requested documentation to determine if CompFile! had been developed to meet the Commission's requirements and contractual requirements. During testing, we noted the following:

- A project management framework had not been implemented to ensure the development met the Commission's requirements. Specifically, the Commission had not developed:
    - a project charter documenting the project's scope, expenditures, feasibility study, risk analysis, and approval;
    - a governance plan documenting the roles, responsibilities, objectives, and strategies for implementing the project;
    - system security requirements; or,
    - a transition plan documenting the movement of CompFile's control from the development vendor to the Commission.

- CompFile!'s master plan did not document the correct development vendor or the technology being utilized for the development.

- Contract management had not been implemented to ensure the project conformed with the Statements of Work (SoWs) requirements. We noted:
    - the backlogs of requirements were not provided or were incomplete;
    - 4 of 23 (17%) deliverables were not reviewed and approved;
    - 5 of 23 (22%) deliverables were not provided or were incomplete; and,
    - 1 of 4 (25%) SoWs did not follow the documented change process.

- CompFile's system testing was inadequate and did not comply with development requirements, including:
    - all required functional, process, unit, and end-to-end testing scripts were not ran;
    - test scripts which failed did not have documentation of a resolution;
    - testing results were not reviewed and approved; and,
    - a process for reporting and rectifying defects had not been developed.

2021-006. **FINDING** (Failure to Establish Project Management Internal Controls)

- The Change Management Plan documented the incorrect vendor and did not document the actual change process followed (see Finding 2021-013 for more information).

- Management's go-live review and approval to move for release #2 into production was not provided.

- Although data had been converted from the Commission's legacy system during release #1 and release #2, documentation of reconciliations between the legacy system and CompFile! was not provided. Further, the reconciliation for release #3 was incomplete. Finally, the Commission did not provide documentation demonstrating the converted data had been tested to ensure its accuracy.

- Incident management procedures had not been developed.

- The Commission had not conducted a pre-implementation review prior to moving CompFile! into production.

The *Risk Management Framework for Information Systems and Organizations, A System Life Cycle Approach for Security and Privacy* (Special Publication 800-37, Second Revision) published by the National Institute of Standards and Technology requires entities follow the phases of the system development life cycle to ensure all requirements are met.

Additionally, the *Guide to the Project Management Body of Knowledge* requires entities to apply the five project management processes – including initiating, planning, executing, monitoring and controlling, and closing – to provide assurance a project meets the entity's requirements.

Further, section 2.3, Deliverable Acceptance Process, of the development vendor's SoWs required the Commission to obtain and review the deliverables within five days of being submitted. The acceptance of the deliverable was obtained by signing, dating, and returning the service deliverable acceptance form.

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

2021-006. **FINDING** (Failure to Establish Project Management Internal Controls)

Finally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Commission to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance resources are:

1) utilized efficiently, effectively, and in compliance with applicable law;
2) funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation; and,
3) expenditures, resources, and funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Commission officials indicated these exceptions were due to oversight.

Failure to establish sufficient internal controls related to project management resulted in the Commission not obtaining all required contractual deliverables and did not ensure the project met the Commission's needs. (Finding Code No. 2021-006)

RECOMMENDATION

We recommend the Commission develop and implement internal controls over its due diligence and project management of information systems projects. Specifically, the Commission should:

- develop a project management framework to ensure the development meets the Commission's requirements;
- implement internal controls to ensure the project complies with the requirements of the contract and SoWs;
- ensure all system testing complies with the development requirements;
- update its Change Management Plan to document the correct development vendor and the actual change process followed;
- conduct a review and approve of each release go-live;
- conduct detailed reconciliations each time data is converted from a legacy system and maintain documentation of these reconciliations; and,
- develop incident management procedures.

2021-006. **FINDING** (Failure to Establish Project Management Internal Controls)

COMMISSION RESPONSE

The Commission partially agrees with the finding. While fully accepting the recommendations, the Commission notes sufficient internal controls existed on the CompFile! project. The Commission complied with the requirements of the SoWs for the CompFile! project and obtained, reviewed, and accepted all required deliverables to ensure the project met the Commission's needs. As a multi-release project, certain deliverables were considered living documents that were updated throughout the project. Any changes to these deliverables after formal acceptance were done at the Commission's request or to refine assumptions made during solution modeling. Finally, the Commission helped guarantee the success of the CompFile! project through rigorous testing and a comprehensive review of each release prior to its deployment into production.

ACCOUNTANT'S COMMENT

We are unsure how the Commission can state there were sufficient internal controls over the CompFile! project when a project management framework had not been implemented, deliverables had not been provided or were incomplete, and deliverables had not been reviewed.

Further, if the Commission had completed rigorous testing and a comprehensive review of each release, then why was documentation not provided to us to demonstrate this rigorous testing and the comprehensive reviews?

2021-007. **FINDING** (Lack of Fiscal Controls over the CompFile! Project)

The Illinois Workers' Compensation Commission (Commission) lacked controls to ensure fiscal requirements were controlled and documented over the CompFile! project.

In order to modernize the Commission's case management system, two contracts for the development and oversight of the CompFile! project were executed by the Commission, totaling $6,405,934.

As part of our testing, we requested the Commission provide documentation related to the budget, contracts, and expenditures for the CompFile! project. During testing, we noted:

- The Commission provided us 6 invoices, totaling $4,687,518, for development services. We noted the contract for the development vendor, Premier Support Services and Fees section, required four payments in order to prepay services; however, the invoices' description of services did not document sufficient detail to determine if the vendor was paid in accordance with the requirements.

- The Commission provided us with 23 invoices, totaling $2,313,135, for oversight services. We noted:
  - The Commission overpaid the oversight vendor $202.
  - The invoices did not provide sufficient detail to determine if the oversight vendor was paid in accordance with the contract's requirements, as the contract's Milestones and Deliverables section required payments based upon completion of specific milestones.

The Statewide Accounting Management System (SAMS) (Procedure 17.10.30) requires the Commission pre-audit all vouchers for the purpose of determining the "legality and propriety of a proposed transactions or a transaction in process." In addition, the State Records Act (5 ILCS 160/8) requires the Commission make and preserve adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions to protect the legal and financial rights of the State.

Further, the Commission did not provide documentation delineating the total cost of the CompFile! project, including amounts paid for vendors, equipment, software licenses, and staff time of the Commission.

SAMS (Procedures 03.30.20 and 03.30.30) requires the Commission capitalize all costs incurred during an intangible asset's application development stage, if the total cost of a non-internally generated project exceeds $25,000.

2021-007. **FINDING** (Lack of Fiscal Controls over the CompFile! Project)

Finally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Commission to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance resources are:

1) utilized efficiently, effectively, and in compliance with applicable law;
2) funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation; and,
3) expenditures, resources, and funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Commission officials indicated these exceptions were due to oversight.

Failure to properly review and control expenditures resulted in improper payments to the project's vendors and may have resulted in the Commission expending funds which were not available. Further, failure to identify and capitalize all costs related to the CompFile! project reduces the overall reliability of Statewide capital asset reporting. (Finding Code No. 2021-007)

RECOMMENDATION

We recommend the Commission implement controls to ensure expenditures are made in accordance with contractual requirements. In addition, the Commission should develop a detailed project budget and work with its vendors to obtain refunds of all overpayments erroneously paid by the Commission. Finally, the Commission should identify all of its costs incurred during the application development period of CompFile! and record this intangible asset on its property listing.

COMMISSION RESPONSE

The Commission agrees with the finding. We will obtain a $202 credit (originally paid due to rounding error) on a future invoice from vendor. Additionally, we have improved the necessary language on invoices to assure sufficient detail will be provided and we are working to identify costs incurred on the CompFile! project and record the CompFile! project on the Commission's property listing.

2021-008. **FINDING** (Inadequate Information Technology Access Controls)

The Illinois Workers' Compensation Commission (Commission) had not implemented adequate controls over access to its applications.

In order to meet its mission, the Commission utilizes various applications to maintain and process workers' compensation cases.

We requested documentation from the Commission for 17 users to determine if access to its Case Management System was appropriate. As the Commission could not provide us with this documentation, we were unable to conduct testing to determine if the user's access was appropriate.

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 develop access provision policies and procedures and ensure access is provided in accordance with a person's job duties.

In addition, the State Records Act (5 ILCS 160/8) requires the Commission make and preserve adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions to protect the legal and financial rights of the State.

Finally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Commission 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 to maintain accountability over the State's resources.

Commission officials indicated they were unclear on their responsibilities and these requirements.

Failure to implement adequate access controls could result in unauthorized access and the disclosure of confidential information. (Finding Code No. 2021-008)

RECOMMENDATION

We recommend the Commission create and maintain documentation demonstrating user access to its various systems is appropriate.

COMMISSION RESPONSE

The Commission agrees with the finding and has started working on drafting an access controls policy to ensure users have appropriate access to the Commission's systems.

2021-009. **FINDING** (Inadequate Controls over Service Providers)

The Illinois Workers' Compensation Commission (Commission) had not implemented adequate internal control over its service providers.

During testing, we requested Commission officials to provide us with the population of service providers utilized by the Commission during the examination period to determine if they had reviewed each service provider's internal controls. Commission officials were unable to provide us with the population of service providers. Further, we identified two service providers, one providing hosting services and another providing Software as a Service (SaaS) to the Commission.

Due to these conditions, we were unable to conclude the Commission's population records were sufficiently precise and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AT-C § 205.36) to test the Commission's service providers.

Even given the population limitations noted above which hindered our ability to conclude whether selected samples were representative of the population as a whole, we performed the testing over the two service providers we identified.

Our testing noted the Commission had not obtained a System and Organization Control (SOC) report or conducted an independent internal control review for the two the service providers. In addition, we noted the contracts for the service providers did not contain a requirement for an independent review to be completed.

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

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Commission to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance resources are:

1) utilized efficiently, effectively, and in compliance with applicable law;
2) funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation; and,
3) expenditures, resources, and funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

2021-009. **FINDING** (Inadequate Controls over Service Providers)

Commission officials indicated they were unaware of the need to obtain and review SOC reports.

Without having obtained and reviewed a SOC report or another form of independent internal controls review, the Commission lacks assurance the service providers' internal controls are adequate. (Finding Code No. 2021-009)

RECOMMENDATION

We recommend the Commission strengthen its controls in identifying and documenting all service providers utilized. Further, we recommend the Commission obtain SOC reports or conduct independent internal control reviews, at least, annually. In addition, we recommend the Commission:

- monitor and document the operation of the Complementary User Entity Controls (CUECs) related to the Commission's operations;
- either obtain and review SOC reports for subservice organizations or perform alternative procedures to satisfy itself that the existence of the subservice organization would not impact its internal control environment;
- document its review of the SOC reports and review all significant issues with subservice organizations to ascertain if a corrective action plan exists and when it will be implemented, any impact to the Commission, and any compensating controls; and,
- ensure contracts contain requirements for an independent review.

COMMISSION RESPONSE

The Commission agrees with the finding. The Commission accepts the recommendation to identify and document all service providers utilized and review SOC reports for these service providers or perform alternative procedures to confirm the adequacy of their internal controls. The Commission also will coordinate and collaborate with the Department of Innovation and Technology to develop a process to review the SOC reports for service providers that provide information technology services to all State agencies under master or enterprise service agreements. Finally, the Commission will review its contract boiler plate to ensure language is included to require SOC reports or independent review of internal controls.

2021-010. **FINDING** (Failure to Exercise Appropriate Controls over Leases)

The Illinois Workers' Compensation Commission (Commission) lacked adequate internal control over its leases, resulting in leases which did not fully protect the State's interests, unrecorded leasehold assets and depreciation, a procurement process which may not have been in the best interests of the State, an inability to determine the amount of cash due to a lessor, an indeterminate amount of rent expense recognized for a lease, and the improper confirmation of future lease commitments to the Comptroller's Office.

During testing, we noted the following:

- The Commission entered into two lease agreements which did not fully protect the State's interests. We noted:
  - The Commission entered into a 10-year real property lease for 1.008% of the useable square feet of the Richard J. Daley Center (Daley Center) with the Public Building Commission of Chicago (PBCC), effective October 1, 2020. Under the terms of this completely variable lease, the PBCC will adopt an (1) annual operating budget and (2) annual capital budget around October of each year and the annual rent due from the Commission for this space over the period from that October through the next September will be 1.008% of the total budgeted amounts, regardless of whether the PBCC actually spends its full budget amount, without any limitation on the amount of the amount of these budgets set completely by the PBCC.
  - The Commission entered into a 10-year real property lease for 3.27% of the useable space of the George W. Dunne Building (Dunne Building) from Cook County, effective December 1, 2020. The payment terms of this lease include an annual fixed component and a completely variable component. The variable amount has no limit and represents 3.27% of the Dunne Building's capital, operating, and maintenance costs incurred or paid by Cook County to operate and maintain the Dunne Building and its adjacent plaza, which may then be increased at Cook County's discretion in any year when the occupancy rate of the Dunne Building falls below 95%.

  A good system of internal control over lease agreements includes ensuring the State does not subjugate itself to another party to establish the amount it must pay.

  Commission officials indicated they were not offered proper guidance or training from the Department of Central Management Services (CMS) on negotiating real property leases when CMS gave the Commission the power to negotiate its own real property leases.

2021-010. **FINDING** (Failure to Exercise Appropriate Controls over Leases)

- The Commission made tenant improvements and modifications to its space at the Daley Center between October 2020 and mid-April 2021 without (1) capitalizing any of these leasehold improvements and (2) starting to recognize depreciation expense for these assets over the remaining 113.5 months of the lease between the Commission and PBCC beginning in mid-April 2021 (for more information, see Finding 2021-005). During Fiscal Year 2021, the Commission processed vouchers for improvements and modifications to its space at the Daley Center, totaling $459,744. Assuming this was the total cost of the project, we estimated the Commission did not record approximately $10,127 in depreciation expense during Fiscal Year 2021 related to these assets.

  The Statewide Accounting Management System (SAMS) (Procedure 05.50.01) defines building improvements, among other things, as capital expenditures which adapt a leased building to a new use. In addition, SAMS (Procedure 03.30.30) requires the Commission capitalize building improvements within its proprietary funds when the cost of a building improvement equals or exceeds $25,000. This amount is per project, not the per fiscal year cost of a project.

  Commission officials indicated they were unaware of the requirement to capitalize leasehold building improvements.

- The Commission did not receive the adopted operating and capital budgets of the PBCC for the Daley Center for Calendar Year 2020 and Calendar Year 2021 until after we requested this information to recalculate the amount due to the PBCC.

  The agreement between the Commission and the PBCC (§ 4) states, "The [PBCC] will provide the [Commission] with a copy of the approved Budgets within 14 days following approval by the Board of Commissioners, typically at its annual meeting in October of each year." Further, the State Records Act (5 ILCS 160/8) requires the Commission to make and preserve records containing adequate and proper documentation of the essential transactions of the Commission designed to furnish information to protect the legal and financial rights of the State.

  Commission officials indicated this problem was due to oversight.

- We were unable to determine or recalculate the amount of rent due to the PBCC for its lease at the Daley Center. During Fiscal Year 2021, the Commission paid $177,408 in rent to the PBCC. We recalculated the total amount due during Fiscal Year 2021 was $171,272, which consisted of rent from October 2020 through December 2020 of $57,492 and rent from January 2021 through June 2021 was $113,780. As such, the unreconciled difference was $6,136.

2021-010. **FINDING** (Failure to Exercise Appropriate Controls over Leases)

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Commission to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance resources are utilized efficiently and effectively and that costs are in compliance with applicable law.

- The Commission did not seek nor receive approval from the Chief Procurement Officer to forego the request for information (RFI) procurement process for its Daley Center and Dunne Building leases.

  The Illinois Procurement Code (30 ILCS 500/40-15(c)) allows the Commission to negotiate leases without following the RFI procurement process, provided the Chief Procurement Officer has deemed this action to be in the State's best interest when the proposed lessor is another governmental unit.

  Commission officials indicated they believed this was not necessary because CMS had given the Commission the power to negotiate its own real property leases.

- The Commission did not ensure its Contract-Obligation Document (Form C-23) for its Daley Center and Dunne Building leases filed with the Comptroller's Office were complete and accurate. We noted the following:

  - The Commission's reported activity charged against its obligation at the Comptroller's Office for its Daley Center lease does not make sense. We noted the Comptroller's records show the Commission charged $466,876 in expenditures against its maximum contractual obligation during Fiscal Year 2021 of $540,000. However, this $466,876 balance did not agree with the rent payments of $177,408, leasehold improvements paid for by the Commission of $459,744, or the combination of the rent and leasehold improvements paid of $637,152 during Fiscal Year 2021.

    SAMS (Procedure 15.10.10) notes the State uses the encumbrance method of accounting where the total anticipated cash outflow associated with a contract during a fiscal year is reserved within the agency's appropriation and reduced over the year by charging vouchers against the obligation to ensure an agency does not spend appropriations which must be retained to meet its contractual obligations later during the fiscal year. Additionally, SAMS (Procedure 15.10.40) requires the Commission to obligate all of its contractual agreements which exceed $20,000.

  - The Commission's initial Form C-23s filed for both its Daley Center and Dunne Building leases did not reflect a fair and reasonable estimate for the amount due as of the date the Commission prepared each Form C-23.

2021-010. **FINDING** (Failure to Exercise Appropriate Controls over Leases)

- While the Commission entered into an agreement to not pay rent for its Dunne Building lease until the rent commencement date on July 1, 2021, the Commission did not file an amended Form C-23 reflecting the change associated with this agreement.

  SAMS (Procedure 15.20.10) requires the Commission to estimate the annual contract amount for the current fiscal year and future fiscal years. Good internal controls over estimates include selecting a measurement technique and inputs to apply to a measurement technique which are fair and reasonable, considering all available information to the Commission's officials at the time when they make the estimate. Further, changes in the input of an estimate should result in an amended estimate, if significant to the amount estimated by Commission management.

Commission officials indicated these exceptions were due to oversight.

- As part of preparing the State's Annual Comprehensive Financial Report (ACFR), the Comptroller's Office pulled the total future year lease commitments beyond June 2021 for real property leases from the Commission's Form C-23s filed with the Comptroller's Office, which are included within the State's total balance of future year lease commitments reported in the State's ACFR. Due to the valuation estimation problems noted above, Commission staff should have known the future year lease commitment valuations for its Daley Center and Dunne Building leases picked up by the Comptroller and reported to the Commission for confirmation did not accurately reflect the future cash flows associated these leases as of June 30, 2021. We noted Commission staff incorrectly confirmed the current balance of outstanding future year lease commitments with no changes to the Comptroller on July 14, 2021.

  The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Commission to establish and maintain a system, or systems, of internal fiscal and administrative controls to permit the preparation of accounts and reliable financial and statistical reporting. A good system of internal controls includes ensuring any account balance confirmed by the Commission as accurate is indeed accurate and reflects all information known to Commission officials and staff as of the date of the confirmation.

  Commission officials indicated this exception was due to staff error.

2021-010. **FINDING** (Failure to Exercise Appropriate Controls over Leases)

Failure to exercise adequate control over leases may result in the Commission's lessors unilaterally increasing the amount of rent due with little recourse for the State. Further, inadequate control over leases resulted in incomplete accounting for the Commission's capital assets, the Comptroller's Office using an inaccurate balance of future year lease commitments in the State's ACFR, and hindered governmental oversight by the Chief Procurement Officer. Additionally, incomplete and inaccurate Form C-23 submissions hindered the ability of the Commission to comply with SAMS and the encumbrance basis of accounting. Finally, poor controls over leases resulted in the Commission not having all information necessary to ensure contractual payments to the PBCC were supported and may have resulted in an overpayment of rent and an overstatement of the accrual basis rent expense during Fiscal Year 2021 for the Commission's Daley Center lease. (Finding Code No. 2021-010)

RECOMMENDATION

We recommend the Commission implement controls to:

1) ensure future lease agreements include either meaningful State involvement in establishing rent rates or contractual limitations on the maximum due under the contract to help protect the State's interests;
2) leasehold building improvements are properly capitalized and depreciated;
3) ensure information necessary to support the amount of rent due is obtained, used to recalculate and substantiate the amount of rent paid, and retained in adherence with the State Records Act;
4) real property leases are either procured through the RFI process or submitted to the Chief Procurement Officer for the Chief Procurement Officer's determination the RFI process is not in the best interests of the State when the lessor is another governmental unit;
5) Form C-23s filed with the Comptroller's Office are complete and accurate, with amendments to previously filed Form C-23s submitted when the Commission enters into an amendment to a preexisting contractual agreement or when the facts and circumstances of the amount due under the contract change; and,
6) confirmations submitted to other parties are complete, accurate, and reflect all currently known facts and circumstances.

2021-010. **FINDING** (Failure to Exercise Appropriate Controls over Leases)

COMMISSION RESPONSE

The Commission disagrees with this finding. Please note the following:

1) Per an official at the Department of Central Management Services, these lease agreements are actually intergovernmental agreements (IGAs) for space sharing and fall under the Intergovernmental Cooperation Act (5 ILCS 220). As such, these leases were exempt from the Illinois Procurement Code, so approval by the Chief Procurement Officer was not necessary.

2) The Commission does not pay rent – just the proration of the operating expense. Operating costs cannot be fixed in leases, as they are changeable costs and the tenant pays a portion of the actual cost as deemed appropriate. This is an industry standard and how leases and IGAs are procured and negotiated. For the Dunne Building, the Commission pays 35% below market rate and this IGA is definitely in the best interest of the State.

3) The inadvertent omission of capitalized leaseholder improvements was corrected in Fiscal Year 2022.

4) The PBCC's staff was slow to respond to our request for its annual budget and we will communicate more appropriately with them going forward.

5) In regards to the issue of Commission staff incorrectly confirming the current balance of outstanding future year lease commitments with no changes made to the Comptroller, we note that this will no longer be an issue going forward as these leases will now be reported under the Governmental Accounting Standards Board's new lease standards.

2021-010. **FINDING** (Failure to Exercise Appropriate Controls over Leases)

ACCOUNTANT'S COMMENT

Regarding the portion of the Commission's response noted as #1 and #2 on the preceding page, the Illinois Procurement Code (30 ILCS 500/1-10(b)(1)) states:

> This Code shall not apply to contracts between the State and its political subdivisions or other governments, or between State governmental bodies, **except as specifically provided in this Code**." (**emphasis added**)

As paraphrased in the finding and in full below, the Illinois Procurement Code (30 ILCS 500/40-15(c)) states:

> **Leases with other governmental units** may be negotiated without using the request for information process when deemed by the chief procurement officer to be in the best interest of the State. (**emphasis added**)

As such, in our opinion, the portion of the Code cited within this finding is applicable to the Commission's leases at the Daley Center and Dunne Building with the PBCC and Cook County, respectively. In the event Commission officials continue to disagree, they should seek a formal written opinion from the Attorney General on the matter.

Further, with regards to whether the lease is in the best interests of the State, it is the duty of the Chief Procurement Officer to make this determination, not the Commission. Also, as the Commission's leases have significant variable components for **both capital and operating expenditures** that will only become known over the next nine years, it is not possible to say with certainty if the State will either realize cost savings or incur excessive costs over the life of the lease agreement.

Finally, regarding the portion of the Commission's response noted as #5 on the preceding page, at least for the Commission's Daley Center lease, the Governmental Accounting Standards Board's new lease guidance will not apply as the rent payment does not contain any fixed amounts, a variable payment which depends on an external index or rate, or a fixed in substance variable payment. In this case, the Commission's future obligations will need to be considered by the Comptroller's Office when preparing the commitments footnote disclosure within the State's ACFR.

2021-011. **FINDING** (Inadequate Control over Telecommunication Devices)

The Illinois Workers' Compensation Commission (Commission) did not exercise adequate internal control over telecommunication devices.

During testing, we requested the Commission to provide us with the population of wireless devices (including cell phones and mobile hotspots) issued, outstanding, and canceled during Fiscal Year 2020 and Fiscal Year 2021. Ultimately, the Commission could not provide the Fiscal Year 2020 population to us.

Due to this condition, we were unable to conclude the Commission's population records were sufficiently precise and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AT-C § 205.36) to test the Commission's telecommunication devices.

Even given the population limitations noted above which hindered our ability to conclude whether selected samples were representative of the population as a whole, we performed the testing of issued and canceled wireless communication devices and noted the following:

- The Commission lacked documentation to support four of four (100%) wireless devices issued tested were necessary, proper, and approved.

  The State of Illinois' Wireless Communication Device Policy (Policy) requires the Commission document an employee's need for a wireless communication device and forwarding approved and complete service requests to the Department of Innovation and Technology (DoIT).

- The Commission could not demonstrate four of four (100%) wireless devices assigned to separated employees tested were timely returned to the Commission after their separation.

  The Policy requires the Commission's employees using wireless devices to return them upon separation to the Commission's Telecommunications Coordinator, who manages the Commission's inventory of wireless devices.

- One of four (25%) deactivated wireless devices tested was deactivated untimely by the Commission 34 days after the employee separated from the Commission.

  Good internal controls over compliance include promptly deactivating an unused wireless device to avoid unnecessary expenditures for a service plan to support an unused device.

2021-011. **FINDING** (Inadequate Control over Telecommunication Devices)

Commission officials indicated these problems were due to insufficient staff resources and procedural deficiencies within the Commission's information technology section, including many retired or separated staff, incomplete knowledge transfers, the relocation of the Commission's Chicago office, and the COVID-19 pandemic.

Failure to maintain adequate internal control over the issuance and cancellation of wireless devices resulted in noncompliance with the Policy and may have resulted in the incurrence of unnecessary costs. (Finding Code No. 2021-011)

RECOMMENDATION

We recommend the Commission implement controls to:

1) demonstrate the completeness and accuracy of its population of wireless devices;
2) documentation supporting the need for a new wireless device is prepared prior to getting a new device;
3) track each device's usage to ensure each device is on an appropriate plan; and,
4) promptly collect and deactivate any unused devices.

COMMISSION RESPONSE

The Commission agrees with the finding and has since updated its device inventory system as well as the onboarding and offboarding process to ensure all Commission equipment is issued and returned, with documentation of the event created and retained.

2021-012. **FINDING** (Weaknesses in Cybersecurity Programs and Practices)

The Illinois Workers' Compensation Commission (Commission) had not implemented adequate internal controls related to cybersecurity programs, practices, and control of confidential information.

The Commission is responsible for resolving disputes between employees and employers regarding work-related injuries and illnesses. As a result, the Commission collects many varieties of personal and confidential information, including, but not limited to, names, addresses, social security numbers, and health information.

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 of the Commission's cybersecurity program, practices, and control of confidential information, we noted the Commission had not:

- developed a formal, comprehensive, adequate, and communicated security program (including policies, procedures, and processes as well as clearly defined responsibilities over the security of computer programs and data) to manage and monitor the regulatory, legal, environmental and operational requirements;
- required employees or contractors to acknowledge receipt of the Commission's policies;
- developed a project management framework to ensure new applications were adequately developed and implemented in accordance with management's expectations;
- developed a risk management methodology, conducted a comprehensive risk assessment, or implemented risk reducing controls;
- developed policies for the reporting of security or suspected security violations;
- developed a cybersecurity plan; or,
- developed a data classification methodology and classified its data.

In addition, we noted 19 of 167 (11%) employees did not complete cybersecurity training and the Commission's contractors were not required to complete cybersecurity training.

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 requires entities to consider risk management practices, threat environments, legal and regulatory requirements, mission objectives, and constraints in order to ensure the security of the entity's applications, data, and continued business mission.

In addition, the Data Security on State Computers Act (20 ILCS 450/25) requires every employee to annually undergo training by the Department of Innovation and Technology concerning cybersecurity.

2021-012. **FINDING** (Weaknesses in Cybersecurity Programs and Practices)

Finally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Commission 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 to maintain accountability over the State's resources.

Commission officials indicated they disagreed with this finding, noting they believe the Department of Innovation and Technology (DoIT) was responsible for cybersecurity programs and practices.

Inadequate cybersecurity programs and practices could result in unidentified risks and vulnerabilities, which could ultimately lead to the Commission's confidential and personal information being susceptible to cyber-attacks and unauthorized disclosure. (Finding Code No. 2021-012, 2019-005)

RECOMMENDATION

We recommend the Commission to work with DoIT to obtain a detailed understanding of the Commission's responsibilities related to cybersecurity controls. Additionally, we recommend the Commission:

- develop a formal, comprehensive, adequate, and communicated security program to manage and monitor the regulatory, legal, environmental, and operational requirements;
- require employees and contractors to acknowledge receipt of the Commission's policies;
- develop a project management framework to ensure new applications are adequately developed and implemented in accordance with management's expectations;
- develop a risk management methodology, conduct a comprehensive risk assessment, and implement risk reducing internal controls;
- develop policies and procedures for reviewing and monitoring security implementation and violations;
- develop a cybersecurity plan; and,
- develop a data classification methodology and classify the Commission's data to identify and implement controls to ensure adequate protection of this information.

COMMISSION RESPONSE

The Commission agrees with the finding and has started working with DoIT to develop the programs, practices, and policies being recommended.

2021-013. **FINDING** (Change Control Weaknesses)

The Illinois Workers' Compensation Commission (Commission) had weaknesses in its change management controls.

The Commission has several computer applications which were critical for providing and overseeing a no-fault system of benefits to workers who experience job-related injuries or diseases.

During testing, we noted the Commission's Change Management Plan for its CompFile! project documented the incorrect vendor and did not document the actual change process followed. Further, we noted the Case Management System, and the Self-Insurance Approach System did not have any documented service requests during the examination period; therefore, we were unable to test the Commission's change management procedures over these systems.

The National Institute of Standards and Technology, Special Publication 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Configuration Management Section, states critical elements include properly authorized, tested, and approved changes are to be tracked by the entity. Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Commission 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 to maintain accountability over the State's resources.

Finally, this finding was first noted during the Commission's compliance examination for the period ended June 30, 2015, **over six years ago**. As such, Commission management has been unsuccessful in implementing a corrective action plan to remedy these problems.

The Commission's management team is responsible for implementing timely corrective action on all of the findings identified during a State compliance examination.

Commission officials indicated a lack of resources resulted in these problems.

Lack of change control procedures increases the risk of unauthorized or improper changes to computer systems. (Finding Code No. 2021-013, 2019-004, 2017-002, 2015-004)

RECOMMENDATION

We recommend the Commission ensure its change management process is documented and followed for all of its systems, including initial requests, dates, and approvals.

2021-013. **FINDING** (Change Control Weaknesses)

COMMISSION RESPONSE

The Commission agrees with the finding and will work to develop an internal change management process which addresses the recommendation of this finding.

2021-014. **FINDING** (Weaknesses in Disaster Contingency Planning)

The Illinois Workers' Compensation Commission (Commission) had not adequately developed and tested its disaster recovery plans.

In order to provide a no-fault system of benefits to employees who have experienced job-related injuries and illnesses, the Commission utilized several applications, including CompFile!, the Case Management System, and the Self-Insurance Approach System, which all reside on infrastructure provided to the Commission by the Department of Innovation and Technology (DoIT).

During testing, we requested the Commission to provide its disaster recovery plan for each application. However, the Commission was unable to provide any disaster recovery plan for its applications, except for CompFile!.

During our review of the disaster recovery plan for CompFile!, we noted significant parts were not documented, including roles and responsibilities, recovery objectives, recovery time frame objectives, and testing requirements. Further, we noted Commission officials had not approved CompFile!'s disaster recovery plan. Finally, the Commission had not conducted recovery testing during the examination period.

The *Contingency Planning Guide for Information Technology Systems* published by the National Institute of Standards and Technology requires entities to have an updated and regularly tested disaster contingency plan to ensure the timely recovery of applications and data.

In addition, the State Records Act (5 ILCS 160/8) requires the Commission make and preserve adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions of the Commission to protect the legal and financial rights of the State and of persons directly affected by the Commission's activities. Good internal controls over electronic records include testing to ensure those records can be timely recovered.

Finally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Commission 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 to maintain accountability over the State's resources.

Commission officials indicated a lack of resources delayed their progress in developing and testing disaster recovery plans.

2021-014. **FINDING** (Weaknesses in Disaster Contingency Planning)

Failure to develop and test a disaster recovery plan for all systems could result in a lack of preparedness to recover the Commission's applications and data timely in the event of a disaster. (Finding Code No. 2021-014)

RECOMMENDATION

The Commission should develop and approve a disaster recovery plan for each application and ensure each plan documents roles and responsibilities, recovery objectives, recovery time frame objectives, and testing requirements. Further, the Commission should ensure its plans are up-to-date and tested, at least, annually.

COMMISSION RESPONSE

The Commission agrees with the finding and has started working on drafting a disaster recovery plan for its critical applications.

2021-015. **FINDING** (Lack of a Detailed Agreement Regarding Security Requirements)

The Illinois Workers' Compensation Commission (Commission) had not entered into detailed agreements with the Department of Innovation and Technology (DoIT).

The Commission utilized DoIT's infrastructure to maintain its applications and data. During testing, we noted the Commission and DoIT did not enter into an agreement detailing the roles and responsibilities of each party to ensure prescribed requirements and available security mechanisms were in place to protect the security, processing integrity, availability, and confidentiality of the Commission's systems and data.

In January 2016, the Governor signed Executive Order 2016-01 (Order) creating DoIT. Under the Order, DoIT assumed general responsibility for the State's IT environment in an effort to modernize the technical environment and consolidate redundant applications. As such, the Order consolidated multiple information technology functions into a single agency, DoIT. As part of this consolidation, the Order required the transfer of assets, employees, and funds to DoIT from different transferring agencies.

During testing, we noted an intergovernmental agreement between the Commission and DoIT was not entered into during the examination period to address security, processing, integrity, and availability of the Commission's systems and data.

The Commission has the ultimate responsibility to ensure its critical and confidential systems and data are adequately secured. As such, this responsibility is not limited because some information technology functions were transferred to DoIT.

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Commission 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 to maintain accountability over the State's resources.

Commission's officials indicated its negotiations with DoIT remain ongoing.

Without a formal agreement, the Commission does not have assurance of the adequacy of controls managed by DoIT to ensure the security, processing integrity, availability, and confidentiality of its systems and data. (Finding Code No. 2021-015)

RECOMMENDATION

We recommend the Commission enter into a detailed agreement with DoIT to ensure prescribed requirements and available security mechanisms are documented in order to protect the security, processing integrity, availability, and confidentiality of the Commission's systems and data.

2021-015. **FINDING** (Lack of a Detailed Agreement Regarding Security Requirements)

COMMISSION RESPONSE

The Commission agrees with the finding. Although the Commission has not entered into a formal IGA with DoIT, all infrastructure, systems, assets, and security of applications are being managed and maintained by DoIT. Further, the Commission adheres to all updates and maintenance of systems as required by DoIT.

2021-016. **FINDING** (Inadequate Control over Performance Evaluations)

The Illinois Workers' Compensation Commission (Commission) lacked adequate control over evaluating employee performance.

During testing of 19 employees who required 31 different performance evaluations during the examination period, we noted 25 (81%) had deficiencies, including:

- 7 (23%) performance evaluations were not completed;
- 1 (3%) performance evaluation was not signed; and,
- 17 (57%) performance evaluations were conducted between 11 and 437 days late.

The Illinois Administrative Code (80 Ill. Admin. Code 302.270) requires each (1) certified employee receive a performance evaluation not less often than annually and (2) each probationary employee receive more frequent evaluations. We considered performance evaluations held more than 30 days after the end of the evaluation period as untimely.

Further, this finding was first noted during the Commission's compliance examination for the period ended June 30, 2017, over four years ago. As such, Commission management has been unsuccessful in implementing a corrective action plan to remedy these problems.

The Commission's management team is responsible for implementing timely corrective action on all of the findings identified during a State compliance examination.

Commission officials indicated these exceptions were due to other competing priorities.

Employee performance evaluations are a systematic and uniform approach used for employee development and communication of performance expectations to employees. Failure to conduct timely employee performance evaluations delays formal feedback on an employee's performance, delays communication of areas for improvement, and delays communication of the next period's performance goals and objectives. In addition, employee performance evaluations should serve as a foundation for salary adjustments, promotions, demotions, discharges, layoff, recall, or reinstatement decisions. (Finding Code No. 2021-016, 2019-010, 2017-010)

RECOMMENDATION

We recommend Commission provide each of its employees a timely evaluation of their performance.

2021-016. **FINDING** (Inadequate Control over Performance Evaluations)

COMMISSION RESPONSE

The Commission agrees with the finding. In addition to reminding supervisors of this obligation at regular manager meetings, the Commission is working to implement an e-mail database that will generate regular alerts to each supervisor in advance of a performance evaluation's due date. The Commission's information technology team formerly maintained a system of this nature, but following the attrition of staff, the database was not maintained. Further, the Commission has a dedicated staff member to ensure these evaluations are completed in a timely manner. Despite the implementation of these controls to mitigate delinquency, Commission managers continue to submit evaluations after the recommended date. The Commission's management team will continue to request performance evaluations be submitted in a timely manner and investigate other means to ensure staff adheres to its policies.

2021-017. **FINDING** (Noncompliance with Report and Publication Requirements)

The Illinois Workers' Compensation Commission (Commission) did not comply with various requirements governing its reports and publications.

During testing, we noted the following:

- The Commission did not prepare and deliver a report of its acts and doings and submit the report to the Governor at least 10 days prior to the General Assembly convening in the following calendar year covering Fiscal Year 2019 and Fiscal Year 2020.

  The State Finance Act (30 ILCS 105/3(a)) requires the Commission to deliver to the Governor an annual report of its acts and doings for the preceding fiscal year at least ten days before the start of each regular session of the General Assembly.

- The Commission did not provide any reports produced by the Commission to the State Government Report Distribution Center (Center) at the Illinois State Library (Library) during the examination period.

  The State Library Act (Act) (15 ILCS 320/7(t)) requires the Commission submit copies of its reports required to be filed with the General Assembly to the Center at the Library on the same day the report is filed with the General Assembly.

- The Commission did not provide and deposit with the Library sufficient copies of publications issued by the Commission, including electronic publications, during the examination period.

  The Act (15 ILCS 320/21(a)) requires the Commission to provide and deposit with the Library sufficient copies of all publications issued by the Commission for the Library's collection and for exchange purposes.

- The Commission did not identify the person(s) responsible for the distribution of publications to the Government Documents Section of the Library.

  The Illinois Administrative Code (23 Ill. Admin. Code 3020.150) requires written submission of the identity of the person(s) responsible for the distribution of the Commission's publications annually on July 15 and within two weeks after any change in the annual filing.

Commission officials indicated they were not aware of these requirements.

2021-017. **FINDING** (Noncompliance with Report and Publication Requirements)

Failure to prepare and submit copies of the Commission's reports and publications to the Library hinders the Library's mission to collect and exchange information and represents noncompliance with the Act. Further, failure to prepare and submit a report of its acts and doings to the Governor in accordance with the Act could result in the Governor's Office having an insufficient understanding of the Commission's activities during the preceding fiscal year. Finally, failure to notify the Library of the person(s) responsible for submitting publications to the Library from the Commission resulted in the Library not knowing who they needed to interact with regarding the Commission's publications during the year. (Finding Code No. 2021-017)

RECOMMENDATION

We recommend the Commission implement controls to ensure:

1) an annual report of the Commission's acts and doings during the prior fiscal year is prepared and submitted to the Governor 10 days before the start of the General Assembly's next session;
2) reports to the General Assembly are submitted to the Center at the Library;
3) publications are deposited with the Library; and,
4) the person(s) responsible for the distribution of the Commission's publications to the Government Documents Section of the Library is disclosed in strict adherence with the applicable provisions of the Illinois Administrative Code.

COMMISSION RESPONSE

The Commission agrees with the finding. Additionally, the Commission electronically submitted a complete set of reports (covering the past 100 years) during Fiscal Year 2022 to the Library.

2021-018. **FINDING** (Inadequate Controls over the Annual Agency Workforce Reporting)

The Illinois Workers' Compensation Commission (Commission) lacked adequate internal control over its annual Agency Workforce Report (Report).

During testing, we noted the following:

Fiscal Year 2019 Report (filed in Fiscal Year 2020)

- The Report had unreconciled discrepancies between the reported number of workers broken out by 8 categories defined by race and gender.

- The Report was submitted to the Governor and the Secretary of State 5 and 7 days late, respectively.

Fiscal Year 2020 Report (filed in Fiscal Year 2021)

- The Report had unreconciled discrepancies between the reported number of workers broken out by 9 categories defined by race and gender.

- The Report overstated by one person the number of minorities working as professionals.

  The State Employment Records Act (5 ILCS 410/20) requires the Commission to collect, classify, maintain, and file the annual Report covering the preceding fiscal year with the Governor and the Secretary of State with certain employment statistics for women, disabled persons, and minorities by January 1.

Fiscal Year 2017 and Fiscal Year 2018 Reports

- During our examination of the two years ended June 30, 2019, we noted problems with the Commission's Report for both Fiscal Year 2017 and Fiscal Year 2018 as described in Finding 2019-009. As such, we recommended the Commission file a corrected Report for these years with the Governor and Secretary of State within 30 days after the Commission's *Compliance Examination* report was released by the Auditor General. During this examination, we noted the Commission did not file a corrected Report with the Governor and Secretary of State for either fiscal year.

  The Illinois State Auditing Act (30 ILCS 5/3-2.2(b)) requires the Commission, if the Auditor General determines it has failed to comply with the requirements of the State Employment Records Act, to prepare and file with the Governor and the Secretary of State a corrected Report within 30 days after the Commission's *Compliance Examination* report was released by the Auditor General.

2021-018. **FINDING** (Inadequate Controls over the Annual Agency Workforce Reporting)

Further, this finding was first noted during the Commission's compliance examination for the period ended June 30, 2017, over four years ago. As such, Commission management has been unsuccessful in implementing a corrective action plan to remedy these problems.

The Commission's management team is responsible for implementing timely corrective action on all of the findings identified during a State compliance examination.

Commission officials indicated these problems were due to insufficient resources devoted to workforce reporting.

Filing an inaccurate and untimely Report inhibits the ability of the State to accumulate meaningful information to achieve a more diversified workforce, hinders governmental oversight, and resulted in noncompliance with the State Employment Records Act. In addition, failure to file a corrected Report for both Fiscal Year 2017 and Fiscal Year 2018 resulted in the Governor and Secretary of State having inaccurate information about the Commission's workforce and resulted in noncompliance with the Illinois State Auditing Act. (Finding Code No. 2021-018, 2019-009, 2017-009)

RECOMMENDATION

We recommend Commission implement internal controls to ensure its annual Report is accurate and filed timely with the Governor and Secretary of State. Also, the Commission should file a corrected Report for Fiscal Year 2017, Fiscal Year 2018, Fiscal Year 2019, and Fiscal Year 2020 with the Governor and Secretary of State within 30 days after the release of this compliance report as required by the Illinois State Auditing Act (30 ILCS 5/3-2.2(b)).

COMMISSION RESPONSE

The Commission agrees with the finding. The Commission intends to dedicate a member of the management team to check the submission and ensure it is sent to the Secretary of State and the Governor. This individual will also be tasked with ensuring the data submitted accurately depicts the snapshot of the Commission during the fiscal year being reported.

2021-019. **FINDING** (Inadequate Controls over Monthly Reconciliations)

The Illinois Workers' Compensation Commission (Commission) failed to complete its monthly reconciliations to the Comptroller's records by identifying and reconciling all discrepancies.

During testing of 17 of the 168 (10%) monthly reconciliations between the Commission's records and the Comptroller's records for the Second Injury Fund (Fund 431), the Illinois Workers' Compensation Commission Operations Fund (Fund 534), and Rate Adjustment Fund (Fund 685) during the examination period, we noted the following:

Monthly Appropriation Status Report (SB01)

- The Commission's reconciliation of Fund 431 and Fund 685 was incorrect, with variances of $1,538 and $25,173, respectively, during Fiscal Year 2020.

- The Fiscal Year 2021 reconciliation of Fund 431 had an unreconciled difference of $1,408.

Monthly Revenue Status Report (SB04)

- The balance within the Commission's cash receipts journal did not agree with the reported balance of the Commission's cash receipts journal on its reconciliations of Fund 431, Fund 534, and Fund 685 during Fiscal Year 2020, with variances of $6,923, $8,303, and $23,992, respectively. Similarly, this occurred during Fiscal Year 2021 for Fund 685, with a total variance of $8,781.

- One reported reconciling item, totaling $6,900, in Fiscal Year 2020 did not trace to the Commission's underlying records. Similarly, a reconciling transfer of $2 million did not agree with the Commission's support in Fiscal Year 2021.

- The Commission's reconciliations of Fund 431, Fund 534, and Fund 685 during Fiscal Year 2021 were incomplete, with unreconciled amounts of $2,210, $2,160, and $25,796, respectively.

- Fiscal Year 2020's ending balance of in-transit receipts did not agree with Fiscal Year 2021's beginning balance of in-transit receipts on the Commission's Fund 431, Fund 534, and Fund 685 reconciliations, with differences of $2,123, $6,900, and $24,674, respectively.

2021-019. **FINDING** (Inadequate Controls over Monthly Reconciliations)

Monthly Cash Report (SB05)

- The balance within the Commission's cash receipts journal did not agree with the reported balance of the Commission's cash receipts journal on its reconciliations of Fund 534 and Fund 685 during Fiscal Year 2020, with variances of $2,058 and $48,924, respectively, during Fiscal Year 2020. Similarly, this occurred during Fiscal Year 2021 with Fund 431, Fund 534, and Fund 685, with differences of $3,186, $57,106, and $14,998, respectively.

- The Commission's reconciliation of Fund 534 was not completed for Fiscal Year 2020, with an unreconciled variance of $8,640. In addition, the Commission's Fiscal Year 2021 reconciliations of Fund 534 and Fund 685 had unreconciled variances of $7,943 and $4,138, respectively.

- The reported expenditures taken from the SB01 report was incorrect for Fund 431 and Fund 685, with a difference of $1,436 and $7,452, respectively, during Fiscal Year 2020. Similarly, this error occurred in Fund 431, Fund 534, and Fund 685 with Fiscal Year 2021 variances of $1,775, $2,896, and $14,904, respectively.

- The Commission did not consider Fiscal Year 2019's Lapse Period activity during its Fiscal Year 2020 reconciliations of Fund 431 and Fund 685, totaling $1,537 and $4,484, respectively. Additionally, the Commission did not consider Fiscal Year 2020's Lapse Period activity during its Fiscal Year 2021 reconciliations of Fund 685, totaling $4,539.

The Statewide Accounting Management System (SAMS) (Procedure 07.30.20) notes "the effectiveness of any accounting and financial information system is very much dependent on the accuracy of data submitted and the confidence of its users that the system handled that data properly. Agency reconciliation is the primary control that insures these requirements are being satisfied." As such, SAMS Procedures 11.40.20, 25.40.20, and 09.40.30 establish processes for a monthly reconciliation of the SB01, SB04, and SB05 reports, respectively, within 60 days after month end.

Further, SAMS (Procedure 02.50.10) requires the Commission provide continuous and qualified supervision of its staff to achieve internal control objectives and specific policies and directives.

Commission officials indicated these issues were due to inefficiencies brought by working remotely during the COVID-19 pandemic.

2021-019. **FINDING** (Inadequate Controls over Monthly Reconciliations)

Failure to accurately prepare and review the reconciliations could result in errors or other irregularities not being detected and corrected, hinders accountability over State funds, and resulted in noncompliance with SAMS. (Finding Code No. 2021-019, 2019-007)

RECOMMENDATION

We recommend Commission prepare complete and accurate reconciliations of its internal records to the Comptroller's records within 60 days of the end of each month. Further, the Commission should have a qualified supervisor review each reconciliation to ensure it is complete and accurate.

COMMISSION RESPONSE

The Commission agrees with the finding. Personnel inefficiencies related to the COVID-19 pandemic contributed to this finding.

2021-020. **FINDING** (Inadequate Controls over Voucher Processing)

The Illinois Workers' Compensation Commission (Commission) did not have sufficient internal control over its voucher processing functions.

During testing of 185 non-payroll, non-awards and grants vouchers, we noted:

- The Commission approved 35 of 185 (19%) vouchers tested, totaling $366,368, for payment by the Commission between 1 and 85 days late.

  The Illinois Administrative Code (Code) (74 Ill. Admin. Code 900.70(b)) requires the Commission approve or deny, in whole or in part, a vendor's bill within 30 days of receiving the invoice.

- The Commission did not record the date when the related invoice for one of 185 (1%) vouchers tested, totaling $2,097, was received by the Commission. As a result, we were unable to determine the timeliness of the Commission's approval of the voucher for payment.

  The Code (74 Ill. Admin. Code) requires the Commission maintain either written or electronic records reflecting the date when a bill was received.

- For 2 of 185 (1%) vouchers tested, totaling $12,424, the Commission did not have any documentation of its procurement process.

  The State Records Act (5 ILCS 160/8) requires the Commission make and preserve adequate and proper documentation of the essential transactions of the Commission designed to furnish information to protect the legal and financial rights of the State and of persons directly affected by the Commission's activities.

- For 1 of 185 (1%) vouchers tested, totaling $2,918, the Commission did not remit interest due, totaling $29, to the vendor.

  The State Prompt Payment Act (30 ILCS 540/3-2) requires the Commission accrue interest on unpaid invoices more than 90 days after receipt and remit all accrued interest due to vendors if it amounts to $5 or more.

- Six of 40 (15%) travel vouchers tested, totaling $1,617, were not signed by the immediate supervisor of the traveler.

  The Commission's internal voucher processing procedures require the traveler's immediate supervisor sign the travel voucher.

2021-020. **FINDING** (Inadequate Controls over Voucher Processing)

- Four of 10 (40%) equipment vouchers, totaling $4,033, for the acquisition of a printer, fan, books, label writer, and video conferencing system, were not recorded on in the Commission's property listing. Further, the video conferencing system, with an acquisition cost of $2,445, was not reported to CMS on the Commission's annual report of all equipment items subject to theft and/or with an acquisition cost in excess of $1,000.

  The Code (44 Ill. Admin. Code 5010.240(e)) requires the Commission record an item's acquisition value in its property records. Further, the Code (44 Ill. Admin. Code 5010.460(c)) requires the Commission to provide an annual report to CMS of all equipment items subject to theft and/or with an acquisition cost in excess of $1,000.

In addition, during the examination period, we noted the Commission charged $1,416 and $285,514 in expenditures within the Rate Adjustment Fund and Self-Insurers Security Fund, respectively, against detail object codes for injured State employees, not injured workers generally.

The Statewide Accounting Management System (SAMS) (Procedure 11.10.50) requires the Commission apply the proper detail object code to report "expenditure information at a more refined level within a common object (object of expenditure)." SAMS (Procedure 11.50.30) notes detail object codes 4422 and 4423 are for workers' compensation benefits paid for provided medical services and prescription drugs and durable medical equipment, respectively, for State employees injured in connection with their State employment.

Finally, this finding was first noted during the Commission's compliance examination for the period ended June 30, 2013, over **eight years ago**. As such, Commission management has been unsuccessful in implementing a corrective action plan to remedy these problems.

The Commission's management team is responsible for implementing timely corrective action on all of the findings identified during a State compliance examination.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Commission to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance resources are:

1) utilized efficiently, effectively, and in compliance with applicable law;
2) funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation; and,
3) expenditures, resources, and funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

2021-020. **FINDING** (Inadequate Controls over Voucher Processing)

Commission officials indicated inefficiencies brought about by the COVID-19 pandemic and move of their Chicago office contributed to these problems.

Failure to establish and maintain adequate control over voucher processing increases the likelihood errors or other irregularities could occur and not be detected in a timely manner by employees in the normal course of performing their assigned duties, resulted in an underpayment to a vendor of interest due, unrecorded property transactions, and resulted in noncompliance with State laws, rules, and regulations. (Finding Code No. 2021-020, 2019-006, 2017-007, 2015-001, 2013-007)

RECOMMENDATION

We recommend the Commission implement internal controls to ensure:

1) its vouchers are timely reviewed and approved,
2) expenditures are coded with an appropriate detail object code;
3) the receipt date of all invoices is recorded;
4) procurement documents are retained;
5) equipment items are recorded on the Commission's property list; and,
6) interest due is paid to vendors.

COMMISSION RESPONSE

The Commission agrees with the finding. Personnel inefficiencies related to the COVID-19 pandemic contributed to this finding.

2021-021. **FINDING** (Failure to Seek a Judgment in Circuit Court)

The Illinois Workers' Compensation Commission has not sought a judgment in circuit court against self-insurers owing past due assessments.

During testing, we noted the following:

- The Commission has not sought a judgment in circuit court against a self-insurer who owed $228 dating back to Fiscal Year 2009.

- The Commission had one assessment during the examination period on October 11, 2019, which required self-insurers to calculate and remit their amount due no later than November 12, 2019. We noted 87 self-insurers owing $238,294 of the $1,235,914 (19%) assessment wrote a check to pay their balance due after the deadline on November 12, 2019. The last check which was written to pay this assessment was on March 10, 2021, 484 days after the deadline.

The Workers Compensation Act (820 ILCS 305/4a-7(a)) requires, if an assessment is not paid within 30 days after the private self-insurer receives notice, the Commission, at the direction of the Self-Insurers Security Board (Board), "shall proceed in circuit court for judgment against that private self-insurer which judgment shall include the amount of the assessment, the costs of suit, interest and reasonable attorneys' fees."

Further, the Illinois State Collection Act of 1986 (30 ILCS 210/3) states the public policy of this State is to aggressively pursue amounts owed to the State through all reasonable means.

Commission officials indicated this error was due to the Attorney General not pursuing small dollar claims.

Failure to seek judgment against noncompliant self-insurers delays the receipt of cash resources and resulted in foregone interest income available to the Self-Insurers Security Fund, hinders accountability for entities that have received the privilege to self-insure their workers' compensation liabilities as intended by the General Assembly, and represents noncompliance with State law. (Finding Code No. 2021-021, 2019-013)

RECOMMENDATION

We recommend the Commission and the Board work with the Attorney General to seek a judgment in circuit court against those self-insurers with past due assessments, or seek a legislative remedy.

2021-021. **FINDING** (Failure to Seek a Judgment in Circuit Court)

COMMISSION RESPONSE

The Commission agrees with this finding. During the examination period, the Commission received past due amounts from four of the five noncompliant self-insurers. We have contacted the Attorney General regarding the remaining amount of $228 to seek a judgement in circuit court for collection.

2021-022. **FINDING** (Failure to Design and Implement Controls over Penalties and Fines)

The Illinois Workers' Compensation Commission (Commission) has neither designed nor implemented internal controls to enforce penalties imposed by Workers' Compensation Act (Act).

The Act (820 ILCS 305/7) established the Rate Adjustment Fund to make cost-of-living adjustment payments to injured workers with a final decision awarding permanent total disability or death benefits. To pay these benefits, the Act requires the Commission assess all self-insured employers and insurers to pay up to 1.25% of its workers' compensation payments, less hospital, surgical, and rehabilitation payments, for first six months and the second six months of the year. Similarly, the Act (820 ILCS 305/7 and 820 ILCS 305/8) established the Second Injury Fund to pay the differential between the complete loss of a second member (a hand, a foot, a leg, or an eye) and a permanent total disability for workers which had already suffered the loss of a member. To pay these benefits, the Act requires the Commission assess all self-insured employers and insurers to pay up to 0.125% of its workers' compensation payments, less hospital, surgical, and rehabilitation payments, for first six months and the second six months of the year. The Commission mails all registered self-insured employers and insurers notice of the preceding period's assessment in February and August, along with a form to calculate the amount due. Each self-insured employer and insurer must submit their full payment, along with the form, to the Commission no later than March 15 and September 15.

In the event the Commission, after notice and a hearing, finds an employer willfully and knowingly either (1) failed to pay the proper amounts due to either the Rate Adjustment Fund or the Second Injury Fund or (2) did not make their payment within the time period prescribed by law, the employer must pay an additional 20% of the amount due or $2,500, whichever is greater, as a penalty under the Act (820 ILCS 305/7). Further, the Act (820 ILCS 305/7) authorizes the Commission, for good cause shown, to waive the penalty.

During testing of the Commission's receipt codes, we noted the Commission did not have a receipt source code within the State's Chart of Accounts for these penalties collected by the Commission (see Finding 2021-003 for additional information). In following up on this matter with Commission officials, they indicated the Commission did not need a code for this type of receipt as the Commission never imposes this penalty.

In following up on this matter with the Commission's legal staff, they indicated the Act's penalty was designed as a deterrent and that the lack of penalties imposed was evidence of the success of the Commission's efforts to collect amounts due by making responsible parties aware of their obligations to pay their assessments. In response, we inquired if the Commission had policies and procedures for its staff to identify and refer potential cases where a penalty may be appropriate, to which the Commission's legal staff stated they did not believe any guidance outside of the statute was necessary.

2021-022. **FINDING** (Failure to Design and Implement Controls over Penalties and Fines)

In following up on whether responsible parties were timely paying their obligations due to the Commission, we were unable to review complete and accurate accounts receivable information for the Rate Adjustment Fund and the Second Injury Fund, which would include the age and amount of past due accounts receivable to validate management's assertion, due to the conditions noted in Finding 2021-004. However, our review of the Commission's cash receipts records indicates the following cash collections on very old receivables occurred during the examination period:

Original Assessemnt's Fiscal Year	Cash Collected During: Fiscal Year 2020	Fiscal Year 2021
2010	$ -	$ 998
2011	-	-
2012	-	-
2013	-	-
2014	-	-
2015	134	-
2016	-	2,166
2017	5,868	4,431
2018	62,298	4,680
2019	-	175,700
	$ 68,300	$ 187,975

The primary responsibility of State agencies is to administer the functions given to them by the General Assembly in accordance with State law as written. Further, *Standards for Internal Control in the Federal Government* (also known as the "Green Book") published by the United States Government Accountability Office notes an entity's management should implement a control environment by establishing structure, responsibilities, and authority to fulfill an entity's responsibilities and meet objectives set forth by applicable laws and regulations.

Failure to design and implement an internal control environment to identify and assess penalties in accordance with State law hinders the General Assembly's intent to penalize those parties that willfully and knowingly either delay or fail to pay their assessments in accordance with the Act, reduces a flow of cash to the Rate Adjustment Fund and the Second Injury Fund from collected penalties, and – due to the nature of how assessments are determined by the Commission for the Rate Adjustment Fund and the Second Injury Fund – increases the likelihood parties who timely remit all of their assessments due will experience additional, unnecessary assessments to meet the current obligations of the Rate Adjustment Fund and the Second Injury Fund. (Finding Code No. 2021-022)

2021-022. **FINDING** (Failure to Design and Implement Controls over Penalties and Fines)

RECOMMENDATION

We recommend the Commission implement and maintain a control environment to enforce penalties for those parties who willfully and knowingly either delay or fail to pay their assessments to the Rate Adjustment Fund and the Second Injury Fund in accordance with the Act.

COMMISSION RESPONSE

The Commission disagrees with this finding. The wording of the statute (820 ILCS 305/7) is "willfully and knowingly" failing to pay assessments. In choosing this language, the General Assembly deliberately created a very high bar to meet before penalties should or even could be assessed. Additionally, the Commission must make "a finding . . . after reasonable notice and hearing." The Commission would need compelling evidence (1) an employer was aware it needed to pay an assessment for the Rate Adjustment Fund and the Second Injury Fund, (2) the employer was aware of the "proper amounts" it needed to pay, and (3) the employer chose not to pay those amounts. Despite its aggressive management and supervision of the assessment process, the Commission has not encountered a situation where it had evidence an employer was aware of the assessment amount and that employer refused to pay.

ACCOUNTANT'S COMMENT

The Commission's poor internal controls over accounts receivable hinder its ability to (1) identify all self-insured employers and insurers, (2) determine if they owe assessments or have been responsive to the Commission's communications, and (3) collect assessments due. As such, it is difficult to see how the Commission exercised "aggressive management and supervision of the assessment process" and conclude knowledgeable employers are always paying their assessments when due. In addition, while we do not disagree "willfully and knowingly" is a high bar, the Commission still does not even have a process to determine if the cash receipts they collected on assessments from up to 11 years ago warranted the imposition of a penalty under the Act under this high bar, let alone a process to identify and potentially assess penalties for as of yet unpaid assessments.

As of now, the Commission will accept extremely tardy payments without questioning whether the party should receive a penalty, which does not encourage the timely collection of cash to fund benefits paid to injured employees from the Rate Adjustment Fund and the Second Injury Fund and may increase the rates paid by all employers to accommodate the Rate Adjustment Fund and the Second Injury Fund not receiving timely cash payments from tardy employers. Such a process neither protects the injured workers or responsible employers.

2021-023. **FINDING** (Inadequate Control over New Employee Training)

The Illinois Workers' Compensation Commission (Commission) did not ensure its new employees completed sexual harassment and discrimination training sessions required by the State Officials and Employees Ethics Act (Act).

During testing, we noted four of four (100%) tested employees did not complete sexual harassment and discrimination prevention training in accordance with the Act. Two of the employees completed their initial sexual harassment and discrimination prevention training 30 and 306 days late, while the other two employees never completed their initial sexual harassment and discrimination prevention training.

The Act (5 ILCS 430/5-10.5(a)) requires the Commission's new employees complete sexual harassment and discrimination prevention training within 30 days after beginning employment.

Commission officials indicated they were unaware its new employees needed to attend sexual harassment and discrimination prevention training within 30 days after beginning employment.

Failure to complete sexual harassment and discrimination prevention training within 30 days after beginning employment may result in the Commission's new employees not understanding their rights and responsibilities and represents noncompliance with the Act. (Finding Code No. 2021-023)

RECOMMENDATION

We recommend the Commission implement controls to ensure its new employees take sexual harassment and discrimination prevention training within 30 days of commencing employment at the Commission.

COMMISSION RESPONSE

The Commission agrees with the finding. With the implementation of the Statewide One Net training system and the hiring of a full-time Research and Education Manager, the Commission has full confidence this issue has been remedied. Additionally, the Commission's human resources team, in conjunction with the research and education team, have implemented systems to ensure new employees are entered into the One Net training system. These employees will then receive directions on how to complete this training on their first day of employment at the Commission.

A. **FINDING** (Inadequate Controls over NSF Checks and Refunds)

During the compliance examination for the two years ended June 30, 2019, the Illinois Workers' Compensation Commission (Commission) did not exercise adequate internal control over non-sufficient funds (NSF) checks and refunds.

During the current compliance examination, our testing indicated the Commission's internal controls over NSF checks and refunds had improved since the last examination. (Finding Code No. 2019-003)

B. **FINDING** (Commission Review Board Not Fully Functioning)

During the compliance examination for the two years ended June 30, 2019, the Illinois Workers' Compensation Commission (Commission) did not ensure the Commission Review Board (Board) received all notices of complaints against commissioners or met quarterly.

During the current compliance examination, our sample testing indicated notices of complaints against commissioners received by the Commission were provided to the Board and the Board met quarterly. (Finding Code No. 2019-012)