



STATE OF ILLINOIS
OFFICE OF THE
AUDITOR GENERAL

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND

Financial Audit
For the Year Ended June 30, 2020

Release Date: April 7, 2022

FINDINGS THIS AUDIT: 2	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	1	0	1	No Repeat Findings			
Category 2:	1	0	1				
Category 3:	0	0	0				
TOTAL	2	0	2				
FINDINGS LAST AUDIT: 1							

SYNOPSIS

- **(21-01)** The Commission lacked sufficient internal control over financial reporting such that the Commission failed to prepare complete and accurate financial statements for the Self-Insurers Security Fund.

EMPHASIS OF MATTER

As discussed in Note 17 to the financial statements, Fund 940 has a total net position (deficit) of (\$5,777,630) as of June 30, 2020. This deficit, which is presented on an accrual basis, is the excess of total liabilities and deferred inflows of resources over total assets and deferred outflows of resources. Management of the Commission stated that, subject to approval by the Self-Insurers Advisory Board (Board) established within the Commission, future assessments will be used to meet Fund 940's obligations in the future (Independent Auditor's Report on page 4 and Note 17 on page 48).

- 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
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2020

STATEMENT OF NET POSITION (DEFICIT)	2020	2019 (as restated)
Assets and Deferred Outflows of Resources		
Restricted Cash Equity in the State Treasury.....	\$ 17,076,389	\$ 18,389,786
Restricted Cash and Cash on Hand.....	163	67
Restricted Accounts Receivable.....	3,186	3,693
Restricted Assessments Receivable.....	30,648	4,475
Restricted Accrued Interest Receivable.....	12,744	33,900
Restricted Excess Insurance Receivable.....	113,872	117,518
Securities Lending Collateral Equity with the State Treasurer	5,296,114	4,969,595
Prepaid Benefits with the Third-Party Administrator.....	105,435	-
Due from Other Funds.....	2,013,611	-
Deferred Outflow of Resources - Pension and OPEB.....	259,582	234,351
Total Assets and Deferred Outflows of Resources.....	<u>\$ 24,911,744</u>	<u>\$ 23,753,385</u>
Liabilities and Deferred Inflows of Resources		
Accounts Payable and Accrued Liabilities.....	\$ 19,228	\$ 21,567
Compensated Absences.....	30,362	26,069
Obligations Under Securities Lending of the State Treasurer..	5,296,114	4,969,595
Security Deposits.....	675,302	664,168
Unearned Security Deposits.....	17,606,443	17,240,713
Unpaid Claims.....	5,642,626	5,376,420
Net Pension Liability.....	667,881	694,185
Net OPEB Liability.....	563,370	561,305
Due to Other Funds.....	17,237	17,237
Deferred Inflow of Resources - Pension and OPEB.....	170,811	204,933
Total Liabilities and Deferred Inflows of Resources.....	<u>\$ 30,689,374</u>	<u>\$ 29,776,192</u>
Net Position (Deficit)		
Total Net Position (Deficit).....	\$ (5,777,630)	\$ (6,022,807)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (DEFICIT)	2020	2019
Operating Revenues		
Total Operating Revenues.....	\$ 1,239,970	
Operating Expenses		
Total Operating Expenses.....	1,007,381	
Nonoperating Revenues		
Total Nonoperating Revenues.....	12,588	
Change in Net Position (Deficit).....	<u>245,177</u>	
Net Position (Deficit), Beginning of Year, as Restated.....	<u>(6,022,807)</u>	
Net Position (Deficit), End of the Year.....	\$ (5,777,630)	Due to the restatement, this information is not available.

COMMISSION CHAIR
During Examination Period: Mr. Michael Brennan
Currently: Mr. Michael Brennan

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**FAILURE TO PREPARE COMPLETE AND
ACCURATE FINANCIAL STATEMENTS**

The Illinois Workers' Compensation Commission (Commission) lacked sufficient internal control over financial reporting such that the Commission failed to prepare complete and accurate financial statements for the Self-Insurers Security Fund (Fund).

After receiving the Commission's final draft financial statements (which means the Commission's management does not expect any adjustments will need to be made for the Fund's financial statements to present in conformity with generally accepted accounting principles (GAAP)) on September 22, 2020, we noted several errors and omissions. Some of the more significant matters identified during our initial testing included the following:

Draft financial statements had several errors and omissions

Unreconciled variance of \$586,481

- The Fund's claims with unearned security deposits reported on the financial statements compared to the underlying records had a variance of \$586,481, which Commission management had been unable to reconcile.

Claims paid before the Fund took over the claim totaling \$778,108

- The Fund's benefits expense account included \$778,108 from 13 claims that had been paid before the Fund took over the claim.

Prepayment of \$403,022 not booked

- The Fund had not accounted for a prepayment to a third-party processor for claims associated with one insolvent self-insurer, as cash of \$403,022 had been sent to the processor with, at that time, an unknown amount of this balance consumed by payments to or for claimants as of June 30, 2020.

Debits and credits within the general journal did not balance

- The Fund's general journal did not balance, with an unreconciled difference between the total debits and total credits of \$40,004.

Commission officials could not correct these problems

In response to these problems and the generally poor condition of the Commission's books and underlying supporting documentation, we discussed these matters with Commission management on November 23, 2020. In response to these known issues and to help identify and fix other unknown errors, Commission management agreed to review each of the underlying transactions for the Fund throughout Fiscal Year 2020, prepare correcting journal entries to address any problems, and prepare revised draft financial statements for us no later than December 31, 2020. In the end, Commission management was unable to identify and fix the problems within the Fund's financial statements.

Auditor General’s staff took four months to reconcile the Fund’s cash transactions

In response to Commission management’s inability to identify the errors within the Fund’s financial statements, the Auditor General’s staff first attempted to balance the Fund’s cash transactions with records from the Comptroller’s Office beginning in January 2021. After working closely with officials at both the Commission and the Comptroller’s Office, the Auditor General’s staff was able to balance the Fund’s cash transactions by the end of May 2021. During this process, some of the more significant problems found included the following:

- The Fund’s security deposits and unearned security deposits accounts are comprised of several sub-accounts which consist of security collected from either the company or its surety that is used to extinguish the company’s self-insurance claims, with any remaining balance ultimately being returned to the initial contributor (1) when the risk the self-insurer will not fulfill its obligations passes or (2) one year after its last claim has been paid, provided the claim application filing period has expired. Accounting problems noted within these sub-accounts included the following:

Accounting for excess insurance claims was incorrect

- As a claimant’s workers’ compensation costs are paid which are also eligible for reimbursement by an excess insurer, the Commission charged these costs to the company’s account, which was improper as neither the company nor its surety were responsible for the costs. Rather, the Commission should have recognized this activity as the sole responsibility of the Fund, which had to disburse a cash outflow to the claimant and collect a cash inflow from the excess insurer.

Interest allocations were incorrectly calculated

- The Commission did not properly allocate interest earned among the Fund itself and the various sub-accounts with positive cash balances comprising the total security deposits and unearned security deposits accounts.

\$2 million interfund loan exceeded the Fund’s own cash balance when it was processed

- On January 21, 2020, the State Comptroller and the State Treasurer, in consultation with the Governor’s Office of Management and Budget, processed a \$2,000,000 interfund loan from the Fund to the Health Insurance Reserve Fund in accordance with the State Finance Act (30 ILCS 105/5h.5). Commission management did not identify, and therefore they did not notify the parties processing the loan, that the value of the interfund loan exceeded the Fund’s available cash balance by approximately \$781,429 on January 21, 2020. By failing to

State used cash it holds in a trustee capacity to finance its own obligations

note this situation and report it to the appropriate parties, the State used cash it holds in a trustee capacity to finance its own obligations. At the end of each month from January 2020 through June 2020, this borrowing in excess of the Fund's available cash balance fluctuated between \$781,489 and \$1,081,107.

Receipt records were not maintained in accordance with State law

- The Commission did not comply with the requirements of the State Officers and Employees Money Disposition Act (30 ILCS 230/2) to keep "a detailed itemized account of all moneys received ... showing the date of receipt, the payor, and purpose and amount, and the date and manner of disbursement" as the Commission did not record the actual date receipts were received.

Auditor General's staff recreated the Fund's GAAP-basis journal entries over three months

After balancing the cash accounts, the Auditor General's staff then attempted to recreate the Fund's Fiscal Year 2020 GAAP-basis journal entries from December 2021 through February 2022. During this process, some of the more significant problems included:

Fund's own revenue not segregated from excess insurance recoveries

- The Commission did not segregate excess insurance recoveries from any administrative fee reimbursements allowed for under some of the excess insurance agreements in force. As such, the Fund's own source revenues were not segregated from excess insurance transactions.

Design of internal controls over financial reporting was inadequate

- The Commission's design of its internal controls over its financial reporting for the Fund was inadequate. While the Commission has developed many internal spreadsheets to help track transactions and accounts, the following issues contributed to confusion and difficulty with preparing GAAP-basis journal entries:

Lack of a centralized ledger with appropriate sub-ledgers

- The Commission lacks a centralized general ledger with appropriate sub-ledgers to track its accounts receivable and claims payments across the various sub-accounts which comprise the entirety of the Fund's financial reporting entity.

Too many accounting tools, records, and internal spreadsheets prepared by people without sufficient knowledge and experience

- In general, the Commission has too many different accounting tools, records, and internal spreadsheets being prepared by many different people across the Commission who do not always have sufficient knowledge and experience with GAAP-basis accounting to enable complete and accurate financial reporting.

Transactions within different funds were not appropriately segregated

- The Commission did not always ensure its transactions for other funds were segregated from the Fund’s transactions. We identified several unrecorded interfund reimbursements which will need to be processed to correct both current period and prior period errors.

Significant delays in reporting cash receipts to the Comptroller hindered accurate financial reporting

- While it was difficult to determine exactly as the Commission did not record the date when a receipt was received as required by the State Officers and Employees Money Disposition Act (30 ILCS 230/2), it appears a significant delay exists between when deposited receipts are recognized by the State Treasurer’s Office in the Commission’s clearing accounts and when the Commission orders the related cash into the Fund. After a Treasurer’s Draft is received acknowledging a receipt has cleared the bank, the Commission must move the collected cash from its clearing account to the Fund by preparing a Receipts Deposit Transmittal form (Form C-64) and submitting it to the Comptroller’s Office. These delays limit the Fund’s ability to use the cash, earn interest income on the cash, and increase the complexity of tracing out which cash receipts were associated with what Form C-64 and balancing the Fund’s cash and cash on hand accounts.

Commission management agreed with our adjusting journal entries

We reviewed these GAAP-basis journal entries, ultimately using them to prepare adjusting journal entries to propose to the Commission’s management to correct the Fund’s Fiscal Year 2020 financial statements. The net effect of these errors were:

Statement of Net Position (Deficit)
June 30, 2020

		<u>Net Differences</u>
Assets	\$	(112,310)
Deferred Outflows		483
Liabilities		428,284
Deferred Inflows		(20,677)
Ending Net Position		(295,780)

Statement of Revenues, Expenses,
and Changes in Net Position (Deficit)
For the Fiscal Year Ended June 30, 2020

		<u>Net Differences</u>
Opening Net Position	\$	(434,742)
Revenues		(1,532,937)
Expenses		1,671,900
Ending Net Position		(295,779)

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2020

	\$	<u>Net Differences</u>
Opening Balance		(67)
Operating:		
Net Inflows		(315,620)
Net Outflows		391,589
Noncapital Financing:		
Net Outflows		900
Investing:		
Net Inflows		293,508
Net Outflows		(370,369)
Ending Balance		(59)

(Finding 1, pages 51-57)

Auditor’s Recommendation

We recommended the Commission take corrective action by appointing a person with the skills, knowledge, and experience to prepare, on an ongoing basis throughout the fiscal year, the books and records of the Fund based upon source documentation flowing from the Commission’s different areas and staff responsible for operating the self-insurance program. Further, we recommended the Commission design and implement as simple of an internal control structure as possible which streamlines the collection of accounting data across multiple spreadsheets and paper records, while allowing for the recording of accounting data across sub-ledgers for different entities’ claims and accounts receivable activity. Finally, we recommended the Commission ensure all transactions are timely and correctly posted to the appropriate sub-accounts based on appropriate supporting documents, which is then timely reviewed by a supervisor with sufficient skills, knowledge, and experience to identify and promptly correct any errors.

Commission officials agree

Commission officials agreed with our recommendation.

OTHER FINDING

The remaining finding pertains to census data reconciliations. We will review the Commission’s progress towards the implementation of our recommendation in our next financial audit.

AUDITOR'S OPINION

The auditors stated the financial statements of the Fund as of and for the year ended June 30, 2020, are fairly stated in all material respects.

This financial audit was conducted by Roth&Co.

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

FJM:djn