



STATE OF ILLINOIS
**OFFICE OF THE
 AUDITOR GENERAL**

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND

Financial Audit
For the Year Ended June 30, 2022

Release Date: March 16, 2023

FINDINGS THIS AUDIT: 2				AGING SCHEDULE OF REPEATED FINDINGS			
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	1	1	2020	22-01	22-02	
Category 2:	0	1	1				
Category 3:	0	0	0				
TOTAL	0	2	2				
FINDINGS LAST AUDIT: 2							

INTRODUCTION

This digest covers the financial audit of the Illinois Workers' Compensation Commission (Commission) - Self-Insurers Security Fund as of and for the year ended June 30, 2022, and the findings arising from the financial audit reported pursuant to Government Auditing Standards.

SYNOPSIS

- **(22-01)** The Commission did not ensure all events and transactions impacting the Self-Insurers Security Fund were appropriately recorded in its internal accounting records and presented fairly in its financial statements.

EMPHASIS OF MATTER

As discussed in Note 16 to the financial statements, the Self-Insurers Security Fund has a total net position (deficit) of (\$5,467,321) as of June 30, 2022. This deficit, which is presented on an accrual basis, is the excess of total liabilities and deferred inflows of resources over total assets and deferred outflows of resources. Management of the Commission stated that, subject to approval by the Self-Insurers Advisory Board established within the Commission, future assessments will be used to meet Fund's obligations in the future (Independent Auditor's Report on page 6 and Note 16 on page 47).

Category 1:	Findings that are material weaknesses in internal control and/or a qualification on compliance with State laws and regulations (material noncompliance).
Category 2:	Findings that are significant deficiencies in internal control and noncompliance with State laws and regulations.
Category 3:	Findings that have no internal control issues but are in noncompliance with State laws and regulations.

ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2022

STATEMENT OF NET POSITION (DEFICIT)	2022	2021
Assets and Deferred Outflows of Resources		
Restricted Cash Equity in the State Treasury.....	\$ 18,616,464	\$ 16,159,149
Restricted Cash and Cash on Hand.....	84,685	1,265
Restricted Assessments Receivable.....	38,604	-
Restricted Accrued Interest Receivable.....	17,009	3,852
Restricted Excess Insurance Receivable.....	118,436	118,280
Securities Lending Collateral Equity with the State Treasurer	2,931,239	5,598,874
Prepaid Benefits with the Third-Party Administrator.....	74,218	247,903
Due from Other Funds.....	-	2,020,810
Deferred Outflow of Resources - Pension and OPEB.....	1,385,075	1,813,013
Total Assets and Deferred Outflows of Resources.....	<u>\$ 23,265,730</u>	<u>\$ 25,963,146</u>
Liabilities and Deferred Inflows of Resources		
Accounts Payable and Accrued Liabilities.....	\$ 42,601	\$ 18,572
Compensated Absences.....	39,712	34,894
Obligations Under Securities Lending of the State Treasurer	2,931,239	5,598,874
Security Deposits.....	680,185	677,457
Unearned Security Deposits.....	17,396,505	17,527,499
Unpaid Claims.....	4,433,943	4,578,019
Net Pension Liability.....	1,390,230	1,987,515
Net OPEB Liability.....	827,356	1,255,165
Due to Other Funds.....	-	17,237
Deferred Inflow of Resources - Pension and OPEB.....	991,280	219,505
Total Liabilities and Deferred Inflows of Resources.....	<u>\$ 28,733,051</u>	<u>\$ 31,914,737</u>
Net Position (Deficit)		
Total Net Position (Deficit).....	<u>\$ (5,467,321)</u>	<u>\$ (5,951,591)</u>

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (DEFICIT)	2022	2021
Operating Revenues		
Total Operating Revenues.....	\$ 1,228,061	\$ 1,031
Operating Expenses		
Total Operating Expenses.....	746,485	177,321
Nonoperating Revenues		
Total Nonoperating Revenues.....	2,694	2,329
Change in Net Position (Deficit).....	<u>484,270</u>	<u>(173,961)</u>
Net Position (Deficit), Beginning of Year.....	<u>(5,951,591)</u>	<u>(5,777,630)</u>
Net Position (Deficit), End of the Year.....	<u>\$ (5,467,321)</u>	<u>\$ (5,951,591)</u>

COMMISSION CHAIR
During Examination Period: Mr. Michael Brennan
Currently: Mr. Michael Brennan

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**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.

Draft financial statements had several errors and omissions

During initial testing, we noted the following:

Inaccurate supporting schedules

Erroneous charges

- 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 were not accurate. Furthermore, the claims paid in excess of one insolvent self-insurer's security were erroneously charged by the Commission to the unearned security deposit account instead of the Fund 940's account. The net effect of these errors were understatements of total unpaid claims by \$66,047, total unearned security deposits by \$93,775, benefit claims expense by \$161,485 and interest income by \$1,728, and overstatement of total security deposit by \$65.

Unrecorded accrual

- The Commission did not record the accrual for an expense incurred during the Fiscal Year, totaling \$14,924.

Improper reversal entry

- The Commission made an erroneous entry to record the reversal of deposit in transit, thereby, overstating Cash and Cash Equivalent account and understating Excess Insurance Receivable by \$1,165.

Missing miscellaneous accounts receivable

- The Commission did not include all of Fund 940's miscellaneous accounts receivable, totaling \$1,284, in recording the beginning balances entry.

Improper classification of cash activity

- In addition to the errors noted above, the Commission did not properly classify the cash activities in the financial statement of cash flows. The net effect of these errors to the ending balance was \$1,164.

We proposed, and the Commission posted, adjusting entries to correct these errors in Fund 940's final financial statements. (Finding 1, pages 52-53)

Auditor's Recommendation

We recommended 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, we recommended the Commission 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.

Commission officials agree

Commission officials agreed with our recommendation.

OTHER FINDING

The remaining finding pertains to inaccurate census data. We will review the Commission's progress towards the implementation of our recommendation in our next financial audit.

AUDITOR'S OPINION

The auditors stated the financial statements of the Self-Insurers Security Fund as of and for the year ended June 30, 2022, are fairly stated in all material respects.

This financial audit was conducted by Roth & Co., LLP.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:JGR