

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

**Financial Audit
Compliance Examination
For the Year(s) Ended June 30, 2011**

Release Date: February 28, 2012

Summary of Findings:

Total this audit:	7
Total last audit:	10
Repeated from last audit:	6

SYNOPSIS

- The Commission did not have adequate control over financial reporting for the Self-Insurers' Security Fund.
- The Commission had major internal control weaknesses over its Rate Adjustment Fund and Second Injury Fund.
- The Commission did not have adequate controls in place to ensure that settlements for noncompliance with insurance requirements were properly documented and monitored.

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

ILLINOIS WORKERS' COMPENSATION COMMISSION
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2011

EXPENDITURE STATISTICS	2011	2010	2009
Total Expenditures (All Appropriated Funds).	\$ 21,508,160	\$ 20,411,456	\$ 19,094,820
OPERATIONS TOTAL.....	\$ 21,508,160	\$ 20,411,456	\$ 19,094,820
% of Total Expenditures.....	100.0%	100.0%	100.0%
Personal Services.....	11,196,957	10,904,463	10,569,348
% of Total Expenditures.....	52.0%	53.4%	55.4%
Other Payroll Costs (FICA, Retirement, Group Insurance).....	\$ 6,381,347	\$ 6,174,403	\$ 5,157,571
% of Total Expenditures.....	29.7%	30.2%	27.0%
Contractual Services.....	\$ 1,757,049	\$ 1,826,985	\$ 1,668,363
% of Total Expenditures.....	8.2%	9.0%	8.7%
All Other Operational Items.....	\$ 2,172,807	\$ 1,505,605	\$ 1,699,538
% of Total Expenditures.....	10.1%	7.4%	8.9%
Average Number of Employees.....	171	170	176

SELECTED ACTIVITY MEASURES (not examined)	2011*	2010	2009
Workers' Compensation Case Load Volume			
Cases Pending Beginning of Year	92,495	95,632	97,252
Add: New Cases (+ reinstated)	<u>51,919</u>	<u>52,783</u>	<u>57,283</u>
Total Cases to be Processed	144,414	148,415	154,535
Less: Cases Closed	<u>(53,695)</u>	<u>(55,920)</u>	<u>(58,903)</u>
Cases Pending End of Year	<u>90,719</u>	<u>92,495</u>	<u>95,632</u>
*Estimated as of June 30			

CHAIRMAN	
During Examination Period:	Amy Masters , Acting (through 3/21/10)
Currently:	Mitch Weisz (from 3/22/10)

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

INADEQUATE CONTROL OVER FINANCIAL REPORTING

The Illinois Workers' Compensation Commission – Self Insurers' Security Fund (SISF) did not have adequate controls over financial reporting to allow management and employees to prevent or detect errors or misstatements in the financial reporting process and ensure proper reporting in accordance with Generally Accepted Accounting Principles.

Improper Revenue Recognition

In our fiscal year 2009 report we noted the Commission had several financial reporting issues, including improper revenue recognition, unrecorded liability adjustments for unpaid claims, and liabilities not properly classified. We noted that the Commission addressed all these issues. However, a new reporting issue was noted regarding improper revenue recognition from the proceeds of security deposits.

A \$10 million transfer which is to be repaid was not properly recorded

During fiscal year 2011, \$10 million was transferred from the SISF fund to the General Revenue Fund. Because the transfer is to be repaid to the SISF fund, the transfer should have been recorded as an interfund loan receivable by SISF, instead of an interfund transfer and reported separately in the financial statements. (Finding 1, pages 13-14) **This finding was first reported in 2009.**

We recommended management review its policies, procedures, and internal controls over financial reporting and provide adequate oversight to ensure the accuracy of information. (For previous Commission response, see Digest Footnote #1)

The Commission agrees with the auditors

The Commission agreed with this recommendation.

INADEQUATE CONTROLS OVER THE RATE ADJUSTMENT FUND AND SECOND INJURY FUND

The Commission had major internal control weaknesses over its Rate Adjustment Fund and Second Injury Fund programs.

The Rate Adjustment Fund (RAF) was created in 1975 to provide annual cost of living adjustments to persons who had received awards for permanent total disabilities or to the survivor of fatally injured workers. In previous years, the Commission discovered payment discrepancies and conducted a review of all RAF cases.

Potential liabilities for Rate Adjustment Fund claims range from \$18 to \$22 million

The Commission and the Office of the Comptroller estimated a potential liability for back claims ranging from \$18 to \$22 million.

We noted the following problems with the RAF:

Some insurance companies subject to assessments were not in the data base and not assessed

1. The RAF data base which is used to assess self-insured entities and insurance companies was not timely updated. Our review of 60 items showed that two insurance companies subject to assessments were not in the data base and not billed for RAF assessments. The assessment form for another insurance company that was in the data base could not be located. Also, an updated address for another insurance company was not reflected in the data base.

Procedures for Tracking cases were either not followed or had not been established

2. Draft policy and procedures for tracking cases appealed to the Circuit Court were not followed. Further, there were no procedures established to track cases to the Appellate or Supreme Courts. As such some RAF appealed cases may not have been paid when final decisions from these courts were made.

RAF overpayments

3. The Commission did not have adequate procedures to timely terminate RAF benefits. In 2 of 51 cases (4%) overpayments for periods of one to four months amounted to \$528 and \$2,621 respectively. The Commission did not prepare overpayment refund letters to pursue collection of these overpayments.

The Commission did not ensure that RAF data was accurate

4. The Commission did not follow procedures to ensure RAF data was accurate. Two of 60 cases tested had no evidence that a review was performed and another case did not have an updated beneficiary address.

The Second Injury Fund (SIF) pays benefits to workers who are injured a second time after incurring the complete loss or use of a second member (arm, leg, foot,

hand, or eye). Benefits are usually paid over many years to eligible recipients and are funded by assessments on employers.

SIF overpayments were made after benefits terminated

The Commission did not have adequate procedures to timely terminate SIF benefit payments. In two cases where eligibility had ended during fiscal year 2011 because of death, payments continued to be made for seven months and two months. One overpayment was \$24,266 and in addition, overpayments associated with RAF totaled \$744. The second overpayment case was for \$96. (Finding 2, pages 15-18) **This finding was first reported in 2007.**

We recommended the Commission strengthen controls and procedures over RAF and SIF programs. (For previous Commission response, see Digest Footnote # 2)

The Commission agreed with the auditors

The Commission agreed with our recommendations.

INADEQUATE CONTROLS OVER INJURED WORKERS BENEFIT FUND

The Commission did not have adequate controls to ensure that settlements for noncompliance with insurance requirements of the Workers' Compensation Act (ACT) were properly documented and monitored.

The Commission, through its Insurance Compliance Department (ICD), administers the Injured Workers Benefit Fund. The Fund receives and records monies from fees and fines assessed for noncompliance with the Act.

The ICD investigates employers for noncompliance with the requirement to maintain insurance. Employers found noncompliant are penalized up to \$500 per day for noncompliance or a minimum of \$10,000 if an order is issued by the Commission. The ICD determines the penalty amount and settles with the uninsured employer.

Case files did not contain documentation on how settlements were reached

In our review of 25 cases, settlements ranged between \$500 and \$250,000. However, the case files did not contain documentation on how settlements were reached, the amount of penalty reduction, or the extent a reduction can be made on the penalty initially assessed.

In two of the cases, we noted no activity from the time of the settlement date. It was later determined these files were misplaced. In another case, we could not determine whether a renegotiation had occurred due to lack of file documentation. (Finding 6, pages 25-27)

We recommended the Commission establish formal policies and procedures to provide guidelines for negotiation and settlement for uninsured employers and to properly maintain case files.

The Commission agreed with the auditors

The Commission agreed with our recommendations.

OTHER FINDINGS

The remaining findings dealt with the Fiscal Control and Internal Auditing Act, inadequate control over revenues, refunds and receivables, performance evaluations, and controls over State property. We will review progress toward implementation of all our finding recommendations during our next audit.

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, 2011, 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.

DIGEST FOOTNOTES

#1 – INADEQUATE CONTROL OVER FINANCIAL REPORTING

2009: The IWCC agrees with this recommendation.

The Commission has implemented the appropriate Accounting Standards Board Rules in regards to Measurements Focus and Basis of Accounting. We note that we have been using a consistent methodology over several years and implementing the changes affect the fund balances for the current but do not change the cash flow or actual amount of funds in the accounts over a multi-year period. The Commission has corrected the ledgers and GAAP Reports for this fund in FY 09 and will continue to implement the new accounting rules.

Additionally, the Commission has hired professional staff with a CPA license which should contribute to better financial statements. Finally, accounting staff will be sent to accounting/auditing/budgeting classes which should also help ensure familiarity and compliance with current accounting rules.

#2 – INADEQUATE CONTROLS OVER THE RATE ADJUSTMENT FUND PROGRAM

2009: The Commission agrees with the recommendation. The Commission is currently using multiple databases and spreadsheets to track its work. The Commission is working to build a database which will incorporate many checks and balances, and provide automatic terminations, suspensions and provide standardized calculations, which we believe will minimize the errors.