State Of Illinois

WORKERS' COMPENSATION COMMISSION

FINANCIAL AUDIT AND COMPLIANCE

EXAMINATION

For the Two Years Ended June 30, 2005

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

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2005

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AGENCY OFFICIALS

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION

Chairman	Mr. Dennis R. Ruth
Fiscal Officer	Mr. Charles T. Kusar
Legal Counsel	Ms. Kathryn Kelley

Agency offices are located at:

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ROD R. BLAGOJEVICH
GOVERNOR

DENNIS R. RUTH
CHAIRMAN

STATE COMPLIANCE EXAMINATION

MANAGEMENT ASSERTION LETTER

September 29, 2005

Martin & Shadid CPAs, P.C.
456 Fulton Suite 126
Peoria IL, 61602

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 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 assertions during the two-year period ended June 30, 2005. Based on this evaluation, we assert that during the years ended June 30, 2004 and June 30, 2005, the Commission has materially complied with the assertions 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. 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. The State revenues and receipts collected by the agency 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. The money or negotiable securities or similar assets handled by the agency on behalf of the State or held in trust by the agency have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

State of Illinois, Workers' Compensation Commission

Dennis Ruth, Chairman

Charles Kusar, Fiscal Officer

Kathryn Kelley, Legal Counsel

COMPLIANCE REPORT

SUMMARY

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

AUDITORS' REPORTS

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

Number of	This Report	Prior Report
Findings	9	10
Repeated findings	5	5
Prior recommendations implemented or not repeated	5	2

Details of findings are presented in a separately tabbed report section.

SCHEDULE OF FINDINGS

Item No.	Page	Description
		FINDINGS (STATE COMPLIANCE)
05-1	11	Efficiency Initiative Payments
05-2	13	Official Headquarters Report Deficiencies
05-3	16	Noncompliance with the Fiscal Control and Internal Auditing Act
05-4	18	Late Performance Evaluations
05-5	20	Inadequate Property Control Records
05-6	22	Inadequate Controls Over Printing
05-7	24	Inadequate Strategic Information Technology Plan

Item No.	Page	Description
05-8	26	Lack of System Development and Change Control Standards
05-9	28	Computer Security Administration Deficiencies
PRIOR FINDINGS NOT REPEATED (*GOVERNMENT AUDITING STANDARDS*)		
05-10	30	Inadequate Segregation of Duties
PRIOR FINDINGS NOT REPEATED (STATE COMPLIANCE)		
05-11	30	No Determination that Employer Contributions were in Compliance with the Statutes
05-12	31	Noncompliance with Workers' Compensation Act regarding Out-of-State Contractors Paying Illinois Insurance Premiums
05-13	31	Inadequate Controls Over Vouchers
05-14	31	Vouchers Lacking Required Approvals

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Agency personnel at an exit conference on December 21, 2005. Attending were Gary T. Shadid, President, and Jennifer Eller, manager, representing Martin & Shadid CPAs, P.C. Also attending were Kathleen Devitt, information systems audit manager, and Kevin Carhill, audit manager, representing the State of Illinois Office of the Auditor General. Also attending were Dennis Ruth, Chairman, and Carol Reckamp, Chief Fiscal Officer, representing the State of Illinois Workers' Compensation Commission. Responses to the recommendations were provided by Dennis Ruth in a letter dated January 11, 2006.

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INDEPENDENT ACCOUNTANTS' REPORT ON STATE COMPLIANCE, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois Workers' Compensation Commission's compliance with the 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 years ended June 30, 2004 and June 30, 2005. The management of the State of Illinois Workers' Compensation Commission is responsible for compliance with these requirements. Our responsibility is to express an opinion on the State of Illinois Workers' Compensation Commission's compliance based on our examination.

A. The State of Illinois Workers' Compensation 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 State of Illinois Workers' Compensation 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 State of Illinois Workers' Compensation 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. The State revenues and receipts collected by the State of Illinois Workers'

Compensation Commission are in accordance with applicable laws and regulations and the accounting and record keeping of such revenues and receipts is fair, accurate and in accordance with law.

E. Money or negotiable securities or similar assets handled by the State of Illinois Workers' Compensation Commission on behalf of the State or held in trust by the State of Illinois, Workers' Compensation Commission have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the State of Illinois Workers' Compensation Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the State of Illinois Workers' Compensation Commission's compliance with specified requirements.

In our opinion, the State of Illinois Workers' Compensation Commission complied, in all material respects, with the aforementioned requirements during the two years ended June 30, 2005. However, the results of our procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State findings as findings 05-1, 05-2, 05-3, 05-4, 05-5, and 05-6.

As required by the Audit Guide, immaterial findings relating to instances of noncompliance excluded from this report have been reported in a separate letter to your office.

Internal Control

The management of the State of Illinois, Workers' Compensation Commission is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations. In planning and performing our examination, we considered the State of Illinois, Workers' Compensation Commission's internal control over compliance with the aforementioned requirements in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with

the Audit Guide, issued by the Illinois Office of the Auditor General.

Our consideration of internal control over compliance with the aforementioned requirements would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to one or more of the aforementioned requirements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance that we consider to be material weaknesses. However, the results of our procedures disclosed other matters involving internal control which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State findings and questioned costs as findings 05-7, 05-8 and 05-9.

As required by the Audit Guide, immaterial findings relating to internal control deficiencies excluded from this report have been reported in a separate letter to your office.

Supplementary Information for State Compliance Purposes

Our examination was conducted for the purpose of forming an opinion on compliance with the requirements listed in the first paragraph of this report. The accompanying supplementary information as listed in the table of contents as Supplementary Information for State Compliance Purposes is presented for purposes of additional analysis. We have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the 2004 and the 2005 Supplementary Information for State Compliance Purposes, except for information on the Service Efforts and Accomplishments on which we did not perform any procedures. However, we do not express an opinion on the supplementary information.

We have not applied procedures to the 2003 Supplementary Information for State Compliance Purposes, and accordingly, we do not express an opinion thereon.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and agency management, and is not intended to be and should not be used by anyone other than these specified parties.

Martin & Shadid, CPAs, P.C.

September 29, 2005

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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*

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements listed in the table of contents of the State of Illinois Illinois Workers' Compensation Commission Self-Insurers' Security Fund, as of and for the year ended June 30, 2005, and have issued our report thereon dated September 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Illinois Workers' Compensation Commission's internal control over financial reporting of the Self-Insurers' Security Fund in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois Workers' Compensation Commission Self-Insurers' Security Fund's financial statements are free of material

misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and agency management and is not intended to be and should not be used by anyone other than these specified parties.

Martin & Shadid, CPAs, P.C.

September 29, 2005

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SCHEDULE OF FINDINGS
FOR THE TWO YEARS ENDED JUNE 30, 2005

CURRENT FINDINGS – State

05-1. FINDING: Efficiency Initiative Payments

The Illinois Workers Compensation Commission (Commission) made payments for efficiency initiative billings from improper line item appropriations.

Public Act 93-0025, in part, outlines a program for efficiency initiatives to reorganize, restructure and reengineer the business processes of the State. The State Finance Act details that the amount designated as savings from efficiency initiatives implemented by the Department of Central Management Services (CMS) shall be paid into the Efficiency Initiatives Revolving Fund. **"State agencies shall pay these amounts...from the line item appropriations where the cost savings are anticipated to occur."** (30 ILCS 105/6p-5)

The Commission received one billing in FY05 from CMS for savings from efficiency initiatives. The initiative and amount billed to the Commission for FY05 was:

INVOICE BILLING DATE	**INITIATIVE**	BILLED AMOUNT
1/19/05	Procurement Efficiency	$ 1,597.22
	Total:	$ 1,597.22

Commission staff reported they received no evidence of savings for the FY05 amounts billed nor had the Office experienced any savings for the amounts billed. However, documentation provided to auditors showed that CMS did provide procurement billing documentation, by detailed object code (printing and office supplies), for the FY05 billing.

Based on our review, we question whether the appropriate appropriations, as required by the State Finance Act, were used to pay for the anticipated savings. We found that the Commission made payments for these billings **not** from line item appropriations where the cost savings were anticipated to have occurred but from line items where Commission staff reported they had determined there were available funds. The Commission used a contractual services appropriation to pay the billing from Fund #534 – Commission Operations Fund.

Use of appropriations unrelated to the cost savings initiatives results in non-compliance with the State Finance Act. Furthermore, use of appropriations for purposes other than those authorized by the General Assembly effectively negates a fundamental control established in State government. Finally, use of funds unrelated to the savings initiative may result in an adverse effect on services the Commission provides. (Finding Code No. 05-1)

RECOMMENDATION

We recommend that the Commission only make payments for efficiency initiative billings from line item appropriations where savings would be anticipated to occur.

COMMISSION RESPONSE

The Commission believes that it made savings payments from those lines for which it expected savings resulting from the efficiency initiative to occur. In the future, the Commission will make savings payments from appropriations lines for which it anticipates obtaining savings. CMS will provide information to the Commission on the method by which savings estimates were derived.

05-2. FINDING: Official Headquarters Report Deficiencies

The Commission did not submit Official Headquarters Reports to the Legislative Audit Commission in accordance with statute. Additionally, the Commission did not follow State rules concerning Agency Head's headquarters designation.

- The Commission did not file Official Headquarters Reports with the Legislative Audit Commission as required by statute. The State Finance Act requires State agencies to file reports with the Legislative Audit Commission on a biennial basis. Those reports (called TA-2s) are to list all of an agency's "officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time." 30 ILCS 105/12-3. Commission reports due January 15, 2005, and July 15, 2005, were not filed as required.

- TA-2 reports that were filed with the Legislative Audit Commission reflected the Chairman's official headquarters as Collinsville. Since the TA-2 reports are designed to reflect only those officials and employees whose official headquarters are designated at a location other than where those persons are required to spend the largest part of their working time, this filing constitutes an acknowledgement by the Commission that, while the Chairman's official headquarters are designated as Collinsville, he does not spend the largest part of his or her working time there. Under the Governor's Travel Control Board rules, "[a]ll Agency Heads shall be headquartered at the location where official duties require the largest part of their working time. . ." unless an exception is requested in writing by the Agency Head and approved by the Governor's Travel Control Board. 80 Ill.Adm.Code 2800.650. The designation of official headquarters is important in determining whether and to what extent travel expenses will be reimbursed by the State.

- Due to the Commission's maintaining incomplete time sheets on the Chairman, the auditors encountered difficulties in making their own determination of where the largest part of his working time is spent. Because the Chairman's official headquarters was designated as Collinsville (his place of residence), the Commission paid all travel expenses incurred between Collinsville and any of the Commission's other four offices, including the main office in Chicago. During fiscal years 2004 and 2005, these travel expenses totaled $45,101. The Chairman was reimbursed for travel-related expenses such as mileage, lodging, and meals in the amount of $35,189. In addition, the Commission incurred airfare expenses in the amount of $9,912 to transport the Chairman from Collinsville to Chicago. The majority of this cost was for use of the State plane.

Commission management indicated they were unfamiliar with the above requirements.

Failure to file official headquarters reports with the Legislative Audit Commission is noncompliance with State law. Further, failure to obtain approval from the Governor's Travel Control Board for the Chairman's official headquarters to be designated as somewhere other than where he spends the largest part of his working time is non-compliance with State rules and could result in unnecessary travel expenses charged to the State. (Finding Code No. 05-2)

RECOMMENDATION

We recommend the Commission file official headquarters reports with the Legislative Audit Commission as required by law. Further, the Commission should either designate the Chairman's headquarters as the location where he spends the largest part of his working time or seek approval from the Governor's Travel Control Board for any alternate designation.

COMMISSION RESPONSE

The Commission partially concurs with this recommendation. The Commission acknowledges that the TA-2s were filed late. We are currently in compliance and have filed the January 15, 2006 Report with the Legislative Audit Commission.

However, we believe we have designated the Chairman's headquarters appropriately in Collinsville, where the Chairman spends the largest part of his working time, and no exemption is needed from the Governor's Travel Board.

We acknowledge that three of the Chairman's time sheets were missing, and the Chairman did not document all hours he worked on weekends, holidays, or scheduled vacations. All future time sheets will be submitted, and will reflect all the hours the Chairman worked each week.

The audit states the auditors were not able to determine where the Chairman spent the largest part of his working time. The auditors used time sheets generated under the State Officials and Employees Ethics Act to review the Chairman's time. These time sheets were not required until February 2004, which limited the time frame the auditors were able to examine. Additionally, the Chairman was able to document, through phone and computer records, that he worked more hours, than are reflected on the ethics time sheets. When all records were examined, the Commission determined the Chairman spent the majority of his time in the Collinsville Office, which he worked from before being promoted to Chairman. Moreover, the Commission does not believe the Chairman is required to spend the majority of his time in the Chicago office. The Chairman spends the majority of his time developing policy, developing and implementing legislation,

and ensuring legal compliance with state laws, which can be accomplished from any office.

Furthermore, Section 14 of the Workers' Compensation Act specifically provides for travel reimbursement to Commissioners and because Commissioners' as state officers are considered on duty 7 days a week Commission policy has always been to not file an exception with the Travel Control Board. We believe that our present interpretation of the travel regulation regarding headquarters designation for the agency director is appropriate.

Based on these three factors, the Commission does not believe the Chairman needs to file for an exemption under the Governor's Travel Board rules.

05-3. FINDING: Noncompliance with the Fiscal Control and Internal Auditing Act (FCIAA)

The Commission was not in compliance with the Fiscal Control and Internal Auditing Act (FCIAA)

In the previous engagement we noted the fiscal year 2002 FCIAA certification was submitted in November 2002, approximately seven months late, and no certification had been submitted for fiscal year 2003. In addition, the fiscal year 2002 certification was not based on a thorough internal control evaluation to determine whether the Commission's internal fiscal and administrative controls complied with the FCIAA.

In the current engagement, the following noncompliance was noted:

- The Commission did not file the FCIAA certification for fiscal years 2004 and 2005.

- No internal audits were performed, including no audit of the petty cash fund.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3003) requires that by May 1 of each year the chief executive officer prepare and transmit to the Auditor General a certification as to whether or not the system of internal fiscal and administrative controls comply with the requirements of FCIAA. In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/2003) requires the chief executive ensure the internal auditing program includes audits of all major systems of internal accounting and administrative control at least once every two years. The Commission is not under the jurisdiction of the Illinois Office of Internal Audits, therefore they are responsible for having their own internal auditor. Also, SAMS Procedure 09.10.40, page 12, requires the internal auditors audit the State agencies' petty cash funds on a regular basis.

Commission officials again cited the lack of an internal auditor contributed to them not meeting the FCIAA requirements.

Both an evaluation and certification of the Commission's internal controls and an internal auditing program are necessary to ensure assets are safeguarded, accounting data is reliable, operations are efficient and the Commission is in compliance with established policies, laws, regulations, and contracts. (Finding Code No. 05-3, 03-3, 01-4)

RECOMMENDATION

We recommend the Commission comply with the requirements of the Fiscal Control and Internal Auditing Act.

COMMISSION RESPONSE

The Commission concurs with this recommendation and will submit a request for additional headcount for an internal auditor position. In addition, the agency director will submit the certifications required under FCIAA.

05-4. FINDING: Late Performance Evaluations

Performance evaluations were not being performed annually.

Twenty-eight of the fifty personnel files examined (56%) did not contain current performance evaluations. The employees had no performance evaluations conducted during the engagement period. The most recent evaluations for these employees ranged from one to nine years.

The following table illustrates the exceptions noted:

Last Evaluation	Number	Positions
2003	20	Management, Court Reporters, Word and Data Processors, Staff Attorneys, and Office Administrators
2001	7	Accountants, Court Reporters, and Office Administrators
1996	1	Arbitrator

According to 80 Illinois Administrative Code 302.270(d), for a certified employee, each agency shall prepare such evaluation not less often than annually.

Commission management stated that performance evaluations were late, or not performed, because supervisory employees did not assign high priority to periodic performance reviews.

Performance evaluations are necessary in order to make employees aware of their supervisor's assessments of their performance. Consequently, in the absence of a formal evaluation, the employees would not have performance goals and objectives that are formally established with their supervisors. Performance evaluations should also serve as the foundation for salary adjustments, promotions, demotions, discharges, layoffs, recalls and retirement decisions. (Finding Code No. 05-4)

RECOMMENDATION

We recommend the Commission comply with the Illinois Administrative Code by establishing and following procedures to ensure performance evaluations are conducted on an annual basis for all employees.

COMMISSION RESPONSE

The Commission concurs with this recommendation. Performance evaluations should be completed in a timely manner. The Human Resources office will maintain

a list of missing performance evaluations, and will notify the relevant personnel and the Chairman of the late evaluations.

05-5. FINDING: Inadequate Property Control Records

Property and equipment were not adequately reported in the Commission's records. The Commission's property and equipment balance was $1,439,765 as of June 30, 2005.

Per review of the Commission's Common Systems Inventory Control, the following exceptions were noted:

- The Commission conducted a complete physical inventory, in conjunction with the update of their inventory records, in 2005. The previous physical inventory had been performed in June 2001.

  According to SAMS procedure 29.10.10 page 3, "Each State agency should conduct an inventory of its assets on an annual basis in order to support the existence and accuracy of amounts reported."

- Twenty-six equipment items purchased during fiscal years 2004 and 2005, totaling $74,661, were tested. None of these items could be located because updated property records did not exist. In addition, 14 of the 26 (54%) equipment purchases tested, totaling $34,967, could not be traced to inventory records because they were fiscal year 2005 purchases that were not added to the Commission property records.

  Also, 22 of 30 (73%) equipment items physically observed at the Commission's offices, could not be traced to the property control records. These equipment items had been retagged and the property control records did not include the new tag numbers. In addition, 20 of 23 (87%) equipment items, totaling $18,058.47, selected from the property control records could not be located and physically observed.

  In total, 46 items selected from the Commission's property control records could not be located. These items consisted of office furniture and computer equipment. These items had been retagged and relocated and the property control records had not been updated.

  According to the State Property Control Act (30 ILCS 605/6.02), each State agency must maintain a permanent record of all property under their jurisdiction and control. SAMS procedure 29.10.10 page 1, assigns to State agencies the responsibility of updating property records to accurately reflect State property balances. Records include date of acquisition, purpose, location, and tag number. The SAMS manual also states these records must be maintained at all times. According to CMS property management policies and procedures (44 Illinois Administrative Code

5010.240), agencies must use the proper location code for reporting the location of equipment.

Failure to conduct an annual inventory of property and equipment could result in inaccurate property records and impair the Commission's ability to safeguard assets.

Commission management stated the prior year examination indicated their property control records were in need of significant attention. Therefore, they began a Commission property record update and inventory in an attempt to incorporate the recommendations from the prior engagement. The Commission began a comprehensive update of its inventory records in January 2005. The Commission was still in the process of completing this update when the current examination procedures were performed. Therefore, the property control reports generated by the Common Systems Inventory Control (CSIC), were inaccurate. However, the Commission did retain unofficial records of changes made to inventory, in regards to tag numbers and location. State property tested could be traced to the unofficial record. (Finding Code No. 05-5, 03-7)

RECOMMENDATION

We recommend the Commission update their property control records and maintain them in accordance with statutory requirements.

COMMISSION RESPONSE

The Commission concurs with this recommendation. We will continue to maintain and upgrade our property system. We plan to purchase a bar scanner and software to expedite the physical inventory process.

05-6. FINDING: Inadequate Controls Over Printing

Items published by the Commission did not include the following information: "Printed by the authority of the State of Illinois", the date of each publication, the number of copies printed, and the printing order number as required by the Illinois Procurement Code.

The following six publications were examined for compliance with the Illinois Procurement Code:

- IWCC Handbook on Workers' Compensation & Occupational Diseases
- IWCC Handbook on Workers' Compensation & Occupational Diseases (Spanish version)
- FY'04 Annual Report
- Illinois Workers' Compensation Act
- Rules Governing Practice Before the Illinois Workers' Compensation Commission
- Employee Handbook

The following instances of noncompliance were noted:

- 2 of 6 (33%) publications examined did not include the phrase "Printed by the authority of the State of Illinois"

- 2 of 6 (33%) publications examined did not contain the date of publication

- 3 of 6 (50%) publications examined did not contain the number of copies printed

- 6 of 6 (100%) publications examined did not contain the printing order number

The Illinois Procurement Code (30 ILCS 500/20-105) requires all State Agencies, Boards and Commissions to include on all books, pamphlets, documents, and reports they publish the following information: "Printed by authority of the State of Illinois", the date of each publication, the number of copies printed, and the printing order number.

Commission personnel stated that persons responsible for preparing the publications were unaware of the Illinois Procurement Code requirements.

Omission on these publications of the language required by the Illinois Procurement Code is noncompliance with State law. (Finding Code No. 05-6)

RECOMMENDATION

We recommend the Commission comply with the IL Procurement Code by including the required language on all publications.

COMMISSION RESPONSE

The Commission concurs with this recommendation. We will inform all persons involved in preparing publications about the requisite language.

05-7. FINDING: Inadequate Strategic Information Technology Plan

The Commission did not have an information technology (IT) steering committee or an effective strategic planning process.

No strategic plan existed for the use of Information Technology to support the Commission's mission. While the Commission did create a strategic plan for fiscal years 2004 through 2007, it only discussed overall objectives. The plan did include IT- related objectives, however, no specific strategic proposals for the IT had been developed.

The Commission had not established an information technology steering committee. The Commission's senior management met on a regular basis to discuss key issues and resolve overall business, procedure and policy issues. However, these meetings did not address information technology issues and did not include IT or user management.

The Commission should ensure issues and opportunities for the use of IT are assessed and incorporated into a strategic plan. The planning process should be structured to accommodate changes within the Commission and changing technology. The strategic plan should be comprehensive, evaluate risks and alternatives, and analyze cost-benefit relationships of the alternatives. This strategic planning process should be translated into short- and long term plans.

Commission staff stated that prior to this audit the Commission believed it was making progress in complying with this finding by keeping minutes of the monthly senior manager meetings held to address its operational needs. The absence of an IT strategic plan is primarily due to the inconsistency of budget issues as well as newly created IT initiatives being constructed by the Governors Technology Office.

Without a strategic IS plan and steering committee, the Commission could fail to perform it mission to resolve disputes between injured workers and employers. The lack of a steering committee and strategic planning process could also contribute to deficiencies in the Commission's business process including a lack of strategic direction, inadequate polices and procedures, insufficient disaster contingency capabilities, computer security deficiencies, and ineffective communication of responsibility to staff. (Finding Code No. 05-7, 03-8, 01-1)

RECOMMENDATION

We recommend the Commission form an information technology steering committee. The committee should meet regularly, keep minutes of those meetings, and include representatives from senior management, user management, and IT management. The committee should prepare a strategic information technology plan for the entire Commission. The strategic plan should address business process, policies and procedures, computer security, and

responsibilities of the Commission staff. The plan should be reviewed periodically and updated at least annually to ensure it meets the needs of the Commission.

COMMISSION RESPONSE

The Commission concurs with this recommendation. We will continue to work towards being compliant with this recommendation.

05-8. FINDING: Lack of System Development and Change Control Standards

The Commission had not established a formal System Development Methodology or Change Control Procedures.

The Commission had thirteen computer applications that were critical for completing its mission. However, there was no formal methodology to assist in the planning, development, testing and implementation of computer applications.

The Commission also did not have formal change control procedures for documenting the identification of the problem, the request for a change, the approval of the change, or the movement of an authorized change into production for all applications.

During the review period, the Commission initiated and developed two computer applications to track transcripts and personnel. We tested these applications to determine whether the Commission followed its informal development/change control process. We found that the Commission did not follow system development and testing procedures. Specifically, we identified deficiencies in defining the project, documenting requirements, performing risk analyses, and testing. We also found problems with documenting, testing, approving, and implementing program changes.

Commission staff stated the IT department is very small and is responsible for supporting the needs of the entire Commission including remote locations. Historically the department has been called upon to provide support and development to various departments in rapid succession, which hampers the documentation process.

Prudent business practices dictate the Commission institute formal policies and procedures for new system developments and modifications of existing systems, along with formal change control procedures. Failure to adopt sound business practices regarding suitable structured systems development methodology could create ineffective, inefficient, and incompatible developments and modifications. (Finding Code No. 05-8, 03-10, 01-3)

RECOMMENDATION

We recommend the Commission develop and implement a formal systems development methodology to assist in planning, developing, testing, and implementing new system developments or modifications to existing systems. Also, formal change control policies and procedures for all change requests should be developed and implemented.

COMMISSION RESPONSE

The Commission concurs with this recommendation. We intend to make every effort to comply with this recommendation.

05-9. FINDING: Computer Security Administration Deficiencies

The Commission had not established adequate security policies to control the computer operations.

The Commission had not established adequate security control over its computer environment. The Commission relied on its mainframe and local area network (LAN) to meet its mission. The current computer policy was outdated and did not provide details with regards to computer operations at the Commission. We reviewed the Commission's computer policies and noted the following documentation either did not exist or was lacking specific detail:

- IT Personnel Responsibilities
- User Responsibilities
- Security Awareness Program
- Security Implementation
- Public Access Terminal Security
- Physical Security
- Hiring, Transferring, and Terminating Employees
- Proper Disposal of Data and Sensitive Information
- Media Storage and Backup

The computer environment must be maintained and monitored on a daily basis to verify that only approved activities are occurring. Proper policies and procedures, when implemented and monitored, help confirm that activities are completed with the desired intentions.

Commission staff stated that IT department has requested additional staff in order to provide broader support of the Commission's resources. The request is pending due to budgeting and hiring issues. The current staff shares a wide range of support roles and responsibilities and too often find themselves in the position of being reactive rather than proactive.

Prudent business practices dictate the Commission strengthen their security to protect their assets and resources against unauthorized access and misuse. The Commission uses information technologies to provide most of the business activities that occur at the Commission. Without proper policies and procedures the Commission may not be able to maintain an efficient and effective organization. Failure to develop comprehensive security policies and identify specific weakness could leave the Commission exposed to major disruption of services to the public. Identification of weaknesses can greatly assist management to mitigate risks associated with unauthorized access or modification of computer resources. (Finding Code No.05-9, 03-9)

RECOMMENDATION

We recommend the Commission establish comprehensive policies and procedures that outline general security provisions, appropriate use of computer resources, backup and care of data, and other appropriate policies to help ensure that effective controls exist. The policies and procedures should be communicated to all users, and monitored for compliance. In addition, all users should be required to sign a statement acknowledging they have read, understand, and agree to comply with these policies.

The Commission should strengthen security within its computing environment by establishing, implementing, monitoring, maintaining and enforcing an access control strategy relating to computer systems.

COMMISSION RESPONSE

The Commission concurs with this recommendation, and will comply.

PRIOR FINDINGS NOT REPEATED – Government Auditing Standards

05-10. Finding: Inadequate Segregation of Duties

We recommended the Commission strengthen their internal controls by ensuring conflicting duties are adequately segregated.

The Commission had inadequate segregation of duties in the following two areas:

- Property, Plant, and Equipment – The same employee was responsible for purchasing equipment, maintaining the inventory listing, maintaining the equipment tags, and receiving equipment.

- Self-Insurers' Security Fund – The same employee that maintained the cash receipts journal could also reconcile it.

Good internal control procedures require duties be segregated in order to safeguard assets and provide appropriate checks and balances. (Finding Code No. 03-1)

Status: Not Repeated

Current examination procedures did not disclose internal control weaknesses resulting from inadequate segregation of duties.

PRIOR FINDINGS NOT REPEATED – State Compliance

05-11. Finding: No Determination that Employer Contributions were in Compliance with the Statutes

We recommended the Commission continue to perform secondary procedures such as cross checks with the Department of Insurance to ensure that payments in accordance with statutory requirements are made to the Funds. We also recommended the Commission consider pursuing legislation to perform more direct verifications, such as field audits. (Finding Code No. 03-2, 01-2, 99-2, 97-3, 95-3, 93-3, 91-4, 89-6, 87-8)

Status: Implemented

The Commission pursued legislative changes that would grant them the authority to perform more direct procedures, such as field audits, to determine contributions were in compliance. However, the proposed legislative changes were not included in the recent reform of the Workers' Compensation Act. The Commission continued to perform secondary procedures to determine that employer contributions were in compliance.

05-12. Finding: Noncompliance with Workers' Compensation Act regarding Out-of-State Contractors Paying Illinois Insurance Premiums

We recommended the Commission pursue legislation that would enable them to comply with this subsection of the Workers' Compensation Act or pursue other statutory remedies.

The Commission was not collecting statutorily required payments from out-of-state insured employers. (Finding Code No. 03-4)

Status: Implemented

The Commission pursued legislative changes that would grant them the authority to inquire about out-of-state rate for comparison purposes to determine the amount out-of-state contractors should pay. However, the proposed legislative changes were not included in the recent reform of the Workers' Compensation Act. The Commission continues to perform secondary procedures to determine that out-of-state insured employees insurance premium contributions were in compliance.

05-13. Finding: Inadequate Controls Over Vouchers

We recommended the Commission implement the necessary controls to ensure vouchers are approved or denied within the time frame required by law and that all invoices be date-stamped when received.

The Commission did not always date-stamp invoices when they were received; therefore it was not possible to determine with certainty whether the vouchers were approved or denied within the 30-day time required by law. (Finding Code No. 03-5)

Status: Reported as Immaterial Finding No. IM05-8

Current examination procedures revealed the Commission date-stamped most invoices when they were received and approved or denied vouchers within the time frame required by law.

05-14. Finding: Vouchers Lacking Required Approvals

We recommended the Commission ensure all invoice-vouchers are signed and dated by the receiving officer.

The Commission vouchers were lacking the required approvals. The Commission invoice-vouchers were missing the signature and date of the receiving officer. (Finding Code No. 03-6)

Status: Reported as Immaterial Finding No. IM05-8

Current examination procedures revealed the Commission properly approved most invoice-vouchers.

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Workers' Compensation Commission Self-Insurers' Security Fund was performed by Martin & Shadid CPAs, P.C.

Based on their audit, the auditors expressed an unqualified opinion on the Self-Insurer's Security Fund's financial statements.

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INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Self-Insurers' Security Fund of the State of Illinois Workers' Compensation Commission, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the State of Illinois Workers' Compensation Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statements present only the Self-Insurers' Security Fund and do not purport to, and do not, present fairly the financial position of the State of Illinois Workers' Compensation Commission as of June 30, 2005, and its changes in financial position including cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Self-Insurers' Security Fund of the State of Illinois Workers' Compensation Commission, as of June 30, 2005, and the changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 29, 2005 on our consideration of the State of Illinois Workers' Compensation Commission's internal control over financial reporting of the Self-Insurers' Security Fund and on our tests of the State of Illinois Workers' Compensation Commission's compliance with certain provisions of laws, regulations, contracts and, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and

compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The State of Illinois Workers' Compensation Commission has not presented a management's discussion and analysis for the Self Insurers' Security Fund that accounting principles generally accepted in the United State of America has determined is necessary to supplement, although not required to be part of, the financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Self-Insurers' Security Fund of the State of Illinois Workers' Compensation Commission.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, and agency management, and is not intended to be and should not be used by anyone other than these specified parties.

Martin & Shahid, CPAs, P.C.

September 29, 2005

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SELF-INSURERS' SECURITY
NONSHARED - PROPRIETARY FUND
STATEMENTS OF NET ASSETS
June 30, 2005 and 2004

	2005	2004
ASSETS		
Current Assets:		
Cash in Bank	$ 47,059	$ 281
Cash in State Treasury	31,849,147	13,572,939
Petty Cash	100	100
Accrued Interest Receivable	79,415	10,287
Total Current Assets	31,975,721	13,583,607
Total Assets	$ 31,975,721	$ 13,583,607
LIABILITIES AND NET (DEFICIT) ASSETS		
Current Liabilities:		
Accounts Payable	$ 422,581	$ 179,562
Compensated Absences	27,991	39,970
Liabilities for Unpaid Claims	10,929,065	10,051,166
Total Current Liabilities	11,379,637	10,270,698
Total Liabilities	11,379,637	10,270,698
Restricted Net Assets (Deficit)	20,596,084	3,312,909
Total Liabilities and Net Assets (Deficit)	$ 31,975,721	$ 13,583,607

The accompanying notes are an integral part of the financial statements.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SELF-INSURERS' SECURITY
NONSHARED - PROPRIETARY FUND
STATEMENT OF REVENUE, EXPENSES
AND CHANGE IN NET ASSETS (DEFICIT)
For the Two Years Ended June 30, 2005 and 2004

	2005	2004
OPERATING REVENUES		
Escrow Fees and Surety Bonds	$ 23,960,624	$ 3,040,735
Total Operating Revenues	23,960,624	3,040,735
OPERATING EXPENSES		
Personal Services	203,058	177,213
Employee Retirement	23,517	19,954
Social Security Contribution	10,584	13,126
Group Insurance	30,601	25,191
Travel	2,760	3,341
Contractual Services	1,605	16,105
Telecommunications	656	678
Deposit Refunds	-	89
Benefit Payments	6,215,872	3,802,889
Total Operating Expenses	6,488,653	4,058,586
Operating Income (Loss)	17,471,971	(1,017,851)
NONOPERATING (EXPENSES) REVENUES		
Miscellaneous Income	68,970	-
Interest Income	620,133	161,594
Change in Liability for Unpaid Claims	(877,899)	(2,647,965)
Total Nonoperating Revenues (Expenses)	(188,796)	(2,486,371)
TRANSFERS OUT	-	-
Change in Net Assets (Deficit)	17,283,175	(3,504,222)
Restricted Net Assets (Deficit), Beginning of Year	3,312,909	6,817,131
Restricted Net Assets (Deficit), End of Year	$ 20,596,084	$ 3,312,909

The accompanying notes are an integral part of the financial statements.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SELF-INSURERS' SECURITY
NONSHARED - PROPRIETARY FUND
STATEMENTS OF CASH FLOWS
For the Two Years Ended June 30, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from Escrow Fees and Surety Bonds	$ 23,960,624	$ 3,040,735
Payments to Suppliers, Net	210,236	(74,466)
Payments to Employees and Other Personel Services	(251,977)	(204,476)
Deposit Refunds Paid	-	(88)
Claims Paid - Benefit Payments	(6,146,902)	(3,700,049)
Net Cash Provided by Operating Activities	17,771,981	(938,344)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and Dividends on Investments	551,005	165,096
Net Cash Provided by Investing Activities	551,005	165,096
Net Increase (Decrease) in Cash and Cash Equivalents	18,322,986	(773,248)
Cash and Cash Equivalents, Beginning of Year	13,573,320	14,346,568
Cash and Cash Equivalents, End of Year	$ 31,896,306	$ 13,573,320
Reconciliation of Operating (Loss) Income to Net Cash (Used in) Provided by Operating Activities:		
Operating Income (Loss)	$ 17,471,971	$ (1,017,851)
Adjustments to Reconcile Operating Income (Loss) to Net Cash (Used in) Provided by Operating Activities:		
Changes in Assets and Liabilities:		
Increase (Decrease) in Accounts Payable	311,989	110,494
Increase (Decrease) in Compensated Absences Payable	(11,979)	30,970
Increase (Decrease) in Vouchers Payable	-	(61,957)
Net Cash Provided by (Used in) Operating Activities	$ 17,771,981	$ (938,344)

The accompanying notes are an integral part of the financial statements.

(1) Description of Funds

The Illinois Workers' Compensation Commission Self-Insurers' Advisory Board (the "Board") administers the Self-Insurers' Security Nonshared Proprietary Fund described below. A non-shared fund is a fund in which a single State agency is responsible for administering substantially all financial transactions of the fund.

PROPRIETARY FUND

The Self-Insurers' Security Fund (940), the "Fund", was established by 820 ILCS 305/4a-5. The Fund provides compensation to employees of insolvent self-insured employers for any type of injury or occupational disease and all claims for related administrative fees, operating costs of the Board, attorney fees and other costs reasonably incurred by the Board. The Commission may upon direction of the Board from time to time assess each of the private self-insurers a pro rata share of the funding reasonably necessary to carry out its activities under this Section.

(2) Summary of Significant Accounting Policies

The financial statements of the individual nonshared proprietary funds administered by the Self-Insurers' Advisory Board have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

a. Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

i) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

ii) Fiscal dependency on the primary government.

Based upon the required criteria, the Self-Insurers' Security nonshared proprietary fund does not have any one component unit of any other entity. However, because the Self-Insurers' Security nonshared proprietary fund is not legally separate from the State of Illinois, it is included in the financial statements of the State as a proprietary fund. The State of Illinois, Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois 62704-1871.

The financial statements present only the Self-Insurer's Security nonshared proprietary fund administered by the State of Illinois Workers' Compensation Commission and do not purport to, and do not, present fairly the financial position and cash flows, where applicable, for the year ended in conformity with accounting principles generally accepted in the United States of America.

b. Basis of Presentation

In government, the basic accounting and reporting entity is a fund. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Statements of Net Assets; statements of revenue, expenses and changes in net (deficit) assets; and statements of cash flows have been presented for the Self-Insurers' Security nonshared proprietary fund administered by the Self Insurers' Advisory Board.

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the Self Insurer's Security Fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating expenses, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

c. *Basis of Accounting*

The Self-Insurers' Security nonshared proprietary fund is reported using the economic resources measurement focus and the accrual basis of accounting.

Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Self Insurers' Advisory Board gives (or receives) value without directly receiving (or giving) equal value in exchange are not applicable. On an accrual basis, revenues from escrow fees and surety bonds are recognized in the fiscal year in which the underlying exchange transaction occurs.

Private-sector standards of accounting and financial reporting issue prior to December 1, 1989, generally are followed in the Self-Insurers' Security nonshared proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The State also has the option of following susbsequent private-sector guidance for their business type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance for the Self-Insurers' Security nonshared proprietary funds administered by the Self-Insurers' Advisory Board.

d. *Cash and Cash Equivalents*

Cash and cash equivalents consist principally of deposits held in the State Treasury. Cash and cash equivalents also include cash on hand and cash in banks.

e. *Interfund Transactions*

The Self-Insurers' Security nonshared proprietary fund has the following type of interfund transactions with other funds of the State:

Operating transfers – flows of assets (cash) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported after nonoperating revenues and expenses.

f. Compensated Absences

The liability for compensated absences reported in the individual nonshared proprietary funds consists of unpaid, accumulated vacation and sick leave balances for Department Employees. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., social security and Medicare tax).

Legislation that became effective January 1, 1998 capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year, but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997 (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997 will be converted to service time for purposes of calculating employee pension benefits.

g. Net Assets

Equity is displayed in one component as follows:

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when needed.

h. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) Deposits

The State Treasurer is the custodian of the State's cash and cash equivalents for the Self Insurers' Security Fund maintained in the State Treasury. The Self-Insurers' Advisory Board independently manages cash and cash equivalents maintained outside the State Treasury.

Fund	Carrying Amount	Bank Balance	Description
Self Insurers' Security Fund	$ 47,059	$ 47,059	Insured (FDIC)

Deposits in the custody of the State Treasurer and cash on hand at June 30, 2005 was as follows:

Fund	Deposits in Custody of State Treasurer	Cash on Hand
Self Insurers' Security Fund	$ 31,849,147	$ 31,849,147

Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Self Insurers' Advisory Board does not own individual securities. Details on the nature of these investments is available within the State of Illinois, Comprehensive Annual Financial Report.

(4) Liability for unpaid claims

The liability for unpaid claims includes claims in all phases of processing and adjudication and are computed based on claims filed. Claims incurred but not reported were not considered significant.

(5) Post-employee Benefits

The State provides health, dental and life insurance benefits for certain retirees and their dependents. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts

currently in force. Life insurance benefits are limited to $5,000 per annuitant age 60 and older.

Costs incurred for health, dental, and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the year ended June 30, 2005. However, post-employment costs for the State as a whole for all State agencies/departments for dependent health, dental and life insurance for annuitants and their dependents are disclosed in the Illinois Comprehensive Annual Financial Report for the State. Cost information for retirees by individual fund or State agency is not available. Payments are made on a "pay-as-you-go" basis.

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

SUMMARY

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:

  Schedule of Appropriations, Expenditures and Lapsed Balances
  Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
  Fiscal Year 2004 Combined Schedule of Expenditures – General Revenue Fund and Workers' Compensation Commission Operations Fund
  Schedule of Efficiency Initiative Payments
  Comparative Schedule of Cash Receipts, Disbursements, and Fund Balance (Cash Basis) – Locally Held Funds
  Schedule of Changes in State Property
  Comparative Schedule of Cash Receipts and Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller
  Analysis of Significant Variations in Expenditures
  Analysis of Significant Variations in Receipts
  Analysis of Significant Lapse Period Spending
  Analysis of Significant Account Balances
  Rate Adjustment Fund – Schedule of Net Deficit

- Analysis of Operations:

  Agency Functions and Planning Program
  Average Number of Employees
  Emergency Purchases
  Illinois First Projects (not examined)
  Service Efforts and Accomplishments (not examined)

The auditors' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states the auditors have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General, except for information on the Illinois First Projects and Service Efforts and Accomplishments on which they did not perform any procedures. However, the auditors do not express an opinion on the supplementary information.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SCHEDULE OF APPROPRIATIONS,
EXPENDITURES AND LAPSED BALANCES
Appropriations for Fiscal Year 2005
Fourteen Months Ended August 31, 2005

PUBLIC ACT 93 - 0842	Appropriations (Net After Transfers)	Expenditures through 6/30/05	Lapsed Period Expenditures 7/01/05 - 8/31/05	Total Expenditures	Balances Lapsed
APPROPRIATED FUNDS					
Ilinois Workers' Compensation Commission Operations Fund - 534					
Personal Services	$ 9,813,650	$ 8,607,494	$ 421,082	$ 9,028,576	$ 785,074
Employee Retirements	1,874,900	1,486,884	71,121	1,558,005	316,895
Social Security Contributions	658,800	622,083	31,457	653,540	5,260
Contractual Services	649,750	573,677	47,870	621,547	28,203
Travel	198,000	162,233	28,829	191,062	6,938
Commodities	47,000	46,957	34	46,991	9
Printing	37,000	36,796	-	36,796	204
Equipment	58,000	56,900	-	56,900	1,100
Telecommunications	170,950	146,718	23,409	170,127	823
Peoria Office					
For rent, staffing and equipment to operate an office in Peoria	132,300	127,997	2,717	130,714	1,586
Printing and distribution of Workers Compensation handbooks of rights and obligations of employers.	119,800	107,539	11,187	118,726	1,074
Establishment and operation of a satellite office in the Metro East area	120,600	114,607	5,986	120,593	7
Group Insurance	2,160,000	1,791,006	80,374	1,871,380	288,620
Implementation and operation of an accident reporting system.	279,300	253,233	22,408	275,641	3,659
Total Illinois Workers' Compensation Commission Operations Fund - 534	16,320,050	14,134,124	746,474	14,880,598	1,439,452
TOTAL APPROPRIATED FUNDS	$ 16,320,050	$ 14,134,124	$ 746,474	$ 14,880,598	$ 1,439,452

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SCHEDULE OF APPROPRIATIONS,
EXPENDITURES AND LAPSED BALANCES
Appropriations for Fiscal Year 2005
Fourteen Months Ended August 31, 2005

NON-APPROPRIATED FUNDS

PUBLIC ACT 93 - 0842	Appropriations (Net After Transfers)	Expenditures through 6/30/05	Lapsed Period Expenditures 7/01/05 - 8/31/05	Total Expenditures	Balances Lapsed
Self-Insurers' Administration Fund - 274					
General and administrative		$ 539,631	$ 67,758	$ 607,389	
Total Self-Insurers' Administration Fund - 274		$ 539,631	$ 67,758	$ 607,389	
Second Injury Fund - 431					
Social assistance		$ 1,097,124	$ -	$ 1,097,124	
Total Second Injury Fund - 431		$ 1,097,124	$ -	$ 1,097,124	
Rate Adjustment Fund - 685					
Social assistance		$ 10,129,407	$ 56,591	$ 10,185,998	
Total Rate Adjustment Fund - 685		$ 10,129,407	$ 56,591	$ 10,185,998	
Self-Insurers' Security Fund - 940					
Social assistance		$ 6,009,082	$ 421,253	$ 6,430,335	
Total Self-Insurers' Security Fund - 940		$ 6,009,082	$ 421,253	$ 6,430,335	
TOTAL NON-APPROPRIATED FUNDS	$ -	$ 17,775,244	$ 545,602	$ 18,320,846	$ -
TOTAL ALL FUNDS - FISCAL YEAR 2005	$ 16,320,050	$ 31,909,368	$ 1,292,076	$ 33,201,444	$ 1,439,452

Note : The data contained in this schedule was taken from Commission records which have been reconciled to those of the State Comptroller.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SCHEDULE OF APPROPRIATIONS,
EXPENDITURES AND LAPSED BALANCES
Appropriations for Fiscal Year 2004
Fourteen Months Ended August 31, 2004

PUBLIC ACT 93 - 67	Appropriations (Net After Transfers)	Expenditures through 6/30/04	Lapsed Period Expenditures 7/01/04 - 8/31/04	Total Expenditures	Balances Lapsed
APPROPRIATED FUNDS					
General Revenue Fund - 001					
Personal Services	$ 2,879,200	$ 2,595,983	$ -	$ 2,595,983	$ 283,217
Employee Retirements	421,600	330,727	-	330,727	90,873
Social Security Contributions	210,900	187,245	-	187,245	23,655
Contractual Services	162,200	151,835	-	151,835	10,365
Travel	59,200	58,805	-	58,805	395
Commodities	12,100	12,052	-	12,052	48
Printing	12,600	9,702	-	9,702	2,898
Equipment	66,900	32,373	14,025	46,398	20,502
Telecommunications	36,400	35,295	-	35,295	1,105
Peoria Office					
For rent, staffing and equipment to operate an office in Peoria	28,300	21,852	-	21,852	6,448
Printing and distribution of Workers Compensation handbooks of rights and obligations of employers.	34,400	28,073	-	28,073	6,327
Establishment and operation of a satellite office in the Metro East area	26,800	17,725	-	17,725	9,075
Group Insurance					
Implementation and operation of an accident reporting system	72,000	70,294	-	70,294	1,706
Total General Revenue Fund - 001	4,022,600	3,551,961	14,025	3,565,986	456,614
Illinois Workers' Compensation Commission Operations Fund - 534					
Lump Sum and Other Purposes	9,723,200	8,189,041	992,695	9,181,736	541,464
Total Illinois Workers' Compensation Commission Operations Fund - 534	9,723,200	8,189,041	992,695	9,181,736	541,464
TOTAL APPROPRIATED FUNDS	$ 13,745,800	$ 11,741,002	$ 1,006,720	$ 12,747,722	$ 998,078

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SCHEDULE OF APPROPRIATIONS,
EXPENDITURES AND LAPSED BALANCES
Appropriations for Fiscal Year 2004
Fourteen Months Ended August 31, 2004

NON-APPROPRIATED FUNDS

PUBLIC ACT 93 - 67	Appropriations (Net After Transfers)	Expenditures through 6/30/04	Lapsed Period Expenditures 7/01/04 - 8/31/04	Total Expenditures	Balances Lapsed
Self-Insurers' Administration Fund - 274					
General and administrative		$ 320,455	$ 15,225	$ 335,680	
Total Self-Insurers' Administration Fund - 274		$ 320,455	$ 15,225	$ 335,680	
Second Injury Fund - 431					
Social assistance		$ 1,176,683	$ -	$ 1,176,683	
Total Second Injury Fund - 431		$ 1,176,683	$ -	$ 1,176,683	
Rate Adjustment Fund - 685					
Social assistance		$ 10,492,568	$ 56,076	$ 10,548,644	
Total Rate Adjustment Fund - 685		$ 10,492,568	$ 56,076	$ 10,548,644	
Self-Insurers' Security Fund - 940					
Social assistance		$ 3,848,005	$ 165,460	$ 4,013,465	
Total Self-Insurers' Security Fund - 940		$ 3,848,005	$ 165,460	$ 4,013,465	
TOTAL NON-APPROPRIATED FUNDS	$ -	$ 15,837,711	$ 236,761	$ 16,074,472	$ -
TOTAL ALL FUNDS - FISCAL YEAR 2004	$ 13,745,800	$ 27,578,713	$ 1,243,481	$ 28,822,194	$ 998,078

Note : The data contained in this schedule was taken from Commission records which have been reconciled to those of the State Comptroller.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,
EXPENDITURES AND LAPSED BALANCES

APPROPRIATED FUNDS

	Fiscal Year 2005 PA 93-0842	Fiscal Year 2004 PA 93-67	Fiscal Year 2003 PA 92-0538
General Revenue Fund - 001			
Appropriations (Net After Transfers)	$ -	$ 4,022,600	$ 10,733,600
Expenditures			
Personal Services	-	2,595,983	7,475,498
Employee Retirement	-	330,727	1,069,610
Social Security contributions	-	187,245	527,068
Contractual services	-	151,835	457,267
Travel	-	58,805	152,615
Commodities	-	12,052	32,007
Printing	-	9,702	27,018
Equipment	-	46,398	3,517
Telecommunications	-	35,295	93,280
Peoria Office	-	21,852	81,450
Workers' compensation handbooks	-	28,073	80,536
Metro East Area	-	17,725	75,421
Accident reporting system	-	70,294	190,439
Total Expenditures[1]	-	3,565,986	10,265,726
Lapsed Balances	$ -	$ 456,614	$ 467,874
Illinois Workers' Compensation Commission Operations Fund - 534			
Appropriations (Net After Transfers)	$ 16,320,050	$ 9,723,200	$ -
Expenditures			
Personal Services	9,028,576	-	-
Employee Retirement	1,558,005	-	-
Social Security contributions	653,540	-	-
Contractual services	621,547	-	-
Travel	191,062	-	-
Commodities	46,991	-	-
Printing	36,796	-	-
Equipment	56,900	-	-
Telecommunications	170,127	-	-
Peoria Office	130,714	-	-
Workers' compensation handbooks	118,726	-	-
Metro East Area	120,593	-	-
Group Insurance	1,871,380	-	-
Accident reporting system	275,641	-	-
Lump Sum and Other Purposes[2]	-	9,181,736	-
Total Expenditures	14,880,598	9,181,736	-
Lapsed Balances	1,439,452	541,464	-
Total Lapsed Balances	$ 1,439,452	$ 998,078	$ 467,874

[1] The Illinois Workers' Compensation Commission received all fiscal year 2005 appropriations from the Illinois Workers' Compensation Commission Operations Fund.

[2] Public Act 93-67 appropriated funds to the Illinois Workers' Compensation Commission Operations Fund for administrative expenses from the Lump Sum line item. See combined schedule on page 52.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,
EXPENDITURES AND LAPSED BALANCES

NON-APPROPRIATED FUNDS

	Fiscal Year 2005	2004	2003
Self-Insurers' Administration Fund - 274			
Expenditures			
General and Administrative	$ 607,389	$ 335,680	$ 352,729
Total Expenditures, Fund - 274	$ 607,389	$ 335,680	$ 352,729
Second Injury Fund - 431			
Expenditures			
Social assistance	$ 1,097,124	$ 1,176,683	$ 1,068,079
Total Expenditures, Fund - 431	$ 1,097,124	$ 1,176,683	$ 1,068,079
Rate Adjustment Fund - 685			
Expenditures			
Social assistance	$ 10,185,998	$ 10,548,644	$ 10,328,621
Total Expenditures, Fund - 685	$ 10,185,998	$ 10,548,644	$ 10,328,621
Self-Insurers' Security Fund - 940			
Expenditures			
Social assistance	$ 6,430,335	$ 4,013,465	$ 5,496,594
Total Expenditures, Fund - 940	$ 6,430,335	$ 4,013,465	$ 5,496,594
TOTAL APPROPRIATIONS ALL FUNDS	$ 16,320,050	$ 13,745,800	$ 10,733,600
TOTAL EXPENDITURES ALL FUNDS	$ 33,201,444	$ 28,822,194	$ 27,511,749
SALARIES PAID FROM THE COMPTROLLERS' EXECUTIVE SUMMARY APPROPRIATION:			
Chairman of the Workers' Compensation Commission	$ 106,370	$ 106,370	$ 106,370
Commissioners (Six Members)	563,912	578,808	605,433
	$ 670,282	$ 685,178	$ 711,803

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
FISCAL YEAR 2004 COMBINED SCHEDULE OF EXPENDITURES - GENERAL REVENUE FUND
AND WORKERS' COMPENSATION COMMISSION OPERATIONS FUND
For the Year Ended June 30, 2004

Fiscal Year 2004 General Revenue Fund (001) and Illinois Workers' Compensation Commission Operations Fund (534) expenditures were comprised of the following:

	Fiscal Year 2004		
	Operations Fund- 534	General Revenue Fund- 001	Total
Personal services	$ 5,397,432	$ 2,595,983	$ 7,993,415
Employee retirement	861,536	330,727	1,192,263
Social security contributions	380,160	187,245	567,405
Contractual services	554,817	151,835	706,652
Travel	118,445	58,805	177,250
Commodities	54,994	12,052	67,046
Printing	29,052	9,702	38,754
Equipment	300,199	46,398	346,597
Telecommunications	91,136	35,295	126,431
Peoria Office For rent, staffing, and equipment to operate Peoria Office	106,108	21,852	127,960
Printing and distribution of Workers' Compensation handbooks of rights and obligations of employers	84,424	28,073	112,497
Establishment and operation of a satellite office in the Metro East area	88,625	17,725	106,350
Group Insurance	947,505	-	947,505
Implementation and operation of an accident reporting system	167,303	70,294	237,597
Total Expenditures	$ 9,181,736	$ 3,565,986	$ 12,747,722

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SCHEDULE OF EFFICIENCY INITIATIVE PAYMENTS
For the Two Years Ended June 30, 2005

Procurement Efficiency Initiative		FY05	FY04
Illinois Workers' Compensation Commission Operations Fund-534			
Printing		$ 1,495	$ -
Office and Library Supplies		102	-
	Total	$ 1,597	$ -

Note: This schedule includes only those payments made pursuant to 30 ILCS 105/6p-5. Amounts were obtained from the Agency and reconciled to information from the Office of the Comptroller.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
COMPARATIVE SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE (CASH BASIS) - LOCALLY-HELD FUNDS
For the Years Ended June 30,

Transcript Deposit Fund - 1168	2005	2004	2003
Beginning cash	$ 26,012	$ 25,037	$ 22,440
Cash receipts			
Revenue and other sources	10,640	11,410	11,130
Transfers	-	-	-
Cash disbursements			
Expenditures	6,156	10,435	8,533
Other	-	-	-
Ending Cash	$ 30,496	$ 26,012	$ 25,037

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SCHEDULE OF CHANGES IN STATE PROPERTY
For the Two Years Ended June 30, 2005

	June 30, 2003	Purchases 2004	Transferred In	Transferred Out	June 30, 2004	Purchases 2005	Transferred In	Transferred Out	June 30, 2005
Office Furniture and Equipment	$ 480,745	$ 187,663	$ -	$ -	$ 668,408	$ 25,147	$ -	$ (52,663)	$ 640,892
EDP Equipment	955,608	157,453	-	-	1,113,061	33,610	-	(110,317)	1,036,354
Equipment not classified elsewhere	38,852	6,335	-	-	45,187	18,652	-	(4,599)	59,240
	$ 1,475,205	$ 351,451	$ -	$ -	$ 1,826,656	$ 77,409	$ -	$ (167,579)	$ 1,736,486

	2004	2005
Purchases - General Office	$ 24,613	$ 49,062
Purchases - EDP appropriations	21,784	7,838
Purchases - Peoria	127	-
Purchases - Metro-East	457	798
Purchases - IWCC Operations	304,470	-
Purchases - Accident Reporting	-	13,754
Purchases - Telecommunications	-	5,957
Total Purchases	$ 351,451	$ 77,409
Installment Purchases	-	-
	$ 351,451	$ 77,409

The Schedule of Changes in State Property has been reconciled to property reports submitted to the Office of the Comptroller.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
COMPARATIVE SCHEDULE OF CASH RECEIPTS AND RECONCILIATION SCHEDULE OF CASH RECEIPTS TO DEPOSITS REMITTED TO THE STATE COMPTROLLER
For the Years Ended June 30,

WORKER'S COMPENSATION BENEFIT TRUST FUND #124

	2005	2004	2003
Statutory assessments	$ 4,077	$ 2,321	$ 3,630
Receipts in transit:			
Beginning of year	-	-	-
End of year	-	-	-
Total Deposits Remitted to Comptroller	$ 4,077	$ 2,321	$ 3,630

SELF-INSURERS' ADMINISTRATION FUND #274

	2005	2004	2003
Statutory assessments	$ 382,500	$ 401,000	$ 353,500
Receipts in transit:			
Beginning of year	11,500	11,500	20,000
End of year	(7,500)	(11,500)	(11,500)
Total Deposits Remitted to Comptroller	$ 386,500	$ 401,000	$ 362,000

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
COMPARATIVE SCHEDULE OF CASH RECEIPTS AND RECONCILIATION SCHEDULE OF CASH RECEIPTS TO DEPOSITS REMITTED TO THE STATE COMPTROLLER
For the Years Ended June 30,

SECOND INJURY FUND #431

	2005	2004	2003
Statutory assessments	$ 1,221,064	$ 1,145,067	$ 1,028,513
Receipts in transit:			
Beginning of year	106	17	245
End of year	(977)	(106)	(17)
Total Deposits Remitted to Comptroller	$ 1,220,193	$ 1,144,978	$ 1,028,741

OPERATIONS FUND #534

	2005	2004	2003
Statutory assessments	$ 13,550,288	$ 42,510,511	$ 137,408
Receipts in transit:			
Beginning of year	30,698,067	833	13,750
End of year	(42,215,818)	(30,698,067)	(833)
Total Deposits Remitted to Comptroller	$ 2,032,537	$ 11,813,277	$ 150,325

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
COMPARATIVE SCHEDULE OF CASH RECEIPTS AND RECONCILIATION SCHEDULE OF CASH RECEIPTS TO DEPOSITS REMITTED TO THE STATE COMPTROLLER
For the Years Ended June 30,

RATE ADJUSTMENT FUND #685

	2005	2004	2003
Statutory assessments	$ 9,292,190	$ 8,844,234	$ 8,701,116
Warranty Voids	-	216	-
Receipts in transit:			
Beginning of year	848	204	1,556
End of year	(4,953)	(848)	(204)
Total Deposits Remitted to Comptroller	$ 9,288,085	$ 8,843,806	$ 8,702,468

SELF-INSURERS' SECURITY FUND #940

	2005	2004	2003
Bonds & Escrow fees	$ 23,960,624	$ 3,040,735	$ 13,363,842
Receipts in transit:			
Beginning of year	281	1,077,065	5,809
End of year	(47,059)	(281)	(1,077,065)
Total Deposits Remitted to Comptroller	$ 23,913,846	$ 4,117,519	$ 12,292,586

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For The Two Years Ended June 30, 2005

Fiscal Years 2005 and 2004

General Revenue Fund- 001 and Operations Fund- 534

In fiscal year 2004, the Illinois Workers' Compensation Commission received appropriations from the Illinois Workers' Compensation Commission Operations Fund (Operations Fund) in addition to the General Revenue Fund (001). In prior years, the Commission received appropriations solely from the General Revenue Fund. Consequently, there were significant variances in expenditures between fiscal years 2003, 2004 and 2005. The variations were attributable to the Commissions' funding source change, from the General Revenue Fund to the Operations Fund, on January 1, 2004.

In addition to the significant variances attributable to the Commissions' funding source change, the Self-Insurers' Security Fund (940) and the Self-Insurers' Administration Fund (274) also had significant variations in expenditures between fiscal years 2003, 2004, and 2005. These variances are described on the following pages.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For The Two Years Ended June 30, 2005

Fiscal Year 2005

A comparative schedule of significant variations in expenditures which differed from the previous year by at least 20% and $125,000 for the Self-Insurers' Security Fund 940 and at least 20% and $11,000 for the Self-Insurers' Administration Fund 274 for the fiscal year ended June 30, 2005 and June 30, 2004, are shown below:

	FISCAL YEAR ENDED JUNE 30		INCREASE (DECREASE)	
	2005	2004	AMOUNT	%
Self-Insurers' Administration Fund – 274				
Social Assistance	$ 607,389	$ 335,680	$ 271,709	81%
Self-Insurers' Security Fund – 940				
Social Assistance	$6,430,335	$ 4,013,465	$ 2,416,870	60%

Workers' Compensation Commission management provided the following explanations for the significant variations in expenditures.

Self-Insurers' Administration Fund - 274

Social Assistance

Fiscal year 2005 expenditures increased because the office of Self Insurance Administration relocated to new space in the James R. Thompson Center and the Springfield office was renovated. New wiring, computer networking hardware, equipment, telephone and computers were purchased as part of this project. Also, additional staff were added to reallocate costs between the Self-Insurers' Security Fund and Administration Fund. Finally, a long term employee retired requiring a liquidation of accrued vacation and sick time.

Self-Insurers' Security Fund - 940

Social Assistance

The benefit payments increased in fiscal year 2005 due to additional bankruptcies by self-insurers' during the fiscal year.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For The Two Years Ended June 30, 2004

Fiscal Year 2004

A comparative schedule of significant variations in expenditures which differed from the previous year by at least 20 percent and $70,000 for the Self-Insurers' Security Fund for the fiscal year ended June 30, 2004 and June 30, 2003, is shown below:

	FISCAL YEAR ENDED JUNE 30		INCREASE (DECREASE)	
	2004	2003	AMOUNT	%
Self-Insurers' Security Fund – 940				
Social Assistance	$4,013,465	$ 5,496,594	$ (1,483,129)	(27%)

Workers' Compensation Commission management provided the following explanation for the significant variation in expenditures.

Self-Insurers' Security Fund-940

Social Assistance

The reduction in benefit payments resulted from fewer bankruptcies occurring in fiscal year 2004, and the resolution of a significant number of pending workers' compensation claims.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS
For The Two Years Ended June 30, 2005

Fiscal Year 2005

A comparative schedule of significant variations in receipts which differed from the previous year by at least $125,000 and by more than 20 percent for Self-Insurers' Security Fund and at least $158,000 and 20 percent for the Illinois Workers' Compensation Commission Operations Fund for the fiscal year ended June 30, 2005 and June 30, 2004, are shown below:

	FISCAL YEAR ENDED JUNE 30		INCREASE (DECREASE)	
	2005	2004	AMOUNT	%
Illinois Workers' Compensation Commission Operations Fund- 534				
Statutory Assessments	$13,550,288	$42,510,511	$(28,960,223)	(68%)
Self-Insurers' Security Fund-940				
Surety Bonds and Escrow Deposits Collected	$23,960,624	$ 3,040,735	$20,919,889	688%

Workers' Compensation Commission management provided the following explanations for the significant variations in receipts.

Illinois Workers' Compensation Commission Operations Fund-534

Statutory Assessments

There was a significant decrease in fiscal year 2005 receipts because statutory assessments were not collected for an entire fiscal year. On November 29, 2004, the Workers' Compensation Commission Operations Fund statutory assessments were suspended due to the Circuit Court of Cook County summary judgment that the assessments were unconstitutional.

Self-Insurers' Security Fund-940

Surety Bonds and Escrow Deposits Collected

The increase in Surety Bonds and Escrow deposits collected was a result of increased bankruptcy filings during fiscal year 2005. In years of increased bankruptcies, the Commission collects more surety bonds from bankrupt employers unwilling to administer their own claims.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS
For The Two Years Ended June 30, 2004

Fiscal Year 2004

A comparative schedule of significant variations in receipts which differed from the previous year by at least $70,000 and by more than 20 percent for Self-Insurers' Security Fund and at least $105,000 and by more than 20 percent for the Illinois Workers' Compensation Commission Operations Fund for the fiscal year ended June 30, 2004 and June 30, 2003, are shown below:

	FISCAL YEAR ENDED JUNE 30		INCREASE (DECREASE)	
	2004	2003	AMOUNT	%
Illinois Workers' Compensation Commission Operations Fund- 534				
Statutory Assessments	$42,510,511	$ 137,408	$ 42,373,103	30,837%
Self –Insurers' Security Fund-940				
Surety Bonds and Escrow Deposits Collected	$ 3,040,735	$13,363,842	$(10,323,107)	(77%)

Workers' Compensation Commission management provided the following explanations for the significant variations in receipts.

Illinois Workers' Compensation Commission Operations Fund-534

Statutory Assessments

The significant increase in receipts was due to the institution of a new statutory assessment that did not exist during fiscal year 2003. The Budget Implementation Act of 2004 (Public Act 93-0032) instituted a statutory assessment to fund the Operations Fund expressly for Illinois Workers' Compensation Commission operations.

Self-Insurers' Security Fund-940

Surety Bonds and Escrow Deposits Collected

The decrease in Surety Bonds and Escrow deposits collected was a result of fewer bankruptcy filings during fiscal year 2004 due to the willingness of bankrupt employers to continue to pay their workers' compensation claims.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING
For The Two Years Ended June 30, 2005

Fiscal Year 2005

The Illinois Workers' Compensation Commission did not incur significant lapse period expenditures for fiscal year 2005.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING
For The Two Years Ended June 30, 2004

Fiscal Year 2004

The Illinois Workers' Compensation Commission did not incur significant lapse period expenditures for fiscal year 2004.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
ANALYSIS OF SIGNIFICANT ACCOUNT BALANCES
For The Two Years Ended June 30, 2005

Fiscal Year 2005

A comparative schedule of significant variations in balance sheet accounts which differed from the previous year by at least $43,500 and by more than 20 percent for Fund 940 for the fiscal year ended June 30, 2005 and June 30, 2004, are shown below:

	FISCAL YEAR ENDED JUNE 30		INCREASE (DECREASE)	
	2005	2004	AMOUNT	%
Self-Insurers' Security Fund-940				
Cash In Bank	$ 47,059	$ 281	$ 46,778	16,647%
Cash in State Treasury	$ 31,849,147	$13,572,939	$18,276,208	135%
Accrued Interest Receivable	$ 79,415	$ 10,287	$ 69,128	672%
Accounts Payable	$ 422,581	$ 179,562	$ 243,019	135%

The Workers' Compensation Commission management provided the following explanations for the significant variations in balance sheet accounts.

Cash In Bank

The increase in Cash in Bank was due to the fact that two deposits were not submitted to the State treasury at the end of the fiscal year. The deposits were submitted shortly after June 30, 2005.

Cash in State Treasury

The Cash in State Treasury increased due to receipts of surety bonds collected from bankrupt self-insurers'.

Accrued Interest Receivable

The increase in Accrued Interest Receivable was due to the significant increase in cash in State treasury and cash in bank for the Self-Insurers' Security Fund. Therefore, more interest revenue was due to the Self-Insurers' Security Fund at the end of fiscal year 2005.

Accounts Payable

The increase in Accounts Payable was due to the fact that more benefits were paid, because of the significant increase in bankrupt self-insurers' during the fiscal year 2005 lapse period.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
RATE ADJUSTMENT FUND - SCHEDULE OF NET DEFICIT
For the Two Years Ended June 30, 2005

The Workers' Compensation Act (820 ILCS 305/7(f)) provides for the calculation of assessments for the Rate Adjustment Fund. Assessments have been at the maximum allowed for the 20 years ending June 30, 2005 and the fund balance at that date was a deficit of $15,924,302. The Act is very clear in specifying a total allowable fund balance and includes a provision for statutory moratorium on employer contributions should it be reached. However, the Rate Adjustment Fund has had to borrow money in order to meet its obligations. Presented below are the net deficits in the Rate Adjustment Fund for the fiscal years ended June 30, 2003, 2004 and 2005 respectively:

	2005	2004	2003
Beginning Fund Deficit	$ 14,828,479	$ 12,950,021	$ 10,301,516
Cash receipts			
Statutory Assessments	9,292,190	8,844,234	8,701,116
Interest Income	5,036	2,294	1,431
Prior Year Adjustment	-	798	-
Cash disbursements			
Social Assistance	10,185,998	10,548,644	10,328,621
Interest Expense	195,451	177,140	245,025
Transfer Out	11,600	-	-
Prior Year Adjustment	-	-	777,406
Ending Fund Deficit	$ 15,924,302	$ 14,828,479	$ 12,950,021

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
AGENCY FUNCTIONS AND PLANNING PROGRAM
For the Two Years Ended June 30, 2005 and 2004

FUNCTIONS

The Illinois Workers' Compensation Commission administers the Workers' Compensation Act (820 ILCS 305/) and the Workers' Occupational Diseases Act (820 ILCS 310/). The Self-Insurers' Advisory Board, established within the Commission, was created for the purpose of administrating the Self-Insurers' Security Fund.

The Commission consists of seven members appointed by the Governor with the consent of the Senate. Of the seven members, two are representatives of employers, two of employees covered under the Act and three are not identified with either employers or employees. The Chairman is designated by the Governor. No more than four of the Commissioners come from the same political party.

The Act authorizes the Commission to function as a quasi-judicial body with the equivalent of court status in that its records, when properly represented, are accepted by regularly constituted courts as legal evidence and its decisions are final unless an appeal is made to the Courts. The Commission has authority to formulate rules and orders for its procedures, administer oaths and issue subpoenas commanding witnesses to produce documents.

The applications for adjustment of claims are first heard by a Commission Arbitrator. Appeal of an Arbitrator's decision is heard by the members of the Commission. The Commission can affirm, reverse or modify the Arbitrator's decision. A case can then be appealed to the Circuit Court after which further appeal is taken to the Appellate Court. Appeals to the Supreme Court are at the option of the Supreme Court.

The Commission coordinates the various elements of the public service and information functions to structure a cohesive public service and information department. These elements are comprised of telephone responses to requests for information, distribution of forms and literature, *pro se* counseling and preparation of literature for distribution.

The Commission is to report in writing to the Governor on the thirtieth day of June, annually, the details and results of its administration of the Workers' Compensation Act.

PLANNING PROGRAM

The Commission has established formal written long and short-term goals and objectives, which are conducive to fulfilling its mandates.

AUDITORS' ASSESSMENT OF AGENCY PLANNING PROGRAM

We have reviewed the planning program, goals and objectives and they appear adequate to achieve the functions of the Commission.

CHAIRMAN AND LOCATIONS

Dennis R. Ruth, Chairman

Illinois Workers' Compensation Commission
100 W. Randolph Street, Suite 8-200
Chicago, Illinois 60601

Illinois Workers' Compensation Commission
701 S. Second Street
Springfield, Illinois 62704

Illinois Workers' Compensation Commission
202 N.E. Madison Avenue #201
Peoria, Illinois 61602

Illinois Workers' Compensation Commission
200 S. Wyman
Rockford, Illinois 61101

Illinois Workers' Compensation Commission
1014 Eastport Plaza Drive
Collinsville, Illinois 62234

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
AVERAGE NUMBER OF EMPLOYEES
For the Years Ended June 30,

	2005	2004	2003
Administrative - General	86	85	83
Arbitrators	34	27	22
Court Reporters	24	23	26
Electronic Data Processing	11	11	11
Peoria Office	1	1	1
Accident Reporting	2	3	3
Information Handbook	0	0	1
Self-Insurers' Administration Fund	5	4	5
Self-Insurers' Security Fund	2	3	2
Total	165	157	154
Commissioners	6	6	6

The Commissioners are paid from the Comptroller's State Officers' Salaries appropriation. Amounts paid are to be in accordance with State Statutes (820 ILCS 305/13).

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
EMERGENCY PURCHASES
For the Two Years Ended June 30, 2005 and 2004

EMERGENCY PURCHASES

No emergency purchases were reported by the Commission to the Office of the Auditor General during fiscal year 2005 or fiscal year 2004.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
ILLINOIS FIRST PROJECTS
For the Two Years Ended June 30, 2005 and 2004

ILLINOIS FIRST PROJECTS

According to Commission officials, there were no Illinois First projects involving the Commission during the engagement period.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SERVICE EFFORTS AND ACCOMPLISHMENTS – NOT EXAMINED
ANALYSIS OF WORKERS' COMPENSATION CASES
For the Two Years Ended June 30, 2005

CASE LOAD VOLUME	FISCAL YEAR 2005*	2004	2003
Summary			
Cases pending at beginning of year	114,222	116,237	118,651
New cases filed during year	58,730	62,267	65,303
Cases reinstated during year	2,221	2,083	2,719
Total cases to be processed	175,173	180,587	186,673
Deduct cases closed during year	(65,106)	(66,375)	(70,436)
CASES PENDING AT YEAR END	110,067	114,212	116,237
ANALYSIS OF CASES FILED			
Application for arbitration	48,711	51,752	54,504
Original applications for approval of settlement contracts	10,019	10,515	10,799
TOTAL NEW CASES FILES	58,730	62,267	65,303
ANALYSIS OF CASES CLOSED			
By Arbitrators and Commissioners			
Dismissed at review or arbitration	114	126	83
Dismissed by applicants	711	590	582
Dismissed for want of prosecution	6,277	6,069	6,042
By decisions of Arbitrators and Commissioners	2,026	2,108	1,914
By approval of settlement contracts and lump sum settlements	55,978	57,482	61,815
TOTAL CASES CLOSED	65,106	66,375	70,436

* The information for FY'05 has been estimated.

The above data was taken from agency records and was not examined.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SERVICE EFFORTS AND ACCOMPLISHMENTS – NOT EXAMINED
ANALYSIS OF CASE LOAD VOLUME
For the Two Years Ended June 30, 2005

	FISCAL YEAR		
	2005*	2004	2003
Cases pending at beginning of year	65.2%	64.4%	63.5%
New cases filed during year	33.5%	34.4%	35.0%
Cases reinstated during year	1.3%	1.2%	1.5%
TOTAL CASES TO BE PROCESSED	100.0%	100.0 %	100.0 %

	2005-2004* Increase/(Decrease)		2004-2003 Increase/(Decrease)	
	Amount	%	Amount	%
Total cases to be processed	(5,424)	(3.0%)	(6,076)	(3.2%)
Deduct cases closed during year	(1,269)	(1.9%)	(4,061)	(5.6%)
CASES PENDING AT YEAR END	(1,155)	(1.0%)	(2,015)	(1.7%)

*The information for FY'05 has been estimated.

The above data was taken from agency records and was not examined.

Notes on Cases:

Pervis Daniels v. Industrial Commission and Archibald Candy Corporation

On March 21, 2002, the Illinois Supreme Court issued a four-member plurality opinion on the above referenced case finding that section 13 of the Workers' Compensation Act does not provide the Chairman of the Commission with the authority to appoint

arbitrators to serve as acting Commissioners during a permanent vacancy on the Commission. The Court remanded the Daniels case, which was heard and decided by a three member Commission panel which included two acting commissioners serving in permanent vacancies, to the Commission for a new hearing by a legally constituted panel in accordance with Section 13 of the Act.

The four-member plurality of the court did not reach a decision on the issue of the impact of its interpretation of Section 13 on other cases decided by panels which included acting Commissioners serving in vacancies on the Commission. The Workers' Compensation Commission, represented by the Attorney General's Office, filed a Petition for Rehearing taking the position that the past actions of acting commissioners serving in vacancies in the Commission are valid and that the plurality construction of Section 13 be giving prospective effect only. Defendant Archibald Candy also filed a Petition for Rehearing. Both Petitions for Rehearing were pending before the Illinois Supreme Court as of June 30, 2002.

A review decision, dated August 20, 2003, affirmed and adopted the Arbitrator's decision of October 25, 1995 in favor of Pervis Daniels. Archibald Candy Corporation filed an appeal on September 15, 2003 challenging the Arbitrator's authority. The appeal was overturned by the Illinois Supreme Court. Therefore, the Court did not invalidate decisions rendered by an improperly constituted panel in cases other than Pervis Daniels.

Illinois State Chamber of Commerce v. John Filan, et al

On November 29, 2004 the Circuit Court of Cook County granted summary judgment in favor of the plaintiff declaring that the Budget Implementation Act of 2004 as it relates to the Industrial Commission Operations Fund Surcharge is unconstitutional and ordered that all monies currently held or thereafter received pursuant to the surcharge be placed in an escrow account with no disbursements until further order of the Circuit Court. Monies held in escrow totaled $11,468,097 on June 30, 2005. Defendants appealed to the Illinois Supreme Court. On October 6, 2005 the Illinois Supreme Court reversed the Circuit Court's order granting summary judgment and remanded the case to the Circuit Court for further proceedings. The case is now pending before the Circuit Court. The Commission's operations are being funded on a monthly basis from monies released from the escrow by the Circuit Court. The defendants are represented by the Attorney General's Office.