

## **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

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**SUMMARY REPORT DIGEST**

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**ILLINOIS WORKERS' COMPENSATION COMMISSION**

**FINANCIAL AUDIT AND COMPLIANCE  
EXAMINATION**

**For the Two Years Ended: June 30, 2013**

**Release Date: February 20, 2014**

**Summary of Findings:**

**Total this audit: 10**

**Total last audit: 7**

**Repeated from last audit: 4**

**SYNOPSIS**

- The Commission had inadequate controls over financial reporting for the Self-Insurers' Security Fund.
- The Commission had major internal control weaknesses over its Rate Adjustment Fund.
- The Commission did not furnish required information or establish policies and procedures relating to the Rate Adjustment Fund and Second Injury Fund Assessment Programs.

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

**ILLINOIS WORKERS' COMPENSATION COMMISSION**  
**FINANCIAL AUDIT AND COMPLIANCE EXAMINATION**  
**For the Two Years Ended June 30, 2013**

EXPENDITURE STATISTICS	2013	2012	2011
<b>Total Expenditures (All Funds).....</b>	<b>\$ 51,619,727</b>	<b>\$ 38,599,338</b>	<b>\$ 38,160,410</b>
OPERATIONS TOTAL.....	\$ 36,636,570	\$ 23,094,690	\$ 21,433,825
% of Total Expenditures.....	70.97%	59.83%	56.17%
Personal Services.....	11,780,543	11,591,656	11,196,957
Other Payroll Costs (FICA, Retirement,.....			
Group Insurance).....	8,500,819	7,374,906	6,381,347
Contractual Services.....	1,669,818	1,728,397	1,757,049
All Other Operating Expenditures.....	14,685,390	2,399,731	2,098,472
Social Assistance.....	\$ 14,973,948	\$ 15,504,648	\$ 16,726,585
% of Total Expenditures.....	29.01%	40.17%	43.83%
Refunds.....	\$ 9,209	\$ 0	\$ 0
% of Total Expenditures.....	0.02%	0.00%	0.00%
<b>Average Number of Employees.....</b>	<b>157</b>	<b>163</b>	<b>171</b>

SELECTED ACTIVITY MEASURES (not examined)	2013*	2012	2011
<b>Workers' Compensation Cases:</b>			
Cases Pending at Beginning of Year.....	94,418	93,906	92,495
New Cases Filed During the Year.....	43,224	46,689	50,381
Cases Reinstated During the Year.....	2,100	2,119	2,166
Total Cases to be Processed.....	<u>139,742</u>	<u>142,714</u>	<u>145,042</u>
Cases Closed During the Year.....	<u>(45,750)</u>	<u>(48,296)</u>	<u>(51,136)</u>
Cases Pending at Year End.....	<u><u>93,992</u></u>	<u><u>94,418</u></u>	<u><u>93,906</u></u>
*Estimated as of June 30			

<b>CHAIRMAN</b>	
During Engagement Period:	Mitch Weisz (3/22/10 - 3/21/13), Michael Latz (3/22/13 - Current)
Currently:	Michael Latz (Since 3/22/13)

**FINDINGS, CONCLUSIONS, AND  
RECOMMENDATIONS**

**NEED TO IMPROVE CONTROLS OVER FINANCIAL REPORTING**

**Financial reporting errors**

The Illinois Workers' Compensation Commission (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.

The following was noted:

**Receivables were not recorded**

- Excess insurance receivables totaling \$124,039 were not recorded.

**Liabilities were understated**

- Liabilities for unpaid claims were understated by \$524,902.

**\$200,000 recognized as revenue instead of a liability**

- Letters of credit totaling \$200,000 were recognized as revenue instead of a liability. (Finding 1, pages 13-14)

We recommended the Commission implement a comprehensive preparation and/or review procedures to ensure that the financial statements, including disclosures, are complete and accurate.

**Commission agrees with the auditors**

Commission officials agreed with this recommendation.

**NEED TO ENSURE CONTROLS OVER THE RATE ADJUSTMENT FUND**

**Internal control weaknesses**

The Commission had major internal control weaknesses over its Rate Adjustment Fund (RAF) program.

The 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 survivors of fatally injured workers.

**\$2.9 million liability for unpaid back claims recorded**

In previous years, the Commission discovered payment discrepancies and conducted a review of all RAF cases. At the end of Fiscal Year 2013, the Commission recorded a liability of \$2.9 million for unpaid back claims.

We noted the following problems with the RAF program:

1. The Commission did not have adequate benefit payment controls. The following was noted:

**Case files could not be located**

**Missing or inadequate documentation in case files**

**Inadequate controls resulted in overpayments**

- Twenty of 37 (54%) case files selected for testing could not be located by the Commission.
- Six of 17 (35%) case files tested have no copies of the Arbitrator’s decision on file.
- Sixteen of 17 (94%) new cases tested had no evidence that a review was performed to ensure information was inputted into the database accurately.
- One of 17 (6%) case files tested had a different weekly benefit amount entered in the database and the mainframe docket system compared to the actual amount indicated in the Arbitrator’s written decision. As a result, an overpayment of benefit payments totaling \$1,241 was made in Fiscal Year 2013.
- One of 17 (6%) case files tested was settled with a lump sum payment on February 15, 2013 but the Commission continued to pay monthly benefits until June 2013, resulting in an overpayment of \$765.

2. The Commission lacked internal controls for terminating RAF benefit payments. The following was noted:

**Case files could not be located**

**Missing information in case files**

**Formal procedures lacking**

- Six of 37 (16%) case files selected for testing could not be located by the Commission.
- Twenty six of 31 (84%) case files tested did not have the Termination of RAF Benefit form or other documents to support the nature and effective date of termination. As a result, we could not verify the accuracy of the nature and effective date of termination entered in the database to determine if there was any overpayment of benefits paid.
- There were no formal procedures to timely detect disqualification of beneficiaries to receive RAF benefit payments.

**Commission procedures were not followed**

3. The Commission developed draft policies and procedures to track cases appealed to the Circuit Court. However, our testing indicated that the procedures were not followed. In addition, there were no procedures established to track cases appealed to Appellate or Supreme Court. As such, some RAF appealed cases may not have been paid when final decisions from these Courts were made. (Finding 2, pages 15-17) **This finding was first reported in 2007.**

We recommended the Commission strengthen controls and procedures over the RAF program to prevent, detect, and correct misstatements or noncompliance on a timely basis. We also recommended the Commission establish and implement formal policies and procedures on the administration of the Rate Adjustment Fund.

**Commission agrees with the auditors** Commission officials agreed with these recommendations. (For previous Commission response, see Digest Footnote # 1)

### **INADEQUATE CONTROLS OVER THE RATE ADJUSTMENT FUND AND SECOND INJURY FUND ASSESSMENT PROGRAMS**

**Commission did not furnish  
required information to the  
Department of Insurance**

The Commission did not furnish the Department of Insurance (DOI) with a the list of amounts collected and paid into the RAF and Second Injury Fund (SIF) by insurance companies on behalf of their insured employers on an annual basis. Instead, the Commission provides the DOI with a list of all indemnity payments which is the basis of the RAF and the SIF assessments to be paid by the employers.

**Commission did not establish  
policies and procedures**

In addition, the Commission did not establish policies and procedures to: 1) properly and timely collect RAF and SIF assessments, and 2) to give reasonable notice and conduct hearings for employers who have failed to pay the required assessments knowingly and willfully or have failed to pay within the prescribed period. The Commission maintains a list of employers who failed to pay the RAF and SIF assessments for different periods.

**Commission issued limited  
assessments**

During Fiscal Year 2012, the Commission issued two SIF assessments and did not issue any RAF assessments. In Fiscal Year 2013, the Commission issued two assessments each for SIF and RAF. The Commission also sent reminder letters to each noncompliant employer for both SIF and RAF assessments due in September 2012. However, no reminder letters were sent for all the other referenced assessments. In some instances, the Commission called and/or emailed noncompliant employers to pursue collection. (Finding 6, pages 26-28)

We recommended the Commission comply with the statutory requirement to provide DOI the amounts collected and paid by insurance companies to the RAF and SIF or seek a legislative amendment to the statutory requirement. Further, the Commission should establish and implement policies and procedures to collect RAF and SIF assessments. The policy and procedures should include penalty provisions for nonpayment in compliance with the Act.

**Commission disagrees with the auditors**

Commission officials disagreed with our finding. Specifically, the Commission disagreed that it lacks policies and procedures to properly and timely collect RAF and SIF assessments noting it had procedures to send emails, certified letters, and make phone calls to companies which do not respond to the initial assessment letter.

The Commission further stated that collection procedures are limited because they are unable to independently derive the RAF/SIF assessment amounts due and note this information is self-reported. In many cases, non-responders do not owe the Commission money since assessments are levied against firms licensed to write workers' compensation insurance, rather than against firms that actually write workers' compensation insurance. Until the company reports, the Commission cannot assume that an assessment is owed.

The Commission also indicated that the finding states that the lack of policies and procedures on collection may affect cash flows and could delay payments of benefits to employees and beneficiaries. The current non-response rate for the RAF/SIF assessments is under 3 percent. The actual revenue risk is less than 3 percent, since some non-responders do not owe assessments due to the fact that they have not written workers' compensation insurance during the assessment period.

**Auditors' Comment**

In an auditors' comment, we noted the Commission only sent one reminder letter during a two year period for employers who either knowingly or willfully failed to pay within the time period prescribed by the Commissioner's order. The Commission stated they send emails, certified letters, and make phone calls to companies which do not respond to the initial assessment letter. However, the auditors did not note a consistent process for documenting the collection effort. The Commission states collection procedures are limited because they are unable to independently derive the RAF/SIF assessment amounts due. Established policies and procedures should define a proper and adequate process to address this limitation and collect assessments as they are due.

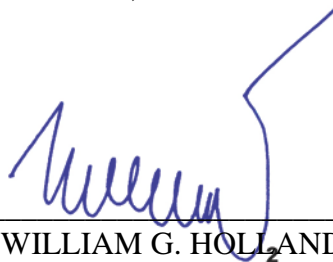
Further, the Commission's response only indicated the non-response rate and used this rate to project the potential impact on revenue. The actual revenue risk, as noted by the Commission, cannot be determined without considering the dollar value of noncompliant employers, not the gross number of noncompliant employers.

## **OTHER FINDINGS**

The remaining findings and recommendations are reportedly being given attention by the Commission. We will review progress toward implementation of all our findings and recommendations during our next examination of the Commission.

## **AUDITORS' OPINION**

Auditors state that the financial statements present fairly, in all material respects, the financial position including its changes in financial position and cash flows of the Self-Insurers' Security Fund as of June 30, 2013.

A handwritten signature in blue ink, appearing to read "William G. Holland", is written over a horizontal line.

WILLIAM G. HOLLAND  
Auditor General

WGH:JGR

## **AUDITORS ASSIGNED**

Our special assistant auditors for this engagement were E.C. Ortiz & Co., LLP.

## **DIGEST FOOTNOTES**

### **#1 – INADEQUATE CONTROLS OVER THE RATE ADJUSTMENT FUND AND SECOND INJURY FUND PROGRAMS**

2011: The Commission agrees with this recommendation. While written comprehensive procedures exist which include controls for accurate, appropriate, and timely processing RAF payments, these procedures have not been consistently applied. These procedures need to be updated and formally approved.