

Note:

This report of the Illinois Workers' Compensation Commissions' Self-Insurers Security Fund (Fund) should be read in conjunction with the FY16 financial statements of the Fund and the auditor's report dated January 4, 2018.

In FY16, the auditors issued an adverse opinion on the Fund's financial statements due to the Commission having an inadequate process to determine the claims liabilities of the Fund, and because the proper accounting treatment for the insolvent self-insurer security collected by the State of Illinois is not determinable due to two different irreconcilable interpretations of the Worker's Compensation Act. Because of the adverse auditor opinion of the Fund's financial statements for the year ended June 30, 2016, the audit reports for the year ended prior to June 30, 2016 should not be relied upon without considering the auditor's report dated January 4, 2018.



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

**ILLINOIS WORKERS' COMPENSATION COMMISSION – SELF INSURERS'
SECURITY FUND**

**Financial Audit
For the Year Ended: June 30, 2010**

Release Date: January 12, 2011

Summary of Findings:

Total this audit:	1
Total last audit:	1
Repeated from last audit:	0

INTRODUCTION

This audit was limited to an audit of the Self-Insurers' Security Fund for the purpose of rendering an opinion on the financial statements of the Fund. The Fund was established to provide compensation for employees of insolvent self-insured employers for injuries and occupational diseases. A State Compliance examination on the entire Commission will be performed next year for the two year period ending June 30, 2011.

SYNOPSIS

- The Illinois Workers' Compensation Commission – Self Insurers' Security Fund (SISF) did not properly recognize revenue from proceeds of security deposits drawn by the SISF in accordance with the Workers' Compensation Act.

{Expenditures and Activity Measures are summarized on the reverse page.}

**WORKERS' COMPENSATION COMMISSION
 SELF-INSURERS' SECURITY FUND
 FINANCIAL AUDIT
 For The Year Ended June 30, 2010**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	2010
OPERATING REVENUES	\$ 1,142,977
OPERATING EXPENSES	
Benefit Payments and Refunds.....	2,890,818
Personnel and Operating Expenses.....	<u>225,260</u>
Total.....	<u>3,116,078</u>
OPERATING (LOSS) INCOME.....	<u>(1,973,101)</u>
NONOPERATING REVENUES AND EXPENSES	
Interest Income.....	<u>147,080</u>
Total Nonoperating.....	147,080
Increase (Decrease) in net assets.....	\$ (1,826,021)

SELECTED ACCOUNT BALANCES - STATEMENT OF NET ASSETS	2010
ASSETS	
Cash in State Treasury.....	\$ 31,680,634
Cash in Bank and on Hand.....	39,627
Accrued Interest Receivable.....	26,397
Securities Lending Collateral.....	12,303,179
Receivables.....	<u>189,522</u>
Total Assets.....	<u>44,239,359</u>
LIABILITIES	
Accounts Payable.....	670,976
Due to Other Funds.....	16,450
Compensated Absences.....	33,206
Obligations Under Securities.....	12,303,179
Deferred Security Deposit.....	11,313,897
Liabilities for Unpaid Claims.....	<u>8,756,194</u>
Total Liabilities.....	<u>33,093,902</u>
RESTRICTED NET ASSETS, End of Year	\$ 11,145,457

CHAIRMAN

During Audit Period: Acting Chairman - Amy Masters (11-21-08 thru 3-22-10)
 Currently: Mitch Weisz (3-22-10 thru current)

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

IMPROPER REVENUE RECOGNITION

The Illinois Workers' Compensation Commission – Self Insurers' Security Fund (SISF) did not properly recognize revenue from proceeds of security deposits drawn by the SISF in accordance with the Workers' Compensation Act.

Employers may be granted permission to self-insure

An employer may be granted permission to self-insure under the Workers' Compensation Act (Act) provided the employer deposits a security in the form of letters of credit or surety bonds in favor of the Illinois Workers' Compensation Commission (Commission) for the payment of the employer's obligations under the Act.

The Self-Insurers' Security Fund was established by the Act to provide 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 Self-Insurers' Advisory Board (Board), attorney fees and other costs reasonably incurred by the Board.

The Commission may draw the proceeds when there is no longer an acceptable level of security

The Commission may draw the proceeds of securities when the Commission determines that the Bank that issued or confirmed the security no longer provides the Commission with an acceptable level of security with respect to the payments of the employer's obligations as a private self-insurer. Upon request of the employer, the Chairman of the Commission should return the proceeds of the security drawn provided the employer provides a replacement surety bond or letter of credit as a security.

\$4.5 million drawn down on a letter of credit from a solvent private self-insurer

During our testing, we noted SISF drew down a letter of credit totaling \$4.5 million because the bank did not renew the letters of credit of a solvent private self-insurer. The self insured employer subsequently requested a return of the proceeds including interest by providing a replacement security. In addition, we also noted that in fiscal year 2003, SISF drew down a letter of credit of a private self-insured company totaling \$9.2 million. The private self-insured company declared bankruptcy at the time of the letters of credit drawdown but continued to assume its obligations under the Act from the time of bankruptcy and to the time it emerged from bankruptcy.

\$9.2 million drawn down without assuming the obligation

The proceeds of the letters of credit drawn were in essence a security deposit posted in cash so that the company can renew its privileges to operate as a private self-insurer and ensure payments of its financial obligations in accordance with the Act. SISF recognized the proceeds of the letters of credit as revenue at the time of drawdown even though the SISF did not assume the obligations of the private self-insurer

to pay and administer its workers claims in accordance with the Act. Because the substance of the transaction is cash received for security deposit to ensure payment of workers compensation and continue the privileges of a private self-insured company, the proceeds of the letters of credit should have been recorded as a liability instead of revenue in the accounting records.

Beginning net assets were restated by \$11 million

As a result of the improper revenue recognition, adjustments totaling \$4.6 million which includes the principal of \$4.5 million and \$0.1 million in accrued interest were made to the statement of revenues, expenses and changes in net assets. In addition, the improper revenue recognition resulted in a restatement of net assets of \$11 million consisting of \$9.2 million of principal and \$1.8 million in accrued interest. (Finding 10-1, Pages 18-20)

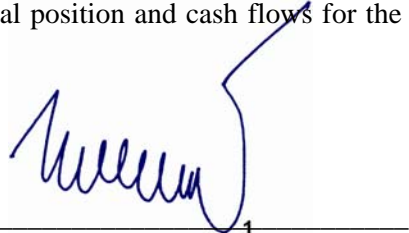
We recommended that management review its accounting policies and procedures in recognizing revenue from proceeds of security deposits from self-insured employers.

Commission agrees with the auditors

The Commission agreed with the recommendation.

AUDITORS' OPINION

Our auditors state that the financial statements present fairly, in all material respects, the financial position of the Self-Insurers' Security Fund as of June 30, 2010, and its changes in financial position and cash flows for the year then ended.



WILLIAM G. HOLLAND
Auditor General

WGH:TLK:PP

SPECIAL ASSISTANT AUDITORS

E.C. Ortiz & Co., LLP were our Special Assistant Auditors for this engagement.