



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS WORKERS' COMPENSATION COMMISSION

Compliance Examination
 For the Two Years Ended June 30, 2019

Release Date: March 19, 2020

FINDINGS THIS AUDIT: 13	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	1	1	2	2017		19-08, 19-09, 19-10	
Category 2:	6	5	11	2015		19-04	
Category 3:	0	0	0	2013		19-06	
TOTAL	7	6	13	2003	19-02		
FINDINGS LAST AUDIT: 10							

INTRODUCTION

This digest covers the Commission's compliance examination for the two years ended June 30, 2019. A separate financial audit of the Commission's Self-Insurers Security Fund as of and for the year ended June 30, 2019, was previously released on November 21, 2019. In total, this report contains 13 findings, one of which was reported in the Self-Insurers Security Fund's financial audit.

SYNOPSIS

- (19-03) The Commission did not exercise adequate internal control over non-sufficient funds checks and refunds.
- (19-06) The Commission did not exercise adequate internal control over voucher processing.
- (19-11) The Commission did not ensure overpayments were recouped upon a claimant's death or when the claimant had reached a settlement agreement.
- (19-12) The Commission Review Board established within the Commission was not functioning as intended.

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.

**ILLINOIS WORKERS' COMPENSATION COMMISSION
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2019**

EXPENDITURE STATISTICS	2019	2018	2017
Total Expenditures.....	\$ 42,981,191	\$ 43,665,783	\$ 42,768,261
OPERATIONS TOTAL.....	\$ 26,337,129	\$ 27,040,291	\$ 26,043,926
% of Total Expenditures.....	61.3%	61.9%	60.9%
Personal Services.....	13,155,919	13,267,136	12,878,006
Other Payroll Costs (FICA, Retirement).....	10,186,416	10,413,623	9,945,828
All Other Operating Expenditures.....	2,994,794	3,359,532	3,220,092
AWARDS AND GRANTS.....	\$ 16,443,590	\$ 16,162,812	\$ 16,305,428
% of Total Expenditures.....	38.3%	37.0%	38.1%
REFUNDS.....	\$ 200,472	\$ 462,680	\$ 418,907
% of Total Expenditures.....	0.4%	1.1%	1.0%
Total Receipts.....	\$ 19,782,517	\$ 19,794,820	\$ 21,728,571
Average Number of Employees.....	156	173	170

COMMISSION CHAIR
During Examination Period: Joann Fratianni (7/1/17 - 3/14/19); Michael Brennan (effective 3/15/19)
Currently: Michael Brennan

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

INADEQUATE CONTROL OVER NSF CHECKS AND REFUNDS

The Illinois Workers' Compensation Commission (Commission) did not exercise adequate internal control over non-sufficient funds (NSF) checks and refunds.

Problems with the Commission's NSF checks and refunds records

During testing, we requested the Commission provide us with the population of NSF checks and refunds collected during the examination period. During our review of these listings, we noted several problems, including:

- Four of five (80%) refund receipts tested, totaling \$2,822, were not segregated from other receipts on the Commission's cash receipts journal.
- One refund, totaling \$3,860, related to the Self-Insurer's Security Fund was not on the Commission's list.
- Three of five (60%) NSF checks tested, totaling \$6,957, were not recorded as negative adjustments in the Commission's cash receipts journal.
- Two NSF checks, totaling \$3,328, related to the Injured Workers' Benefit Fund were not on the Commission's list.
- One of 40 (3%) receipts tested, totaling \$2,745, was the vendor's refund of an overpayment made by the Commission. We noted this refund should have been processed as an adjustment to the Commission's available appropriations balance in accordance with the Statewide Accounting Management System.

NSF checks not adjusted from the receipt records

Checks were missing from the listing

Populations records not sufficiently precise and detailed

Due to these conditions, we were unable to conclude the Commission's population records were sufficiently precise and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AT-C § 205.35) to test the Commission's NSF checks and refunds.

Even given the population limitations noted above which hindered our ability to conclude whether selected samples were representative of the population as a whole, we performed the testing of NSF checks and refunds and noted the following:

472 days to begin collection action on an NSF check

- The Commission did not timely initiate appropriate collection action for one of eight (13%) NSF checks tested. We noted the Commission did not take action

on the noted NSF check until after auditor inquiry 472 days after the Office of the State Treasurer notified the Commission this was a NSF check.

All tested refunds were erroneously processed as regular receipts

- All seven (100%) refund receipts tested, totaling \$4,952, were incorrectly processed using the Receipts Deposit Transmittal (Form C-64) as opposed to the Expenditure Adjustment Transmittal (Form C-63). (Finding 3, pages 19-20)

We recommended the Commission take action to ensure NSF checks and refunds are segregated within its cash receipt records. Further, we recommended the Commission timely establish an account receivable for each NSF check and begin collection activities. Finally, we recommended the Commission process refunds on the Form C-63.

Commission officials agree

The Commission agreed with our recommendation.

INADEQUATE CONTROL OVER VOUCHER PROCESSING

The Commission did not exercise adequate internal control over voucher processing.

No consistent process for identifying and recording the proper bill date

During testing of 174 non-payroll, non-awards and grants vouchers, we noted the Commission did not consistently follow a process to identify and record an invoice's proper bill date in accordance with the Illinois Administrative Code (Code). The Commission's procedures call for all vendors to submit invoices to its centralized fiscal office in Chicago, which then routes vendor invoices to other units within the Commission for review and approval. After the unit approves an invoice, it then sends the invoice back to the centralized fiscal office for final review and approval and submission to the Office of the State Comptroller to pay the vendor. We noted some instances where these dates and entities involved were clearly indicated, while on other invoices these dates and entities were not recorded.

Critical to properly identify and record the proper bill date

Within the State's new enterprise resource planning (ERP) accounting system, the Commission will need to ensure the date when a proper bill was received by the Commission, and not the date when a bill was determined by its staff to be proper, is recorded within ERP. This critical date impacts the determination of whether the Commission timely submitted its invoices for payment to the State Comptroller under the Code and the amount of interest due to vendors under the State Prompt Payment Act (Act).

In addition, we noted the following other voucher-related problems:

Vouchers paid late

\$538 in interest due not paid

Travel voucher submitted 102 days after the trip ended

- Nine of 174 vouchers tested (5%), totaling \$33,487, were paid late and we did not note any interest paid to these vendors as required by the Act. We calculated \$538 in unpaid interest had accrued and was due to the vendors. In the event the Commission had not recorded the proper bill date, we used the vendor's invoice date to calculate interest due.
- One of 40 (3%) travel vouchers tested, totaling \$680, was submitted to the Commission by the traveler 102 days after the last day travel occurred. (Finding 6, pages 25-27) **This finding has been repeated since 2013.**

We recommended the Commission implement controls to ensure the proper bill date is recorded for all invoices, interest is accrued and paid to vendors in accordance with the Act, and travel vouchers are promptly submitted by travelers.

Commission officials agree

The Commission agreed with our recommendation.

INADEQUATE CONTROL OVER OVERPAYMENTS

The Commission did not ensure overpayments were recouped upon a claimant's death or when the claimant reached a settlement agreement.

Commission failed to identify overpayments requiring collection

During testing, we noted the Commission had controls in place to timely identify and terminate benefits paid from the Rate Adjustment Fund and the Second Injury Fund upon a claimant's death or when the claimant reached a settlement agreement. However, we noted the Commission did not timely use this information to recoup amounts overpaid to the claimant, as noted below:

Unrecorded and uncollected receivables of \$4,630 in the Rate Adjustment Fund

- Four of six (67%) benefit terminations paid from the Rate Adjustment Fund that had an overpayment, totaling \$4,630, were not identified for collection until after we notified the Commission of this problem in December 2019.

Unrecorded and uncollected receivables of \$3,169 in the Second Injury Fund

- Three of four (75%) benefit terminations paid from the Second Injury Fund that had an overpayment, totaling \$3,169, were not identified for collection until after we notified the Commission of this problem in December 2019. (Finding 11, page 36).

We recommended the Commission implement controls to immediately seek recovery of amounts overpaid when it becomes aware of a recipient's death or settlement.

Commission officials agree

The Commission agreed with our recommendation.

COMMISSION REVIEW BOARD NOT FULLY FUNCTIONING

The Commission Review Board (Board) established within the Commission (Commission) was not functioning as intended.

Statute and rules establish a process for the Board to review complaints about commissioners and arbitrators

The Workers' Compensation Act (Act) (820 ILCS 305/14.1), along with adopted rules in the Illinois Administrative Code (Code) (50 Ill. Admin. Code 9500.10(a)), created the Board to receive complaints concerning the conduct of the Commission's commissioners and arbitrators, investigate the complaints, conduct hearings on the complaints, and recommend to either (1) the commissioner or arbitrator of necessary corrective action or (2) the Governor not to reappoint the commissioner or arbitrator for matters of serious concern. The Board's members consist of seven members, including the Commission's Chair, the commissioner with the most seniority of the employer class, the commissioner with the most seniority of the employee class, two arbitrators with one from Cook County and one from any other county elected by a vote of the Commission's arbitrators, and two members appointed by the Governor who are not commissioners, arbitrators, or employees of the Commission.

Five of the seven members of the Board are Commission officials

Board did not receive two complaints during the examination period

During testing, we noted the Board's members did not receive notice of the two complaints against a commissioner or arbitrator filed with the Commission during the examination period where the Commission's General Counsel determined the written communication did not constitute a complaint setting forth sufficient evidence that a commissioner or arbitrator engaged in any misconduct.

Commission officials indicated this problem was due to the Board not meeting during the examination period

In following up on this exception, Commission officials indicated Board members were not provided with this correspondence because the Board did not hold regular meetings during the examination period.

Board did not meet during seven quarters of the examination period

Thereafter, we followed up and noted the Board did not hold a meeting during seven of eight (88%) quarters during the examination period.

Commission officials indicated they only had to schedule, not hold, a quarterly Board meeting

In response to our inquiry as to why the Board was not holding quarterly meetings, Commission officials indicated the requirement was only to schedule, and not to hold, a meeting of the Board each quarter. They indicated the Board's meetings are scheduled for each quarter, but the meetings were cancelled because they could not obtain a quorum of the Board's members to attend the meeting. We noted a quorum of the Board's members are individuals who work at the Commission and, therefore, the Commission should be able to schedule a convenient meeting time when the Board would have been able to obtain a quorum. (Finding 12, pages 37-38)

Meetings cancelled as the Board, with a majority of the positions held by Commission officials, could not find a convenient meeting time

We recommended the Commission's Chair schedule quarterly meetings of the Board when a quorum of its membership can attend the scheduled meeting. Further, we recommended the Commission's Executive Director disburse copies of all correspondence from potential complaints received to the Board's members at the Board's next quarterly meeting.

Commission officials agree

The Commission agreed with our recommendation.

OTHER FINDINGS

The remaining findings pertain to (1) inadequate control over State property, receipts, workforce reporting, and performance evaluations, (2) weaknesses in cybersecurity programs and practices and change control, (3) untimely monthly reconciliations, and (4) failure to seek a judgment in Circuit Court. We will review the Commission's progress towards the implementation of our recommendations in our next compliance examination.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the Commission for the two years ended June 30, 2019, as required by the Illinois State Auditing Act. The accountants qualified their report on State compliance for Finding 2019-002 and Finding 2019-003. Except for the noncompliance described in these findings, the accountants stated the Commission complied, in all material respects, with the requirements described in the report.

This compliance examination was conducted by E. C. Ortiz & Co., LLP.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

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