

**State of Illinois,
Illinois Workers'
Compensation
Commission
Self-Insurers
Security Fund**

FINANCIAL AUDIT

**FOR THE YEAR ENDED
JUNE 30, 2020**

**Performed as Special
Assistant Auditors for the
Auditor General,
State of Illinois**

STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2020

TABLE OF CONTENTS

	Page(s)
Commission Officials	1
Financial Statement Report	
Summary	2
Independent Auditor's Report	3
Basic Financial Statements	
Statement of Net Position (Deficit)	6
Statement of Revenues, Expenses, and Changes in Net Position (Deficit)	8
Statement of Cash Flows	9
Notes to the Financial Statements	12
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	49
Schedule of Findings	
Current Findings	51
Prior Finding Not Repeated	61

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2020**

COMMISSION OFFICIALS

Chair	Mr. Michael Brennan
Chief Fiscal Officer	Mr. Paul Fichtner
General Counsel	Mr. Ronald Rascia
Manager of Self-Insurance	Ms. Maria Sarli-Dehlin

SELF-INSURERS ADVISORY BOARD¹

Chair	Mr. Michael Brennan
Public Member	Mr. Paul Bergmann
Member	Mr. Gerald Cooper, Jr.
Member	Mr. Alex Alexandrou
Member	Mr. David Taylor
Member	Ms. Joan Vincenz
Member	Mr. Michael Castro

COMMISSION OFFICES

The Commission's primary administrative offices are located at:

69 W. Washington Street, Suite 900
Chicago, Illinois 60602

4500 S. Sixth Street Frontage Road
Springfield, Illinois 62703

401 Main Street, Suite 640
Peoria, Illinois 61602

¹ The Workers' Compensation Act (Act) (820 ILCS 305/4a-3) requires the Board consist of the Chair of the Commission and six members who are experts in self-insurance for workers' compensation liabilities appointed by the Chair, one of whom is a member of the public. Under the Act (820 ILCS 305/4a-1), the Board provides for the continuation of benefits due from and unpaid by insolvent self-insurers and reviews and recommends a disposition on all initial and renewal applications to self-insure by private entities.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2020**

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the Self-Insurers Security Fund (Fund) was performed by Roth&Co.

Based on their audit, the auditors expressed an unmodified opinion on the Fund's basic financial statements.

SUMMARY OF FINDINGS

Number of	<u>Current Report</u>	<u>Prior Report</u>
Findings	2	1
Repeated Findings	-	-
Prior Recommendations Implemented or Not Repeated	1	1

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
Current Findings				
2020-001	51	New	Failure to Prepare Complete and Accurate Financial Statements	Material Weakness
2020-002	58	New	Inadequate Controls over Census Data	Significant Deficiency
Prior Finding Not Repeated				
A	61	2019/2019	Unreconciled Error in the Draft Financial Statements	

EXIT CONFERENCE

The Commission waived an exit conference in a correspondence from Mr. Paul Fichtner, Chief Financial Officer, on March 28, 2022. The responses to the recommendations were provided by Mr. Paul Fichtner, Chief Financial Officer, in a correspondence dated March 28, 2022.



INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Self-Insurers Advisory Board
State of Illinois, Illinois Workers' Compensation Commission

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Self-Insurers Security Fund (Fund 940) of the State of Illinois, Illinois Workers' Compensation Commission (Commission), as of and for the year ended June 30, 2020, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund 940 of the Commission, as of June 30, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2(A) to the financial statements, the financial statements present only the Fund 940 and do not purport to, and do not, present fairly the financial position of either the State of Illinois or the Commission as of June 30, 2020, the respective changes in their financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Further, as discussed in Note 16 to the financial statements, as of July 1, 2019, the Fund's beginning net position and beginning cash and cash on hand were restated to correct an other postemployment benefits (OPEB) allocation error, various errors within the Fund's underlying accounting records, and improper reporting of petty cash invoices not reimbursed and reimbursement vouchers in transit. Our opinion is not modified with respect to this matter.

In addition, 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. Our opinion is not modified with respect to this matter.



Finally, as discussed in Note 2(M) to the financial statements, Fund 940's recorded unpaid claims of \$5,642,626 as of June 30, 2020, were determined from an actuarial analysis performed by the Commission's actuary. Additionally, as discussed in Note 14(B) to the financial statements, the actuary did not calculate an estimate for four types of speculative losses due to significant uncertainty in estimating these contingencies arising from Fund 940's limited historical claim experience to date. Given these conditions, it is possible Fund 940 may experience additional losses than currently reserved for in Fund 940's unpaid claims liability at June 30, 2020. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis and pension and other postemployment benefits related information that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2022, on our consideration of the Commission's internal control over financial reporting of Fund 940 and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

Restricted Use of this Auditor's Report

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, the Board, and the Commission's management and is not intended to be and should not be used by anyone other than these specified parties.

SIGNED ORIGINAL ON FILE

Chicago, Illinois
March 28, 2022



**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Statement of Net Position (Deficit)
June 30, 2020**

Assets

Current Assets

Restricted Cash Equity in the State Treasury	\$ 17,076,389
Restricted Cash and Cash on Hand	163
Restricted Accounts Receivable, Net	3,186
Restricted Assessments Receivable, Net	30,648
Restricted Accrued Interest Receivable	12,744
Restricted Excess Insurance Receivable, Net	113,872
Securities Lending Collateral Equity with the State Treasurer	5,296,114
Prepaid Benefits with the Third-Party Administrator	105,435
Total Current Assets	<u>22,638,551</u>

Noncurrent Assets

Due from Other Funds	<u>2,013,611</u>
Total Noncurrent Assets	<u>2,013,611</u>

Total Assets	<u>24,652,162</u>
--------------	-------------------

Deferred Outflows of Resources (DOR)

Pension	205,013
Other Postemployment Benefits	<u>54,569</u>
Total Deferred Outflows of Resources	<u>259,582</u>

Total Assets and DOR	<u><u>\$ 24,911,744</u></u>
-----------------------------	-----------------------------

The accompanying notes to the financial statements are an integral part of these statements.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Statement of Net Position (Deficit)
June 30, 2020**

Liabilities

Current Liabilities

Accounts Payable and Accrued Liabilities	\$ 19,228
Compensated Absences	24,499
Obligations Under Securities Lending	5,296,114
Security Deposits	675,302
Unearned Security Deposits	272,541
Unpaid Claims	309,222
Net Other Postemployment Benefits Liability	21,336
Total Current Liabilities	<u>6,618,242</u>

Noncurrent Liabilities

Compensated Absences	5,863
Due to Other Funds	17,237
Unearned Security Deposits	17,333,902
Unpaid Claims	5,333,404
Net Pension Liability	667,881
Net Other Postemployment Benefits Liability	542,034
Total Noncurrent Liabilities	<u>23,900,321</u>

Total Liabilities	<u>30,518,563</u>
--------------------------	-------------------

Deferred Inflows of Resources (DIR)

Pension	91,991
Other Postemployment Benefits	78,820
Total Deferred Inflows of Resources	<u>170,811</u>

Total Liabilities and DIR	<u>30,689,374</u>
----------------------------------	-------------------

Net Position (Deficit)

Unrestricted Net Position (Deficit)	<u>(5,777,630)</u>
Total Net Position (Deficit)	<u>(5,777,630)</u>

Total Liabilities, DIR, and Net Deficit	<u>\$ 24,911,744</u>
--	----------------------

The accompanying notes to the financial statements are an integral part of these statements.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

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

Operating Revenues	
Assessments	\$ 1,235,788
Claims Processing Fees	4,182
Total Operating Revenues	1,239,970
 Operating Expenses	
Personal Services	229,417
Compensated Absences Expense	26,038
Social Security Contributions	18,098
Group Insurance	42,364
Pension Expense	107,420
Other Postemployment Benefits Expense	(20,235)
Contractual Services	23,699
Commodities	21
Benefit Claims	580,559
Total Operating Expenses	1,007,381
Operating Income	232,589
 Nonoperating Revenues	
Interest Income	12,588
Total Nonoperating Revenues	12,588
Change in Net Position (Deficit)	245,177
Net Position (Deficit), Beginning of the Year (as previously reported)	(5,588,065)
Prior Period Adjustments (see Note 16)	(434,742)
Net Position (Deficit), Beginning of the Year (as restated)	(6,022,807)
Net Position (Deficit), End of the Year	\$ (5,777,630)

The accompanying notes to the financial statements are an integral part of these statements.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Statement of Cash Flows
Year Ended June 30, 2020**

Cash Flows from Operating Activities

Cash Inflows from Assessments Collected	\$ 1,209,489
Cash Inflows from Excess Insurance Recoveries	280,570
Cash Inflows from Claims Processing Fees Collected	4,690
Cash Inflows from Security Deposits Collected	878,000
Cash Inflows from Interest Earned for Security Deposits	11,665
Cash Inflows from Interest Earned for Unearned Security Deposits	303,147
Cash Outflows from Benefits Paid	(314,744)
Cash Outflows from Benefits Paid from Unearned Security Deposits	(135,103)
Cash Outflows from Benefits Paid Recoverable from Excess Insurers	(278,208)
Cash Outflows to Employees and for Employee Benefits	(481,532)
Cash Outflows to Vendors	(10,039)
Cash Outflows to Other Funds for Interfund Services	(13,681)
Cash Outflows for Prepayments to the Third-Party Administrator	(403,022)
Cash Outflows for Excess Security Deposits Returned	(370,369)
Net Cash Provided by Operating Activities	680,863

Cash Flows from Noncapital Financing Activities

Cash Outflows to Other Funds	(2,000,900)
Net Cash Used by Noncapital Financing Activities	(2,000,900)

Cash Flows from Investing Activities

Cash Inflows from Interest Earned	6,736
Net Cash Provided by Investing Activities	6,736

Net Decrease in Cash and Cash on Hand	\$ (1,313,301)
--	-----------------------

The accompanying notes to the financial statements are an integral part of these statements.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Statement of Cash Flows
Year Ended June 30, 2020**

Net Decrease in Cash and Cash on Hand	<u>(1,313,301)</u>
Cash and Cash on Hand, Beginning of the Year (as previously reported)	18,389,886
Prior Period Adjustments (see Note 16)	<u>(33)</u>
Cash and Cash on Hand, Beginning of the Year (as restated)	<u>18,389,853</u>
Cash and Cash on Hand, End of the Year	<u><u>\$ 17,076,552</u></u>

The accompanying notes to the financial statements are an integral part of these statements.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Statement of Cash Flows
Year Ended June 30, 2020**

Operating Income		\$ 232,589
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Changes in Assets:		
Restricted Accounts Receivable, Net		508
Restricted Assessments Receivable, Net		(26,174)
Restricted Accrued Interest Receivable for Security Deposits		749
Restricted Accrued Interest Receivable for Unearned Security Deposits		19,455
Restricted Excess Insurance Receivable, Net		3,646
Prepaid Benefits with the Third-Party Administrator		(105,435)
Due from Other Funds for Security Deposits		(218)
Due from Other Funds for Unearned Security Deposits		(5,689)
Changes in Deferred Outflows of Resources:		
Pension		17,460
Other Postemployment Benefits		(42,691)
Changes in Liabilities:		
Accounts Payable and Accrued Liabilities		(2,339)
Compensated Absences		4,293
Security Deposits		11,134
Unearned Security Deposits		365,730
Unpaid Claims		266,206
Net Pension Liability		(26,304)
Net Other Postemployment Benefits Liability		2,065
Changes in Deferred Inflows of Resources:		
Pension		(20,339)
Other Postemployment Benefits		(13,783)
Net Cash Provided by Operating Activities		<u>\$ 680,863</u>

The accompanying notes to the financial statements are an integral part of these statements.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

(1) Organization

The Illinois Workers' Compensation Commission (Commission) is a part of the executive branch of the State of Illinois (State). The Self-Insurers Advisory Board (Board) established within the Commission administers the Self-Insurers Security Fund (Fund), a non-shared proprietary (enterprise) fund. A non-shared fund is a fund in which a single State agency is responsible for administering substantially all financial transactions of a fund.

The Fund was established pursuant to the Workers' Compensation Act (Act) (820 ILCS 305/4a-5) to provide for the continuation of benefits due from and unpaid by insolvent self-insurers for any type of injury or occupational disease which is compensable under the Act or the Workers' Occupational Diseases Act, and all claims for related administrative fees, operating costs of the Board, attorneys' fees, and other costs reasonably incurred by the Board. Effective January 1, 2020, at the discretion of the Commission's Chair, moneys in the Fund may also be used for paying the salaries and benefits of employees and operating costs of the Board.

Pursuant to the Act (820 ILCS 305/4a-5), the Fund is not subject to annual appropriation and, therefore, the Fund does not operate under a budget approved by the General Assembly. Instead, the Board annually establishes an informal budget and monitors the Fund's activity and anticipated future events during its quarterly meetings. Activities of the Commission, Board, and Fund are subject to the authority of the Governor, the State's chief executive officer, and other officers and agencies of the executive and legislative branches of the State's government (such as the Department of Central Management Services, the Governor's Office of Management and Budget, the Department of Innovation and Technology, the State's Treasurer, and the State's Comptroller).

Pursuant to the Act (820 ILCS 305/4a-7(a)), the Commission may, upon the direction of the Board from time to time, assess each of the private self-insurers a pro rata share of the funding reasonably necessary to carry out its activities.

Financial Reporting Entity

As defined by generally accepted accounting principles in the United States of America (GAAP), promulgated by the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the government are financially accountable.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

Financial accountability is defined as:

- 1) the appointment of a voting majority of the component unit's board and either:
 - a. the primary government's ability to impose its will; or,
 - b. the possibility that the component unit will provide a financial benefit to, or impose a financial burden, on the primary government; or,
- 2) fiscal dependency on the primary government.

Based on these criteria, the Fund has no component units and is not a component unit of any other entity. However, because the Fund is not legally separate from the State, the financial statements of the Fund are included within the State's financial statements. The State's Annual Comprehensive Financial Report (ACFR) may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 W. Adams Street, Springfield, Illinois 62704 or by accessing its website at www.illinoiscomptroller.gov.

(2) Summary of Significant Accounting Policies

The financial statements of the Fund have been prepared in accordance with GAAP, as prescribed by GASB. To facilitate understanding data included in the financial statements, summarized below are more significant accounting policies of the Fund.

A. Basis of Accounting and Presentation

In government, the basic accounting and reporting entity is a fund. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The financial statements of the Fund are intended to present the financial position, changes in financial position, and cash flows of only that portion of the activities of the State attributable to the Fund's specific transactions administered by the Board established within the Commission. They do not purport to, and do not, present fairly the financial position of the State or the Commission as of June 30, 2020, or the changes in financial position and cash flows for the year then ended, in conformity with GAAP.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

The Fund is a proprietary (enterprise) fund, as it charges a fee to external users for its services. The Fund is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place.

B. Cash and Cash on Hand

Cash and Cash on Hand includes "Cash Equity in the State Treasury", cash on hand and in transit to the State Treasury, and a petty cash account.

C. Inventory Items

The Fund does not maintain any significant inventory items and associated balances.

D. Capital Assets

Capital assets, which consist of equipment items, are reported at historical cost and depreciated using the straight-line method. The capitalization threshold for equipment is \$5,000 and the estimated useful lives range from 36 to 300 months. As of June 30, 2020, the Fund did not have any capital assets.

E. Claims Processing Fees and Accounts Receivable

Under certain excess insurance policies, the Fund is entitled to collect administrative fees for claims processing. In addition, other miscellaneous accounts receivables are accounted for within this account, which include recoveries due for unearned benefits already paid at the time of a claimant's death.

When Fund management expects an excess insurer will not fulfill its contractual obligations or it will not be able to recover unearned benefits paid already paid at the time of the claimant's death, an allowance for doubtful accounts is recorded.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

F. Assessments and Assessments Receivable

Pursuant to the Act (820 ILCS 305/4a-7(a)), the Commission may, upon the direction of the Board from time to time, assess the private self-insurers a pro rata share of the funding reasonably necessary to carry out its activities. For any individual assessment, the Board is limited to charging a maximum assessment of 0.6% upon a private self-insurer's workers' compensation payments made during the prior calendar year, less any hospital, surgical, and rehabilitation payments. During any calendar year, the Board may not impose total assessments in excess of 1.2% of a private self-insurer's workers' compensation payments made during the prior calendar year, less any hospital, surgical, and rehabilitation payments. Each private self-insurer calculates its amount due after the Board declares an assessment. This amount is subject to review by the Commission.

Assessment revenue is recognized by the Fund on the date when the Board approves an assessment. This revenue is recorded net of an allowance for doubtful accounts, which is based on an analysis of the historical collection experience of the Fund's assessments, the age of the assessment receivable, and general economic conditions. Assessments receivable consists of two parts: known unpaid assessments and management's estimation of the amount due from private self-insurers that have not yet admitted its liability as of the date of the financial statements.

Under the Act (820 ILCS 305/4a-7(a)), if an assessment is not paid within 30 days after the private self-insurer receives notice, the Commission, at the direction of the Board, "shall proceed in circuit court for judgment against that private self-insurer which judgment shall include the amount of the assessment, the costs of suit, interest and reasonable attorneys' fees." In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, any receivables and revenue from the costs of the suit, interest, and reasonable attorneys' fees are recognized when the Fund has a legal, enforceable claim to these amounts, net of an allowance for doubtful accounts and estimated refunds on appeal, or when the resources are received, whichever occurs first.

G. Accrued Interest Receivable

Pursuant to the Act (820 ILCS 305/4a-5), the State Treasurer must deposit any interest accruing on the Fund's Cash Equity within the State Treasury to the Fund. Currently, the Treasurer deposits any interest and investment income earned during a given month during the subsequent month. This amount is allocated between the Fund and the security accounts of self-insurers with a positive cash balance.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

H. Excess Insurance Receivable

In general, excess insurance is an insurance policy where the underwriter's liability does not arise until the loss exceeds a stated amount. Typically, after reaching the stated amount, all future payments must be made by the underwriting insurer. In some cases, private self-insurers purchased excess insurance policies to limit their losses arising from a benefit claim under the Act or the Workers' Occupational Diseases Act. In the event a private self-insurer becomes insolvent and the excess insurance limit has been exceeded, the Fund ensures the injured worker's benefits are paid when due. If the Fund pays the injured worker, the Fund records an excess insurance receivable and seeks reimbursement from the excess insurer. For these receivables, the Fund does not recognize any revenue or expenses, as the Fund is merely acting as an intermediary as the benefit due is the obligation of the insurer.

At June 30, 2020, the Fund has one claim for one insolvent self-insurer with an excess insurance policy where the total loss has exceeded the stated amount of the claim; however, the policies split the future payments on the claim between the insolvent self-insurer and the various excess insurers 34.19% and 65.81%, respectively.

Counterparty Risk

Counterparty risk, also known as default risk, is the risk that one party to a contract will not fulfill its contractual obligations. In the excess insurance context, the Fund will continue to ensure injured workers receive benefits due on a timely basis, regardless of whether the excess insurer fulfills its responsibility to cover its share of the loss. Under GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, Fund management will adjust its excess insurance receivable amount if (1) information is available prior to the date of the financial statements which indicates it is probable the excess insurance receivable has been impaired where future events will confirm the fact of loss and (2) the amount can be reasonably estimated. As such, the Fund records its excess insurance receivables net of an allowance for doubtful accounts, which is based on Fund management's analysis of the historical collection experience of the Fund's assessments, ratings of the insurer by third parties, the age of the assessment receivable, and general economic conditions.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

Correspondingly, when Fund management expects an excess insurer will not fulfill its contractual obligations, the Fund will increase its total unpaid claims liability or reserves within the insolvent self-insurer's unearned security deposit balance to reflect benefit amounts previously expected to be paid by the excess insurer will now be borne by either the Fund or the insolvent self-insurer's unearned security deposit balance.

I. Prepaid Benefits with the Third-Party Administrator

One insolvent self-insurer had an existing contractual relationship with a third-party administrator to administer its workers' compensation claims. From time to time, the third-party administrator will make a claim, initially from the insolvent self-insurer's security and then from the Fund itself, to provide the third-party administrator with sufficient cash to cover future near-term claims expected to be liquidated by the third-party administrator. This balance represents cash resources sent to the third-party administrator in excess of claims paid by the third-party administrator at June 30, 2020.

J. Security

To help provide assurance each private self-insurer fulfills its obligations under the Act and the Workers' Occupational Diseases Act, the Board, if deemed necessary, will require each private self-insurer to post a letter of credit, surety bond, or other acceptable security. The Commission, on behalf of the Board, will not draw down upon these securities unless a significant risk exists the private self-insurer is either unable or unwilling to fulfill its obligations under the Act and the Workers' Occupational Diseases Act. As such, the Fund will not recognize assets or liabilities for a posted security until it is converted or drawn down upon on behalf of the Board by the Commission.

K. Security Deposits

Security deposits consist of proceeds from securities collected by the Commission where the Fund has not yet assumed responsibility for paying the private self-insurer's injured workers' claims. Each individual company's balance within this account includes an allocation of interest and investment income earned on the private self-insurer's moneys deposited within the Fund by the Treasurer. This balance may be returned to the company (or its surety) either (1) when the risk the self-insurer would not fulfill its obligations passes or (2) one year after its last claim has been paid, provided the claim application filing period has expired.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

L. Unearned Security Deposits

Unearned security deposits consist of proceeds from securities collected by the Commission where the private self-insurer's obligations have become the responsibility of the Fund. Each individual company's balance within this account includes an allocation of interest and investment income earned on the private self-insurer's moneys deposited within the Fund by the Treasurer. The portion of a company's collected securities in excess of the company's related claims expense and administrative costs incurred by the Fund, net of any amounts that are reimbursable from excess insurance carriers, is considered unearned by the Fund. In accordance with the Fund's security agreements, this excess security may be returned to the company (or its surety) one year after its last claim has been paid, provided the claim application filing period has expired.

M. Unpaid Claims

Unpaid claims liabilities were determined from an actuarial analysis based upon claims history, medical reports, awarded benefits, legal pleadings, life expectancy, inflation, and other factors for determining an estimate of the Fund's anticipated indemnity and medical payments, as well as legal and administrative costs associated with handling claims.

Fund management has adopted the net method of accounting for unpaid claims liabilities of the Fund. Under this method, expenses are reported for the full amount of estimated future claims, net of the portion expected to be reimbursed by excess insurance carriers, when the Fund assumes responsibility for paying a private self-insurer's benefits due under the Act and the Workers' Occupational Diseases Act.

Securities collected before the Fund assumes responsibility for paying the private self-insurer's claims are reported as security deposits. At the time when the Fund assumes responsibility for paying the claims, the Fund records (1) unearned security deposits for the balance of the insolvent self-insurer's security and (2) unpaid claims for any portion of the insolvent self-insurer's estimated outstanding claims which exceeds the insolvent self-insurer's security.

The unpaid claims liabilities classified as current are the estimated claims to be paid within one year from reporting date.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

Contingencies for Self-Insurers under Bankruptcy Protection

Pursuant to GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, the Fund does not report any unpaid claims liabilities on its statement of net position (deficit) associated with private self-insurers under bankruptcy protection which continue to pay their claims through the date when the Fund's financial statements are issued.

The Fund will only pay these claims, along with any other claims arising while the entity was a private self-insurer, if the self-insurer stops paying its claims. As it is both not known if or when this event will occur and what the magnitude of these liabilities will be when the entity stops paying its claims, these claims are not reported on the Fund's statement of net position (deficit). However, these cases are disclosed within the Fund's notes to the financial statements where there is, at least, a reasonable possibility the Fund could become responsible for paying these claims.

Subsequent Events

In accordance with GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, events occurring subsequent to the statement of net position (deficit) which do not provide additional evidence with respect to conditions existing on the date of the statement of net position (deficit) are considered nonrecognized events. Typically, the Fund's nonrecognized events occur when a beneficiary unexpectedly passes away or takes an unexpected action that disqualifies the beneficiary from receiving benefits. The Fund discloses any known nonrecognized events within the Fund's subsequent events footnote.

N. Compensated Absences

The liability for compensated absences reported in the statement of net position (deficit) for the Fund consists of unpaid accumulated vacation and sick leave balances for Fund employees. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive termination payments upon termination are included. The liability has been calculated based on the employee's current salary level and includes salary-related costs (e.g., Social Security and Medicare taxes).

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

Legislation that became effective January 1, 1998, capped the paid sick leave for all State Employees' Retirement System (SERS) members at December 31, 1997. Employees continue to accrue twelve sick days per year but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between January 1, 1984, and December 31, 1997, (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997, will be converted to service time for purposes of calculating employee pension benefits.

O. Interfund Transactions

The Fund could experience the following types of interfund transactions between the Commission's funds and the funds of other State agencies:

- 1) *Transfers*: These transactions occur when a flow of assets (either cash and/or goods) from one fund to another fund occurs without an equivalent flow of assets in return and without a requirement for repayment. Transfers are reported after nonoperating revenues and expenses. Unpaid amounts are reported as due to (interfund payables) and due from (interfund receivables) in the statement of net position (deficit).
- 2) *Interfund Loans*: These transactions occur when a flow of assets (either cash and/or goods) from one fund to another fund occurs with a requirement for repayment. Unpaid amounts are reported as due to and due from in the statement of net position (deficit).
- 3) *Interfund Reimbursements*: These transactions occur when the fund responsible for the expense repays the cost of the expense to the fund that initially paid the cost, which will eliminate the expense from the initial payor fund's records. Unpaid amounts are reported as due to and due from in the statement of net position (deficit).
- 4) *Services Provided and Used*: The transactions occur when sales purchases of goods and/or services occur between funds for a price approximating the transaction's external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenses/expenditures in purchaser funds. Unpaid amounts are reported as due to and due from in the statement of net position (deficit).

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

P. Pensions

In accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense have been recognized in the Fund's financial statements.

The net pension liability is calculated as the difference between the actuarially calculated value of the projected benefit payments attributed to past periods of service and the plan's fiduciary net position. The total pension expense is comprised of the service cost or actuarial present value of projected benefit payments attributed to the valuation year, interest on the total pension liability, plan administrative expenses, current year benefit changes, and other changes in plan fiduciary net position less employee contributions and projected earnings on plan investments. Additionally, the total pension expense includes the annual recognition of outflows and inflows of resources due to pension assets and liabilities.

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense associated with the Fund's contribution requirements, information about the fiduciary net position of the SERS and additions to/deductions from the SERS' fiduciary net position have been determined on the same basis as they are reported within the separately issued SERS financial statements. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with terms of the plan. Investments are reported at fair value.

Q. Other Postemployment Benefits (OPEB)

In accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, the net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense have been recognized in the Fund's financial statements. The Fund's portion of the OPEB liability is based on the Fund's proportionate share of employer contributions relative to all employer contributions made to the OPEB Plan during the year ended June 30, 2020.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

R. Net Position (Deficit)

In the statement of net position (deficit), the Fund's equity is displayed in three components (as applicable).

- 1) *Invested in Capital Assets:* This balance consists of capital assets, net of accumulated depreciation, reduced by outstanding balances for bonds, notes, and other forms of debt which is attributed to the acquisition, construction, or improvement of those assets.

At June 30, 2020, the Fund did not have any investment in capital assets net position.

- 2) *Restricted:* This balance consists of resources legally restricted by either outside parties or by law through constitutional provisions or enabling legislation. This balance is divided between expendable resources and nonexpendable resources which must be retained in perpetuity. When both restricted and unrestricted resources are available for use, it is generally the Fund's policy to use restricted resources first and then use unrestricted resources when needed.

Under GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, this balance is intended to portray, as of the date of the statement of net position (deficit), the extent to which the Fund has assets that can only be used for specific purposes reduced by liabilities and deferred inflows of resources related to those assets. Further, under *GASB Implementation Guide No. 2015-1*, negative amounts should not be reported for any category of restricted net position. Therefore, if the related liabilities and deferred inflows of resources exceed the restricted assets, the "shortfall" by default is covered by unrestricted assets.

At June 30, 2020, the Fund did not have any restricted net position.

- 3) *Unrestricted:* This balance consists of net position (deficit) that does not meet the definition of "invested in capital assets" or "restricted".

At June 30, 2020, the Fund reported an unrestricted net position (deficit) of (\$5,777,630).

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

S. Classification of Revenues and Expenses

The Fund classifies its revenues and expenses as either nonoperating or operating in the statement of revenues, expenses, and changes in net position (deficit) according to the following criteria:

Revenue

Operating revenues – such as assessments and security deposits earned when the Fund fulfills a private self-insurer's benefit obligations and incurs any associated administrative costs – result from exchange transactions associated with the principal activity of the Fund. Exchange transactions are those transactions in which each party receives and gives up essentially equal values. Given this policy, any revenue reported from collected security deposits will not exceed the estimated unpaid claims expense associated with the collected security deposits. Nonoperating revenues, such as interest and investment income, result from certain nonexchange transactions or ancillary activities.

Expenses

All expenses incurred by the Fund are considered operating, as they result from exchange transactions associated with the principal activity of the Fund.

T. Classification of Cash Flows

Operating activities include operating revenues, operating expenses, and all activity associated with the various security deposits and unearned security deposits accounts, including interest inflows.

U. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

Actuarial Disclaimer

The actuary used by the Fund disclosed the following disclaimer related to its estimation of the unpaid claims liability:

Evaluating loss and loss expense reserves involves the estimation of the outcome of future uncertain events. As such, they are subject to variation from expected values. Due to the nature and degree of uncertainty involved in projecting reserves, there can be no guarantee that our independent estimates will prove adequate or not excessive. However, the assumptions and methods we have employed in our analysis are, in our opinion, reasonable under the circumstances.

V. Current Adoption of GASB Statements

Effective for the year ending June 30, 2020, the Fund adopted GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, the objective of which is to provide temporary relief to governments in light of the COVID-19 pandemic. The implementation of this statement had no financial impact on the Fund's net position or results of operations.

Effective for the year ending June 30, 2020, the Fund adopted GASB Statement No. 98, *The Annual Comprehensive Financial Report*, which established the term annual comprehensive financial report and its acronym ACFR. The implementation of this statement had no financial impact on the Fund's net position or results of operations.

W. Future Adoption of GASB Statements

Effective for the year ending June 30, 2021, the Fund will adopt GASB Statement No. 84, *Fiduciary Activities*, the objective of which is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes, the recognition of liabilities to beneficiaries, and how fiduciary activities should be reported. The Commission does not expect a material impact on the Fund's financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2022, the State will adopt GASB Statement No. 87, *Leases*, which is intended to improve accounting and financial reporting for leases by governments to better meet the information needs of financial statement users. The Commission has not yet determined the impact on the Fund's financial statements as a result of adopting this statement.

STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT

Notes to the Financial Statements
June 30, 2020

Effective for the year ending June 30, 2022, the Fund will adopt GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which establishes accounting requirements for interest cost incurred before the end of a construction period. The Commission does not expect a material impact on the Fund's financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2021, the Fund will adopt GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, which defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. The Commission does not expect a material impact on the Fund's financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2022, the Fund will adopt GASB Statement No. 91, *Conduit Debt Obligations*, which provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The Commission does not expect a material impact on the Fund's financial statements as a result of adopting this statement.

Effective for the period ending June 30, 2022, the Fund will adopt GASB Statement No. 92, *Omnibus 2020*, which will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. The Commission has not yet determined the impact on the Fund's financial statements as a result of adopting this statement.

Effective for the period ending June 30, 2023, the Fund will adopt GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which addresses those and other accounting and financial reporting implications that result from the replacement of an Interbank Offered Rate. The Commission does not expect a material impact on the Fund's financial statements as a result of adopting this statement.

Effective for the period ending June 30, 2023, the Fund will adopt GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which improves financial reporting by addressing issues related to public-private and public-public partnership arrangements. The Commission does not expect a material impact on the Fund's financial statements as a result of adopting this statement.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

Effective for the period ending June 30, 2023, the Fund will adopt GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, which provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. The Commission has not yet determined the impact on the Fund's financial statements as a result of adopting this statement.

Effective for the period ending June 30, 2022, the Fund will adopt GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, which:

- 1) increases consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform;
- 2) mitigates costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and,
- 3) enhances the relevance, consistency, and comparability of the accounting and financial reporting for Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans.

The Commission does not expect a material impact on the Fund's financial statements as a result of adopting this statement.

(3) Deposits and Investments

The State's Treasurer is the custodian of the Fund's deposits and investments for funds maintained in the State Treasury. These amounts are classified as "Restricted Cash Equity in the State Treasury" on the statement of net position (deficit). The Commission independently manages deposits and investments maintained outside of the State Treasury.

A. Deposits

Deposits in the custody of the State's Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act (15 ILCS 520/11). Funds held by the Treasurer have not been categorized as to credit risk because the Fund does not own individual securities. Details on the nature of these deposits and investments are available within the State's ACFR.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

The total deposits of \$17,076,472 consists of cash on deposit within the Fund's State Treasury account of \$17,076,389 and cash in-transit of \$83.

B. Petty Cash

The Commission maintains a petty cash fund of \$100 for the Fund in strict adherence with the provisions of the Statewide Accounting Management System established by the State's Comptroller. This account is maintained in physical cash on an imprest basis, where cash on hand, vendor's invoices not reimbursed, and reimbursement vouchers in transit must always equal \$100. At June 30, 2020, the Commission was holding \$79 in cash and had \$21 in unreimbursed vendor invoices or reimbursement vouchers in transit.

(4) Securities Lending Transactions

The State's Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank AG to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During Fiscal Year 2020, Deutsche Bank AG lent U.S. Agency securities and U.S. Treasury securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions during Fiscal Year 2020 on the amount of the loans of available, eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral, or investments of the State Treasurer in Deutsche Bank AG's custody. There were no losses during Fiscal Year 2020 resulting from a default of the borrowers or Deutsche Bank AG.

During Fiscal Year 2020, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

result of its securities lending program as the collateral held exceeded the fair value of the securities lent.

In accordance with GASB Codification I60: *Investments – Security Lending*, the Treasurer has allocated assets and obligations arising from securities lending agreements to the various funds of the State. The total allocated to the Fund was \$5,296,114 on June 30, 2020.

(5) Interfund Balances and Activity

A. Due to the Fund

The Fund had one interfund loan during Fiscal Year 2020. The State's Comptroller and Treasurer, in consultation with the Governor's Office of Management and Budget, processed a \$2,000,000 loan from the Fund to the Health Insurance Reserve Fund in accordance with the State Finance Act (30 ILCS 105/5h.5) on January 21, 2020. The Fund is earning interest on this loan, which is allocated between the Fund and the security accounts of self-insurers with a positive cash balance. As of June 30, 2020, the Fund was owed the original \$2,000,000 in principal with accrued interest of \$12,711. The accrued interest is split between the Fund, the security deposits accounts, and unearned security deposits accounts for \$6,804, \$218, and \$5,689, respectively. This interfund loan will be repaid to the Fund within 48 months along with any interest that the Fund would have accrued had this interfund loan not occurred.

In addition, the Fund had one outstanding interfund reimbursement for a \$900 invoice payable from the Self-Insurers Administration Fund that was erroneously paid from the Self-Insurers Security Fund during Fiscal Year 2020.

B. Due from the Fund

The Fund had two outstanding interfund reimbursements for erroneous deposits made by the Commission into the Fund during previous fiscal years, totaling \$17,237. The Fund owes the Second Injury Fund \$1,567 and the Rate Adjustment Fund \$15,670.

(6) Capital Assets

The Fund did not have any capital assets or related activity during the fiscal year ended June 30, 2020.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

(7) Accounts Receivable

At June 30, 2020, the Fund's total accounts receivable were \$4,470, with an allowance for doubtful accounts of \$1,284.

(8) Assessment Receivables

At June 30, 2020, the Fund's total assessment receivables were \$31,092, with an allowance for doubtful accounts of \$444.

(9) Excess Insurance Receivables

At June 30, 2020, the Fund's total excess insurance receivables were \$114,977, with an allowance for doubtful accounts of \$1,105. All of the excess insurance companies located within the United States of America had an AM Best rating of "A" or better as of June 30, 2020.

\$7,778 of the total excess insurance receivables, and the entire balance of the allowance for doubtful accounts of \$1,105, relate to one insolvent self-insurer's excess insurance carriers based in the United Kingdom. Fund management is aware one of these excess insurance carriers is currently undergoing the United Kingdom equivalent of bankruptcy, and due to uncertainty as to whether the Fund will ever be reimbursed for its claims, has recorded the full balance owed as uncollectible. As the other excess insurance companies liquidated their obligations to the Fund during the normal course of business during Fiscal Year 2021, Fund management deemed these receivables collectible.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

(10) Long-Term Obligations

A. Changes in Long-Term Obligations

The Fund's changes in long-term obligations from July 1, 2019, as restated, through the year ended June 30, 2020, were as follows:

	Unearned Security Deposits	Unpaid Claims
Balance on July 1, 2019	\$ 17,240,713	\$ 5,376,420
Change in Estimate and/or Claim Development	-	(622,254)
Additions	1,167,451	1,201,530
Deletions	(801,721)	(313,070)
Balance on June 30, 2020	<u>\$ 17,606,443</u>	<u>\$ 5,642,626</u>
Current Liabilities	\$ 272,541	\$ 309,222
Noncurrent Liabilities	17,333,902	5,333,404
Total	<u>\$ 17,606,443</u>	<u>\$ 5,642,626</u>

	Compensated Absences	Net Pension Liability	Net OPEB Liability
Balance on July 1, 2019	\$ 26,069	\$ 694,185	\$ 561,305
Additions	26,038	-	2,065
Deletions	(21,745)	(26,304)	-
Balance on June 30, 2020	<u>\$ 30,362</u>	<u>\$ 667,881</u>	<u>\$ 563,370</u>
Current Liabilities	\$ 24,499	\$ -	\$ 21,336
Noncurrent Liabilities	5,863	667,881	542,034
Total	<u>\$ 30,362</u>	<u>\$ 667,881</u>	<u>\$ 563,370</u>

The change in estimate and/or claim development occurring within Fiscal Year 2020 was due the Commission settling one claim and two beneficiaries who unexpectedly passed away.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

B. Benefit Claims Expense

The Fund's benefit claims expense consisted of:

- 1) one new insolvent self-insurer with estimated claims in excess of its security of \$1,201,530;
- 2) an unearned benefit paid to a claimant that would have been recoverable from an excess insurer if the claimant had not passed away of \$1,283; and,
- 3) a change in estimate and/or claim development of (\$622,254).

(11) Pension Plan

Plan Description

Substantially all of the Fund's full-time employees who are not eligible for participation in another State-sponsored retirement plan participate in State Employees' Retirement Plan System (SERS), which is a single-employer defined benefit pension trust fund in the State's reporting entity. SERS is governed by Article 14 of the Illinois Pension Code (40 ILCS 5/1, et al.). The Plan consists of two tiers of contribution requirements and benefit levels based on when an employee was hired. Members who first become an employee and participate under any of the State's retirement plans on or after January 1, 2011, are members of Tier 2, while Tier 1 consists of employees hired before January 1, 2011, or those who have service credit prior to January 1, 2011. The provisions below apply to both Tier 1 and 2 members, except where noted.

The SERS issues a separate ACFR available at www.srs.illinois.gov or that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

The pension plan's fiduciary net position was \$18,491,888,652 as of June 30, 2019.

Benefit Provisions

SERS provides retirement benefits based on the member's final average compensation and the number of years of credited service that have been established. The retirement benefit formula available to general State employees that are covered under the federal Social Security Act is 1.67% for each year of covered service and 2.2% for each year of noncovered service. The maximum retirement annuity payable is 75% of final average compensation as calculated under the regular formula. The minimum monthly retirement annuity payable is \$15 for each year of covered employment and \$25 for each year of noncovered employment.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

Participants in SERS under the regular formula Tier 1 and Tier 2 receive the following levels of benefits based on the respective age and years of service credits.

Regular Formula – Tier 1	Regular Formula – Tier 2
<p>A member must have a minimum of eight years of service credit and may retire at:</p> <ul style="list-style-type: none"> • age 60, with 8 years of service credit; • any age, when the member's age (years & whole months) plus years of service credit (years & whole months) equal 85 years (1,020 months) (Rule of 85) with eight years of credited service; or, • between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60). <p>The retirement benefit is based on final average compensation and credited service. Final average compensation is the 48 highest consecutive months of service within the last 120 months of service.</p> <p>Under the Rule of 85, a member is eligible for the first 3% increase on January 1 following the first full year of retirement, even if the member is not age 60. If the member retires at age 60 or older, he/she will receive a 3% pension increase every year on January 1, following the first full year of retirement.</p> <p>If the member retires before age 60 with a reduced retirement benefit, he/she will receive a 3% pension increase every January 1 after the member turns age 60 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.</p>	<p>A member must have a minimum of 10 years of credited service and may retire at:</p> <ul style="list-style-type: none"> • age 67, with 10 years of credited service; or, • between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67). <p>The retirement benefit is based on final average compensation and credited service. For regular formula employees, final average compensation is the average of the 96 highest consecutive months of service within the last 120 months of service. The retirement benefit is calculated on a maximum salary of \$106,800. This amount increases annually by 3% or one-half of the Consumer Price Index, whichever is less.</p> <p>If the member retires at age 67 or older, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every year on January 1, following the first full year of retirement. The calendar year 2019 rate is \$114,952.</p> <p>If the member retires before age 67 with a reduced retirement benefit, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every January 1 after the member turns age 67 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.</p>

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

Additionally, the Plan provides an alternative retirement formula for State employees in high-risk jobs, such as State police, fire fighters, and security employees. Employees qualifying for benefits under the alternative formula may retire at an earlier age depending on membership in Tier 1 or Tier 2. The retirement formula is 2.5% for each year of covered service and 3.0% for each year of non-covered service. The maximum retirement annuity payable is 80% of final average compensation as calculated under the alternative formula.

SERS also provides occupational and nonoccupational (including temporary) disability benefits. To be eligible for nonoccupational (including temporary) disability benefits, an employee must have at least eighteen months of credited service to the System. The nonoccupational (including temporary) disability benefit is equal to 50% of the monthly rate of compensation of the employee on the date of removal from the payroll. Occupational disability benefits are provided when the member becomes disabled as a direct result of injuries or diseases arising out of and in the course of State employment. The monthly benefit is equal to 75% of the monthly rate of compensation on the date of removal from the payroll. This benefit amount is reduced by workers' compensation or payments under the Workers' Occupational Diseases Act.

Occupational and nonoccupational death benefits are also available through the System. Certain nonoccupational death benefits vest after eighteen months of credited service. Occupational death benefits are provided from the date of employment.

Contributions

Contribution requirements of active employees and the State are established in accordance with Chapter 40, Section 5/14-133 of the Illinois Compiled Statutes. Member contributions are based on fixed percentages of covered payroll ranging between 4.00% and 12.50%. Employee contributions are fully refundable, without interest, upon withdrawal from State employment. Tier 1 members contribute based on total annual compensation. Tier 2 members contribute based on an annual compensation rate not to exceed \$106,800 with limitations for future years increased by the lesser of 3% or one-half of the annual percentage increase in the Consumer Price Index. For 2020, this amount was \$115,929.

The State is required to make payment for the required departmental employer contributions, all allowances, annuities, any benefits granted under Chapter 40, Article 5/14 of the Illinois Compiled Statutes and all administrative expenses of the System to the extent specified in the Illinois Compiled Statutes. State law provides that the employer contribution rate be determined based upon the results of each annual actuarial valuation.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

For Fiscal Year 2020, the required employer contributions were computed in accordance with the State's funding plan. This funding legislation provides for a systematic 50-year funding plan with an ultimate goal to achieve 90% funding of the Plan's liabilities. In addition, the funding plan provided for a 15-year phase-in period to allow the State to adapt to the increased financial commitment. Since the 15-year phase-in period ended June 30, 2010, the State's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved. For Fiscal Year 2020, the employer contribution rate was 54.290%. The Fund's contribution amount recognized during Fiscal Year 2020 was \$45,882.

Pension Liability, Deferred Outflows of Resources, Deferred Inflows of Resources, and Expense Related to Pensions

At June 30, 2020, the Fund reported a liability of \$667,881 for its proportionate share of the State's net pension liability for SERS on the statement of net position (deficit). The net pension liability was measured as of June 30, 2019 (current year measurement date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Fund's portion of the net pension liability was based on the Fund's proportion of employer contributions relative to all employer contributions made to the Plan during the year ended June 30, 2019. As of the current year measurement date of June 30, 2019, the Fund's proportion was 0.00208%, which was a decrease of 0.00031% from its proportion measured as of the prior year measurement date (0.00239%).

For the year ended June 30, 2020, the Fund recognized pension expense of \$107,420. At June 30, 2020, the Fund reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2019, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and experience	\$ -	\$ 8,351
Changes of assumptions	18,616	9,641
Net difference between projected and actual investments earnings on plan investments	-	975
Changes in proportion	49,794	73,024
Contributions subsequent to the measurement date	136,603	-
Balance on June 30, 2020	<u>\$ 205,013</u>	<u>\$ 91,991</u>

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

The Fund reported \$136,603 as deferred outflows of resources related to pensions resulting from Fund contributions subsequent to the measurement date. These will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. The other remaining deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Years ended June 30,	SERS
2021	\$ 5,627
2022	(22,118)
2023	(3,603)
2024	(3,487)
Total	\$ (23,581)

Actuarial Methods and Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2019
Inflation	2.25%
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation
Projected Salary Increases	2.75% - 7.17% salary increase rates based on age related productivity and merit rates inflation
Post-retirement Benefit Increases	3.00%, compounded, for Tier 1 and the lesser of 3.00% or one-half of the annual increase in the Consumer Price Index for Tier 2
Retirement Age	Experience-based table of rates specific to the type of eligibility condition (last updated for the June 30, 2019, actuarial valuation pursuant to and experience study of the period July 1, 2015, to June 30, 2018)
Mortality	Pub-2010 General and Public Safety Healthy Retiree mortality tables, sex distinct, with rates projected to 2018 generational mortality improvement factors updated to projection scale MP-2018

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

The actuarial assumptions used to calculate the total pension liability as of the current year measurement date are consistent with the actuarial assumptions used to calculate the total pension liability as of the prior year measurement date except for the following:

- 1) The rate of inflation decreased from 2.50% to 2.25%.
- 2) The investment rate of return decreased from 7.00% to 6.75%.
- 3) The projected salary increase range changed from 3.00% - 7.42% to 2.75% - 7.17%.
- 4) The retirement age experience study was updated to July 2015 – June 2018.
- 5) The mortality rate was updated from using the 105 percent of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added.

The long-term expected real rate of return on pension plan investments was determined using the best estimates of geometric real rates of return for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in the pension plan's target asset allocation, calculated as of the measurement date of June 30, 2019, the best estimates of the geometric real rates of return are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	23%	4.80%
Developed Foreign Equity	13%	4.60%
Emerging Market Equity	8%	6.90%
Private Equity	7%	6.80%
Intermediate Investment Grade Bonds	14%	0.70%
Long-Term Government Bonds	4%	1.00%
TIPS	4%	0.80%
High Yield and Bank Loans	5%	2.70%
Opportunistic Debt	8%	4.20%
Emerging Market Debt	2%	2.70%
Real Estate	10%	4.40%
Infrastructure	2%	4.10%
Total	100%	

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

Discount Rate

A discount rate of 6.47% was used to measure the total pension liability as of the measurement date of June 30, 2019, as compared to a discount rate of 6.81% used to measure the total liability as of the prior year measurement date. The June 30, 2019, single blended discount rate was based on the expected rate of return on pension plan investments of 6.75% and a municipal bond rate of 3.13%, based on an index of 20-year general obligation bonds with an average AA credit rating as published by the Fidelity Index's "20-Year Municipal GO AA Index". The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions will be made based on the statutorily required rates under Illinois law. Based on these assumptions, the pension plan's fiduciary net position and future contributions will be sufficient to finance the benefit payments through the year 2073. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2073, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The net pension liability for the plan was calculated using the stated discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate as shown below:

	1% Decrease (5.47%)	Discount Rate (6.47%)	1% Increase (7.47%)
Fund's proportionate share of the net pension liability	\$ 807,722	\$ 667,881	\$ 552,906

Payables to the Pension Plan

At June 30, 2020, the Fund reported a payable of \$4,221 for outstanding contributions due to SERS required for the year ended June 30, 2020.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

(12) Other Postemployment Benefit Plan

Plan Description

The State Employees Group Insurance Act of 1971 (SEGIA), as amended, authorizes the State Employees Group Insurance Program (SEGIP) to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the Fund's full-time employees are members of SEGIP. Members receiving monthly benefits from the General Assembly Retirement System ("GARS"), Judges Retirement System ("JRS"), State Employees' Retirement System of Illinois ("SERS"), Teachers' Retirement System ("TRS"), and State Universities Retirement System of Illinois ("SURS") are eligible for these OPEB. Certain TRS members eligible for coverage under SEGIP include: certified teachers employed by certain State agencies, executives employed by the Board of Education, regional superintendents, regional assistant superintendents, TRS employees, and members with certain reciprocal service.

The Department of Central Management Services administers these benefits for annuitants with the assistance of the public retirement systems sponsored by the State (GARS, JRS, SERS, TRS, and SURS). The State recognizes SEGIP OPEB benefits as a single-employer defined benefit plan. The plan does not issue a stand-alone financial report.

Benefits Provided

The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and the various unions representing the State's and the university component units' employees in accordance with limitations established in SEGIA. Therefore, the benefits provided and contribution amounts are subject to periodic change. Coverage through SEGIP becomes secondary to Medicare after Medicare eligibility has been reached. Members must enroll in Medicare Parts A and B to receive the subsidized SEGIP premium available to Medicare eligible participants. SEGIA requires the State to provide life insurance benefits for annuitants equal to their annual salary as of the last day of employment until age 60, at which time, the benefit amount becomes \$5,000.

Funding Policy and Annual Other Postemployment Benefit Cost

OPEB offered through SEGIP are financed through a combination of retiree premiums, State contributions, and Federal government subsidies from the Medicare Part D program. Contributions are deposited in the Health Insurance Reserve Fund, which covers both active State employees and retirement members. Annuitants may be required to contribute towards

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

health and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in SERS do not contribute toward health and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health and vision benefits. All annuitants are required to pay for dental benefits regardless of retirement date.

The Director of the Department of Central Management Services shall, on an annual basis, determine the amount the State shall contribute toward the basic program of group health benefits. State contributions are made primarily from the General Revenue Fund on a pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree health insurance benefit and a separate trust has not been established for the funding of OPEB.

For Fiscal Year 2020, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was \$11,681.04 (\$6,703.92 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and \$14,959.44 (\$5,592.24 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

Total OPEB Liability, Deferred Outflows of Resources, Deferred Inflows of Resources, and OPEB Expense

The total OPEB liability, as reported at June 30, 2020, was measured as of June 30, 2019 (measurement date), based on an actuarial valuation as of June 30, 2018. Update procedures were used to roll forward the total OPEB liability to the measurement date. At June 30, 2020, the Fund recorded a liability of \$563,370 for its proportionate share of the State's total OPEB liability. The Fund's portion of the OPEB liability was based on the Fund's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2019. As of the current year measurement date, the Fund's proportion was 0.0013%, which was a decrease of 0.0001% from its proportion measured as of the prior year measurement date (0.0014%).

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

For the year ended June 30, 2020, the Fund recognized OPEB expense of (\$20,235). At June 30, 2020, the Fund reported deferred outflows and deferred inflows of resources related to the OPEB liability, as of the measurement date of June 30, 2019, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and experience	\$ 809	\$ 8,594
Changes of assumptions	19,586	34,764
Changes in proportion	-	35,462
Contributions subsequent to the measurement date	34,174	-
Balance on June 30, 2020	<u>\$ 54,569</u>	<u>\$ 78,820</u>

The Fund reported \$34,174 as deferred outflows of resources related to OPEB resulting from Fund contributions subsequent to the measurement date. These will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. The other remaining deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Years ended June 30,	SEGIP
2020	\$ (19,922)
2021	(19,922)
2022	(13,700)
2023	(4,347)
2024	(534)
Total	<u>\$ (58,425)</u>

Actuarial Methods and Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on GARS, JRS, SERS, TRS, and SURS active, inactive, and retiree data as of June 30, 2018, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2018.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal
Inflation	2.50%
Projected Salary Increases*	2.75% - 12.25%
Discount Rate	3.13%
Healthcare Cost Trend Rate	
Medical (Pre-Medicare)	8.0% grading down 0.5% in the first year to 7.5%, then grading down 0.11% in the second year to 7.39%, followed by grading down of 0.5% per year over 5 years to 4.89% in year 7
Medical (Post-Medicare)	9.0% grading down 0.5% per year over 9 years to 4.5%
Dental	6.0% grading down 0.5% per year over 3 years to 4.5%
Retirees' Share of Benefit-Related Costs	Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January 1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5 percent for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100 percent of the required dependent premium. Premiums for plan year 2018 and 2019 are based on actual premiums. Premiums after 2019 were projected based on the healthcare cost trend rates applied to per capital claim costs but excluding the additional trend rate that estimates the impact of the Excise Tax.

* Dependent upon service and participation in the respective retirement systems. Includes inflation rate listed.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

Since the last measurement date on June 30, 2019, the State has not made any significant changes to the benefit terms affecting the measurement of the collective total OPEB liability. On December 20, 2019, the Further Consolidated Appropriations Act, 2020 (Public Law 116-94) was signed into law repealing the federal excise taxes of 40% on total employer premium spending in excess of specified dollar amounts, also known as the "Cadillac Tax." The impact of this repeal to the State's financial statements, which could be significant, is not known at this time. Additionally, the demographic assumptions used in this OPEB valuation are identical to those used in the June 30, 2018, valuations for GARS, JRS, SERS, TRS, and SURS as follows:

	<u>Retirement Age Experience Study</u>	<u>Mortality</u>
GARS	July 2012 – June 2015	RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales
JRS	July 2012 – June 2015	RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales
SERS	July 2012 – June 2015	105 percent of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added
TRS	July 2014 – June 2017	RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2017
SURS	July 2014 – June 2017	RP-2014 White Collar, gender distinct, projected using MP-2014 two-dimensional mortality improvement scale, set forward one year for male and female annuitants

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined. A modified experience review was completed for SERS for the 3-year period ending June 30, 2015. Changes were made to the assumptions regarding investment rate of return, projected salary increases, inflation rate, and mortality based on this review. All other assumptions remained unchanged.

Also, mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.

Discount Rate

Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as published by the Fidelity Index "20-year Municipal GO AA Index" as of the measurement date. A single discount rate of 3.62% at June 30, 2018, and 3.13% at June 30, 2019, an increase of 0.49, was used to measure the total OPEB liability.

	<u>1% Decrease</u> (2.13%)	<u>Discount Rate</u> (3.13%)	<u>1% Increase</u> (4.13%)
Fund's proportionate share of the net OPEB liability	\$ 663,516	\$ 563,370	\$ 483,263

Payables to SEGIP

At June 30, 2020, the Fund reported a payable of \$2,297 for outstanding contributions due to SEGIP required for the year ended June 30, 2020.

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents SEGIP's total OPEB liability, calculated using the healthcare cost trend rate, as well as what SEGIP's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point higher or lower, than the current healthcare cost trend rates.

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
Fund's proportionate share of the net OPEB liability	\$ 472,388	\$ 563,370	\$ 681,206

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

The key trend rates are 8.00% in 2020 decreasing to an ultimate trend of 4.89% in 2027, for non-Medicare coverage, and 9.00% decreasing to an ultimate trend rate of 4.50% in 2029 for Medicare coverage.

(13) Risk Management

The Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers' compensation; and natural disasters. The State retains the risk of loss (i.e., self-insured) for these risks.

The Fund's risk management activities are financed through appropriations to the Department of Central Management Services and are accounted for in the State's General Fund. As the claims are not considered to be a liability of the Fund, they have not been reported in the Fund's financial statements for the year ended June 30, 2020.

(14) Contingencies

A. Black Lung Cases

As of June 30, 2020, the Fund could incur significantly higher claims for unreported black lung cases associated with two formerly self-insured coal companies. Black lung death cases may be filed by a worker's dependent up to three years after the worker's death, with each claim carrying a total maximum exposure of \$500,000. All of the following conditions must be proved to establish a compensable claim for a black lung death:

- The deceased died of black lung that arose out of and in the course of the decedent's coal mining employment.
- The deceased worked for one of the two formerly self-insured coal companies from January 1974 through January 2001 or from April 1983 through January 2001 (depending on the company) and the formerly self-insured company was the decedent's last coal-related employer.
- At the time of death, the decedent had either a spouse or qualified dependents.
- The claim was filed within three years of the decedent's death.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

Given these requirements, possible claims will decrease over time as the three-year statute of limitations expires. The Fund has had 18 black lung death claims since the Fund assumed the formerly self-insured companies' liabilities in 2003, including two claims that have been filed after 2015.

B. Incurred-But-Not Reported (IBNR) Component of Unpaid Claims

As of June 30, 2020, the Fund could incur claims based on the following contingencies:

- a) Actual payments or settlements could turn out to be higher than the current estimated unpaid claims because the circumstance of a claim tends to develop worse than expected such as when an unexpected treatment or operation has to be performed to an injured patient.
- b) Certain family members of injured workers, upon the death of the worker, could file claims within either: (1) three years of the worker's death or (2) two years after the date of the last payment of compensation and prove that the death of the worker is work related. These claims could arise from claimants currently collecting benefits or from claimants not currently collecting benefits.
- c) There could be unreported claims from bankrupt companies where the liabilities have not yet assumed by the Fund.
- d) There could be unreported claims not yet known to the Fund where the Fund has taken over the liabilities of the bankrupt company.

There is significant uncertainty in estimating the above contingencies given the Fund's limited historical claim experience to date. As such, the Fund has not calculated an amount for these speculative losses. This uncertainty will diminish, however, as more claim experience is accumulated in the future years.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

C. Self-Insurers under Bankruptcy Protection

As of June 30, 2020, estimated contingent liabilities for unpaid claims of self-insurers under bankruptcy protection, net of excess insurance, was \$1,190,055, with \$81,373 and \$1,108,682 representing current and noncurrent liabilities, respectively. On behalf of the Board, the Commission would collect the self-insurer's security if the Fund became responsible for paying these claims. As of June 30, 2020, there was sufficient posted security from each self-insurer to cover its portion of the estimated claims.

D. Excess Insurance Counterparty Risk

As of June 30, 2020, all excess insurance companies located within the United States of America had an AM Best rating of "A" or better for the Financial Strength Rating (FSR). According to Understanding Best's Credit Ratings (dated January 2, 2019), the FSR "is an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations" and "A" or higher rating indicates a given insurance company has, in Best's opinion, an excellent ability to meet its ongoing insurance obligations.

One insolvent self-insurer's excess insurance carriers for one beneficiary are based in the United Kingdom. Fund management is aware of one of these excess insurance carriers is currently undergoing the United Kingdom equivalent of bankruptcy, and due to uncertainty as to whether the Fund will ever be reimbursed for its claims, has recorded the full balance owed as uncollectible.

Based upon this independent analysis and the continued payment of excess insurance claims by most of the excess insurance companies, Fund management has concluded counterparty risk is low and does not require the recognition of additional liabilities and reduction in assets as of the date when these financial statements were available to be issued.

(15) Commitments

The Fund had no significant commitments at June 30, 2020.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

(16) Prior Period Adjustments

During the year ended June 30, 2020, error corrections resulted in restatements to beginning net position, as follows:

	Reporting Unit Affected by the Restatement to Beginning Balances
	Business-Type Activities
July 1, 2019, as previously reported	\$ (5,588,065)
Error Correction (A)	(4,363)
Error Correction (B)	(430,379)
July 1, 2019, as restated	\$ (6,022,807)

- A. This error correction occurred due to the Illinois State Toll Highway Authority (Tollway) and the Department of Central Management Services not separately stating OPEB balances for Tollway employees who only partake in SEGIP upon their retirement from the Tollway from other employees accounted for within SEGIP's cost-sharing proportionate share allocation of OPEB balances. This error impacted SEGIP's cost-sharing proportionate share allocation, which is used by the State of Illinois' agencies and public universities to record their OPEB activity. For the Fund, this correction also impacted the beginning OPEB liability and the related deferred inflows of resources and deferred outflows of resources.
- B. The Fund had various unidentified errors and omissions throughout its cash basis and accrual records, which resulted in a prior period adjustment.

During the year ended June 30, 2020, error corrections resulted in restatements to beginning cash and cash on hand, as follows:

	Reporting Unit Affected by the Restatement to Beginning Balances
	Business-Type Activities
July 1, 2019, as previously reported	\$ 18,389,886
Error Correction (A)	(33)
July 1, 2019, as restated	\$ 18,389,853

- A. The Fund did not properly report petty cash vendor's invoices not reimbursed and reimbursement vouchers in transit.

**STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT**

**Notes to the Financial Statements
June 30, 2020**

(17) Deficit

At June 30, 2020, the Fund has a deficit of \$5,777,630 because the Fund's liabilities and deferred inflows of resources – including postemployment benefits, actuarially-determined claims liabilities, security deposits, and unearned security deposits – exceed the Fund's assets and deferred outflows of resources. Subject to Board approval, future assessments will be used to meet the Fund's obligations in the future.

(18) Subsequent Events

After June 30, 2020, seven claims handled by the Fund have been closed through unexpected passing of the beneficiaries and settlements. The seven closed claims had a total estimated potential exposure amounting to \$962,314 as of June 30, 2020.

On December 12, 2020, the Commission became aware of the liquidation of a former self-insurer. Commission management made a demand on the surety bond on January 21, 2021. The surety elected to administer the claim. The Commission's actuary estimated the Fund's potential exposure amounted to \$124,870 as of June 30, 2021.

On December 21, 2020, the Commission became aware of the Chapter 7 voluntary petition filed on December 18, 2020, by a current self-insurer. The Fund collected the security and began administering the claims on February 15, 2021. The Commission's actuary estimated the Fund's potential exposure amounted to \$140,952 as of June 30, 2021.

On March 22, 2021, the Board approved an assessment of 0.6% which was issued on July 21, 2021. The Fund has collected approximately \$1.1 million in assessment revenue as of March 28, 2022.

On February 16, 2022, the Fund collected the \$2,000,000 principal balance from the interfund loan to the Health Insurance Reserve Fund. The interest earned on this interfund loan remains outstanding as of March 28, 2022.

Commission management is not aware of any additional facts, decisions, or conditions that might be expected to have a significant effect on the Fund's financial position or results of operations during this and future fiscal years.



**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Self-Insurers Advisory Board
State of Illinois, Illinois Workers' Compensation Commission

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Self-Insurers Security Fund (Fund 940) of the State of Illinois, Illinois Workers' Compensation Commission (Commission), as of and for the year ended June 30, 2020, and the related notes to the financial statements, and we have issued our report thereon dated March 28, 2022.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements of Fund 940 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the Commission is responsible for establishing and maintaining effective internal control over financial reporting of Fund 940 (internal control).

In planning and performing our audit of the financial statements, we considered the Commission's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, we did identify certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as item 2020-001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as item 2020-002 to be a significant deficiency.

Commission's Responses to the Findings

The Commission's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Commission's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Chicago, Illinois
March 28, 2022



STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2020

2020-001. **FINDING** (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:

- 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.
- The Fund's benefits expense account included \$778,108 from 13 claims that had been paid before the Fund took over the claim.
- We noted \$53,236 in recoverable benefit claims from excess insurance had not been reported to the Commission's actuaries. Our actuary considered the impact of this error and determined this error would not have materially impacted the Fund's final financial statements.
- 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.
- The Commission improperly classified \$14,124 of excess insurance receipts as assessment revenue.
- The Fund's general journal did not balance, with an unreconciled difference between the total debits and total credits of \$40,004.

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. Finally, this agreement

STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2020

2020-001. **FINDING** (Failure to Prepare Complete and Accurate Financial Statements)

was affirmed by the Commission's Chair in a meeting with the Auditor General's staff on December 8, 2020, and confirmed in a letter to the Chair on December 9, 2020. In the end, Commission management was unable to identify and fix the problems within the Fund's financial statements.

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 the both 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:
 - 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.
 - 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.
 - 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

STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2020

2020-001. **FINDING** (Failure to Prepare Complete and Accurate Financial Statements)

value of the interfund loan exceeded the Fund's available cash balance by approximately \$781,429 on January 21, 2020. By failing to 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.

- 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.

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:

- 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.
- 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:
 - 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.
 - 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.

STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2020

2020-001. **FINDING** (Failure to Prepare Complete and Accurate Financial Statements)

- 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.
- 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.

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			
	Original	Corrected	Differences
Assets	\$ 24,539,852	\$ 24,652,162	\$ (112,310)
Deferred Outflows	260,065	259,582	483
Liabilities	(30,090,279)	(30,518,563)	428,284
Deferred Inflows	(191,488)	(170,811)	(20,677)
Ending Net Position	\$ 5,481,850	\$ 5,777,630	\$ (295,780)

STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2020

2020-001. **FINDING** (Failure to Prepare Complete and Accurate Financial Statements)

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

	Original	Corrected	Differences
Opening Net Position	\$ 5,588,065	\$ 6,022,807	\$ (434,742)
Revenues	(2,785,495)	(1,252,558)	(1,532,937)
Expenses	2,679,281	1,007,381	1,671,900
Ending Net Position	<u>\$ 5,481,851</u>	<u>\$ 5,777,630</u>	\$ (295,779)

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

	Original	Corrected	Differences
Opening Balance	\$ 18,389,786	\$ 18,389,853	\$ (67)
Operating:			
Net Inflows	2,371,941	2,687,561	(315,620)
Net Outflows	(1,651,109)	(2,006,698)	391,589
Noncapital Financing:			
Net Inflows	-	-	-
Net Outflows	(2,000,000)	(2,000,900)	900
Investing:			
Net Inflows	300,244	6,736	293,508
Net Outflows	(370,369)	-	(370,369)
Ending Net Position	<u>\$ 17,076,493</u>	<u>\$ 17,076,552</u>	\$ (59)

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Commission establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over the State's resources.

In addition, the Workers' Compensation Act (820 ILCS 305/4a-7(c)) requires the Commission to promptly submit an annual report of the Fund, which must include an annual independent audit of the Fund, to the Commission's Chair and the other members of the Self-Insurers Advisory Board (Board) after the end of the fiscal year. To accomplish this, the Commission must have an internal control structure designed to facilitate timely GAAP-basis financial reporting.

Finally, Concepts Statement No. 1 of the Governmental Accounting Standards Board, paragraph 66, *Objectives of Financial Reporting*, states, "If financial reports are to be useful, they must be issued soon enough after the reported events to affect decisions." Generally, governmental financial reports should be released within six months after the conclusion of the entity's fiscal year to be useful.

STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2020

2020-001. **FINDING** (Failure to Prepare Complete and Accurate Financial Statements)

Commission management agreed with these adjustments and revised the Fund's final financial statements to correct the impact of various errors.

Commission officials indicated staff members' unfamiliarity with certain GAAP requirements and lack of awareness of the underlying problems, along with COVID-19 personnel coordination problems leading to a lack of detailed supervisory reviews, contributed to these conditions.

Failure to prepare complete and accurate GAAP-basis financial statements resulted in the Governor, the General Assembly, the Board, and other users of the Fund's financial statements not receiving timely feedback about the Fund's condition and limited the ability of these users to assess accountability for the Fund's resources and delayed completion of this audit. In addition, these errors, if not detected by the auditors and corrected by the Commission, would have materially misstated the Fund's financial statements. (Finding Code No. 2020-001)

RECOMMENDATION

We recommend 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, the Commission should 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, the Commission should 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.

STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2020

2020-001. **FINDING** (Failure to Prepare Complete and Accurate Financial Statements)

COMMISSION RESPONSE

The issues listed in five of the 12 main bullet points within this finding (relating to unearned security deposits, sub-accounts, noncompliance with the State Officials and Employees Money Disposition Act, segregation of excess insurance recoveries from fee reimbursements, and the design of certain internal controls) were first raised as issues by the auditors during this audit. The Commission's staff has been consistent over the past few years about how these transactions were processed, and these transactions were previously apparently accepted by the auditors. Going forward, we will change our accounting processes and procedures to reflect the recommendations made by the auditors.

For one of the 12 main bullet points within this finding (relating to recoverable benefit claims), the Commission agrees it was incorrect, but we deemed it immaterial to our actuary's work as a whole and our financial statements. The Commission notes the auditor's actuary also concurred with this determination.

For two of the 12 main bullet points within this finding (relating to benefits expense account and prepayments to a third-party claims processor), the Commission agrees it was incorrect due to the infrequency of this type of transaction. Going forward, the Commission will have a process in place to flag these transactions for accurate processing.

Four of the 12 main bullet points within this finding (classification of excess insurance receipts, the unbalanced general journal, interfund activity, and timeliness of receipt deposits) are deficiencies we acknowledge and are working to remedy. The Office of the Auditor General has been very helpful in working with the Commission's staff to remedy these issues.

Finally, the Commission notes the \$2,000,000 loan's principal balance was repaid to the Fund on February 16, 2022. The Commission is unsure when the interest due will be paid.

STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2020

2020-002. **FINDING** (Inadequate Controls over Census Data)

The Illinois Workers' Compensation Commission (Commission) did not have a reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits (OPEB) plans was complete and accurate for the Self-Insurers Security Fund (Fund).

Census data is demographic data (date of birth, gender, years of service, etc.) of the active, inactive, or retired members of a pension or OPEB plan. The accumulation of inactive or retired members' census data occurs before the current accumulation period of census data used in the plan's actuarial valuation (which eventually flows into each employer's financial statements), meaning the plan is solely responsible for establishing internal controls over these records and transmitting this data to the plan's actuary. In contrast, responsibility for active members' census data during the current accumulation period is split among the plan and each member's current employer(s). Initially, employers must accurately transmit census data elements of their employees to the plan. Then, the plan must record and retain these records for active employees and then transmit this census data to the plan's actuary.

We noted the Commission's employees within the Fund are members of both the State Employees' Retirement System of Illinois (SERS) for their pensions and the State Employees Group Insurance Program sponsored by the State of Illinois, Department of Central Management Services (CMS) for their OPEB. In addition, we noted these plans have characteristics of different types of pension and OPEB plans, including single employer plans and cost-sharing multiple-employer plans. Finally, we noted CMS' actuaries use SERS' census data records to prepare the OPEB actuarial valuation.

During testing, we noted the following:

- 1) The Commission had not performed an initial complete reconciliation of its census data recorded by SERS to its internal records to establish a base year of complete and accurate census data.
- 2) After establishing a base year, the Commission had not developed a process to annually obtain from SERS the incremental changes recorded by SERS in their census data records and reconcile these changes back to the Commission's internal supporting records.

For employers participating in plans with multiple-employer and cost-sharing characteristics, the American Institute of Certified Public Accountants' *Audit and Accounting Guide: State and Local Governments* (AAG-SLG) (§ 13.177 for pensions and § 14.184 for OPEB) notes the determination of net pension/OPEB liability, pension/OPEB expense, and the associated deferred inflows and deferred outflows of

STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2020

2020-002. **FINDING** (Inadequate Controls over Census Data)

resources depends on employer-provided census data reported to the plan being complete and accurate along with the accumulation and maintenance of this data by the plan being complete and accurate. To help mitigate against the risk of a plan's actuary using incomplete or inaccurate census data within similar agent multiple-employer plans, the AAG-SLG (§ 13.181 (A-27) for pensions and § 14.141 for OPEB) recommends an employer annually reconcile its active members' census data to a report from the plan of census data submitted to the plan's actuary, by comparing the current year's census data file to both the prior year's census data file and its underlying records for changes occurring during the current year.

Further, the State Records Act (5 ILCS 160/8) requires the Commission make and preserve records containing adequate and proper documentation of its essential transactions to protect the legal and financial rights of the State and of persons directly affected by the Commission 's activities.

Finally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Commission establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

Commission officials indicated these exceptions were due to the lack of a Statewide reconciliation process before Fiscal Year 2022.

Failure to reconcile active members' census data reported to and held by SERS to the Commission's records could result in each plan's actuary relying on incomplete or inaccurate census data in the calculation of the Fund's pension and OPEB balances, which may result in a misstatement of these amounts. (Finding Code No. 2020-002)

RECOMMENDATION

We recommend the Commission work with SERS to develop an annual reconciliation process of its active members' census data from its underlying records to a report of the census data submitted to each plan's actuary. After completing an initial full reconciliation, the Commission may limit the annual reconciliation to focus on the incremental changes to the census data file from the prior actuarial valuation, provided no risks are identified that incomplete or inaccurate reporting of census data may have occurred during prior periods.

STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
SCHEDULE OF FINDINGS – *GOVERNMENT AUDITING STANDARDS*
For the Year Ended June 30, 2020

2020-002. **FINDING** (Inadequate Controls over Census Data)

COMMISSION RESPONSE

The Commission agrees with the finding. The Commission have taken corrective action during Fiscal Year 2022 by completing the census data reconciliation for the Fiscal Year 2021 census data accumulation year.

STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
SCHEDULE OF FINDINGS – PRIOR FINDING NOT REPEATED
For the Year Ended June 30, 2020

A. **FINDING** (Unreconciled Error in the Draft Financial Statements)

During the financial audit of the Self-Insurers Security Fund (Fund) for the year ended June 30, 2019, the initial financial statements of the Fund provided to the auditors by the Illinois Workers' Compensation Commission (Commission) had an unreconciled error of \$80,291 on the face of the financial statements.

During the current financial audit, our testing did not identify a similar problem; however, many other deficiencies were noted in Finding 2020-001. (Finding Code No. 2019-001)