

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**

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS WORKERS' COMPENSATION COMMISSION

Financial Audit for the Year Ended June 30, 2015
 Compliance Examination for the Two Years Ended June 30, 2015

Release Date: February 11, 2016

FINDINGS THIS AUDIT: 5	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	2013		15-1	
Category 2:	3	2	5	2003		15-3	
Category 3:	0	0	0				
TOTAL	3	2	5				
FINDINGS LAST AUDIT: 10							

SYNOPSIS

- (15-02) The Illinois Workers' Compensation Commission (Commission) failed to maintain adequate controls over timekeeping.
- (15-03) The Commission maintained inadequate controls over property

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

{Expenditure data and Activity Measures are summarized on next page.}

ILLINOIS WORKERS' COMPENSATION COMMISSION
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2015

EXPENDITURE STATISTICS	2015	2014	2013
Total Expenditures (All Funds).....	\$ 43,710,296	\$ 39,482,826	\$ 51,619,727
OPERATIONS TOTAL	\$ 25,070,187	\$ 24,530,796	\$ 36,636,570
% of Total Expenditures.....	57.36%	62.13%	70.97%
Personal Services.....	11,843,034	11,502,077	11,780,543
Other Payroll Costs (FICA, Retirement, Group Insurance).....	8,484,114	8,195,972	8,500,819
Contractual Services.....	1,744,038	1,873,961	1,669,818
All Other Operating Expenditures.....	2,999,001	2,958,786	14,685,390
Social Assistance.....	\$ 18,640,109	\$ 14,952,030	\$ 14,973,948
% of Total Expenditures.....	42.64%	37.87%	29.01%
Refunds.....	\$ 0	\$ 0	\$ 9,209
% of Total Expenditures.....	0.00%	0.00%	0.02%
Average Number of Employees (Not Examined).....	156	155	157

SELECTED ACTIVITY MEASURES (not examined)	2015*	2014	2013
Workers' Compensation Cases:			
Cases Pending at Beginning of Year.....	93,627	93,992	94,418
New Cases Filed During the Year.....	43,733	43,732	43,224
Cases Reinstated During the Year.....	1,359	1,387	2,100
Total Cases to be Processed.....	<u>138,719</u>	<u>139,111</u>	<u>139,742</u>
Cases Closed During the Year.....	<u>(45,578)</u>	<u>(45,484)</u>	<u>(45,750)</u>
Cases Pending at Year End.....	<u><u>93,141</u></u>	<u><u>93,627</u></u>	<u><u>93,992</u></u>
*Estimated as of June 6, 2015			

CHAIRMAN	
During Engagement Period:	Michael Latz (3/22/13 - 11/30/14); Ronald Rascia (12/1/14 - 2/22/15); Joann Fratianni (Since 2/23/15)
Currently:	Joann Fratianni

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

INADEQUATE CONTROLS OVER TIMEKEEPING

The Commission did not maintain adequate controls over timekeeping.

Commission converted to electronic timekeeping system

During the last quarter of Fiscal Year 2014 and the first quarter of Fiscal Year 2015, the Commission converted from a paper-based timekeeping system to an electronic system (E-Time) for some of its employees.

E-Time automatically updates the Central Time and Attendance System (CTAS) nightly for approved requests for time off work and at the end of each pay period for approved timesheets. Payroll for the employee will be processed based on CTAS activities.

Insufficient internal controls to detect overpayments in new electronic timekeeping system

Internal controls were not sufficient to prevent employees from being paid for hours not worked even when paid benefit time has been exhausted, to detect such overpayments, or to ensure that adjustments are made to recover those overpayments.

No review of adjustments made by timekeeper in electronic timekeeping system

In addition, we noted that there is no control to verify that the adjustments made by the timekeeper to CTAS for previous pay periods are supported by approved E-Time timesheets.

During our time sheet testing, mix of manual and E-Time, for 60 employees for two time periods, we noted the following

- Five (4%) time sheets were not properly completed because both the employee's signature and the supervisor's signature were missing.
- Two (2%) time sheets did not have appropriate supervisor signature.
- Two (2%) time sheets had reporting discrepancies of benefit time usage and adjusted accrued balances. We noted 3.5 hours overstatement in accrued balance.
- Six (5%) time sheets could not be located.

In addition, we also selected one employee and examined all the related timesheets during the engagement period and noted the following:

Timekeeping records were missing required signatures, had discrepancies, or could not be located

- Three of 45 (7%) timesheets had reporting discrepancies of hours not worked. We noted 5 hours not worked were processed as regular work hours.
- Two of 45 (4%) time sheets could not be located.
- Twelve of 45 (27%) time sheets were not properly approved by direct supervisor.

Leave of absence not accurately recorded by the Commission

During our leave of absence testing, we noted one of 15 (7%) in our test sample was on a paid maternity leave but hours were reported as regular work days in CTAS. This resulted in the overstatement of the employee's maternity leave balance. The Commission corrected the employee's records in CTAS to reflect the appropriate entries after the issue was brought to their attention. (Finding 2, pages 14-16)

We recommended the Commission strengthen their controls over timekeeping to ensure accurate benefit time balances and pay for their employees. In addition, we recommended the Commission design controls for adequate segregation of duties and reconciliation procedures to detect errors and discrepancies timely and take the necessary actions for any overpayments or underpayments to employees.

Commission agreed with auditors

The Commission agreed with the recommendations.

INADEQUATE CONTROLS OVER STATE PROPERTY

The Commission did not maintain adequate controls over State Property.

During our testing, we noted the following:

Commission did not maintain supporting documentation for State property reporting

- The Commission did not maintain supporting detail records for the Agency Report of State Property (Form C-15) filed quarterly with the Illinois Office of the Comptroller (IOC) for the fiscal year 2014 for the Self-Insurers' Administration Fund (Fund 274) and Illinois Workers' Compensation Commission Operations Fund (Fund 534). Fund 274 reported total deletions of \$36,162. Fund 534 reported total additions of \$112,101, total deletions of \$401,313, and total transfers of \$162,238.

Commission had unreconciled differences in fiscal years 2014 and 2015 of \$35,700 and \$51,746, respectively

- The Commission did not reconcile total equipment expenditures with total additions reported in the Form C-15 during fiscal years 2014 and 2015. We noted total expenditures for fiscal years 2014 and 2015 of \$76,401 and \$85,927, respectively, while total additions reported in Form C-15 for fiscal years 2014 and 2015 were \$112,101 and \$137,673, respectively. This resulted in unreconciled differences in fiscal years 2014 and 2015 of \$35,700 and \$51,746, respectively.

Commission unable to locate 23 computers

- The Commission was unable to locate 23 laptops and desk top computers which were reported on their Annual Certification Report for the fiscal year 2015. These computers may have contained confidential and sensitive information. The Commission represented that these laptops and desk top computers were encrypted and there was no indication that confidential information was compromised.

Equipment additions were not recorded or not properly recorded in the Commission's property listing

- During our additions testing, nine of 25 (36%) additions totaling \$7,200 were not properly recorded in the inventory database. The value of the asset was based on the purchase order amount and not the actual invoice amount resulting in an understatement of \$70.
- During our equipment voucher testing, three of 25 (12%) equipment vouchers totaling \$49,066 did not agree with the Commission's property listing. Nineteen items in these three vouchers totaling \$2,239 were not recorded in the Commission's property listing.
- Also during our equipment voucher testing, four of 25 (16%) equipment vouchers totaling \$882 were not recorded in the Commission's property listing.

Equipment items observed were not recorded or not properly recorded on the Commission's property listing

- During our equipment tracing testing, three of 60 (5%) equipment items could not be traced to the Commission's property listing.
- Also during our equipment tracing testing, two of 60 (3%) equipment items were recorded in another location in the Commission's property listing.

Equipment items could not be located

- During our physical identification of testing, three of 60 (5%) equipment items totaling \$539 could not be located.
- Also during our physical identification of testing, one of 60 (2%) equipment items totaling \$425 was a personal item that should not have been included in the Commission's property listing.
- Further, during our physical identification of testing, we noted one of 60 (2%) equipment items totaling \$640 from the Commission's property listing was not in the Annual Inventory Certification List submitted to the Department of Central Management Services. (Finding 3, pages 17-19) **This finding was first reported in 2003.**

We recommended the Commission adhere to the State mandates, Illinois Administrative Code, and the Statewide Accounting Management System requirements and improve its control over property equipment.

Commission agreed with auditors

The Commission agreed with the recommendation. (For the previous Commission response, see Digest Footnote #1.)

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.

AUDITOR'S OPINION

Auditors state that the financial statements present fairly, in all material respects, the financial position including its change in financial position and cash flows of the Self -Insurers' Security Fund as of June 30, 2015.

ACCOUNTANT'S OPINION

We conducted a compliance examination of the Commission, for the two years ended June 30, 2015, as required by the Illinois State Auditing Act. The accountants stated the Commission complied, in all material respects, with the requirements described in the report.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:JGR

SPECIAL ASSISTANT AUDITORS

Our Special Assistant Auditors for this engagement were Adelfia, LLC.

DIGEST FOOTNOTES

#1 - INADEQUATE CONTROLS OVER STATE PROPERTY

2013: The Commission agrees with the recommendation.

Over the last 18 months, the Commission has overhauled its inventory tracking system after many prior years of inadequate and incomplete attempts at reconciling actual Commission inventory. This effort included merging together numerous data files, developing new procedures, performing a new physical inventory, reconciling with the Commission's General Ledger, and the Department of Central Management Services inventory lists.

As a result of this process, the Commission is making major adjustments to its current inventory. It appears that the property discrepancy in the Finding was caused by the failure of prior Commission administrations to remove items from its inventory. The Commission's inventory was not updated for disposals and transfers for over forty years. A preliminary review by Internal Audit reveals that a majority of the items in the discrepancy are obsolete computer equipment.