



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND

Financial Audit
For the Year Ended June 30, 2017

Release Date: March 12, 2019

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

INTRODUCTION

This digest covers the financial audit of the Self-Insurers Security Fund as of and for the year ended June 30, 2017, at the Illinois Workers' Compensation Commission. The Commission's compliance examination for the two years ended June 30, 2017, will be issued in a separate report at a later date.

SYNOPSIS

- **(18-01)** The Commission failed to ensure its draft financial statements of the Self-Insurers Security Fund provided to us were both complete and properly presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

EMPHASIS OF MATTERS

- As discussed in Note 15 to the financial statements, the Self-Insurers Security Fund had a total net position (deficit) of (\$3,428,465) as of June 30, 2017.
- During our audit, we noted the Self-Insurers Administrative Fund's expenses have exceeded revenues recognized for a significant period of time.

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

{Financial information is summarized on next page.}

ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2017

STATEMENT OF NET POSITION (DEFICIT)	2017	2016
Assets and Deferred Outflows of Resources		
Restricted Cash Equity in the State Treasury.....	\$ 19,774,204	
Restricted Cash and Cash Equivalents.....	53,094	
Restricted Assessments Receivable.....	4,037	
Restricted Accrued Interest Receivable.....	19,542	
Restricted Excess Insurance Receivable.....	218,170	
Securities Lending Collateral Equity with the State Treasurer	6,386,000	
Deferred Outflow of Resources - Pension.....	504,565	
Total Assets and Deferred Outflows of Resources.....	<u>\$ 26,959,612</u>	
Liabilities and Deferred Inflows of Resources		
Accounts Payable.....	\$ 28,271	
Obligations Under Securities Lending of the State Treasurer..	6,386,000	
Security Deposits.....	1,198,303	
Unearned Security Deposits.....	13,833,750	
Unpaid Claims.....	7,988,200	
Compensated Absences.....	19,868	
Net Pension Liability.....	853,635	
Deferred Inflow of Resources - Pension.....	80,050	
Total Liabilities and Deferred Inflows of Resources.....	<u>\$ 30,388,077</u>	
Net Position (Deficit)		
Total Net Position (Deficit).....	\$ (3,428,465)	

Comparative information is not available due to the adverse opinion on the Self-Insurers Security Fund's financial statements as of and for the year ended June 30, 2016.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (DEFICIT)	2017	2016
Operating Revenues		
Assessments.....	\$ -	
Security Deposits Drawn.....	(180,579)	
Total Operating Revenues.....	<u>\$ (180,579)</u>	
Operating Expenses		
Total Operating Expenses.....	<u>\$ 40,709</u>	
Nonoperating Revenues		
Interest Income.....	\$ 47,335	
Total Nonoperating Revenues.....	<u>\$ 47,335</u>	
Change in Net Position (Deficit).....	(173,953)	
Net Position, Beginning of Year (as Previously Reported)...	11,497,347	
Prior Period Adjustments.....	(14,751,859)	
Net Position (Deficit), Beginning of Year (as Restated).....	<u>(3,254,512)</u>	
Net Position (Deficit), End of the Year.....	<u>\$ (3,428,465)</u>	

Comparative information is not available due to the adverse opinion on the Self-Insurers Security Fund's financial statements as of and for the year ended June 30, 2016.

COMMISSION CHAIR
During Examination Period: Ms. Joann Fratianni
Currently: Ms. Joann Fratianni

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

INADEQUATE CONTROL OVER FINANCIAL REPORTING

The Illinois Workers' Compensation Commission (Commission) failed to ensure its draft financial statements of the Self-Insurers Security Fund (Fund) provided to us were both complete and properly presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

During testing, we noted the following:

Improper classification of the Fund's deficit net position

- The Commission improperly reported the Fund's deficit of (\$3,428,465) at June 30, 2017, as negative restricted net position. Commission management corrected this error by charging the deficit to unrestricted net position in the Fund's final financial statements.

Pension liabilities and related flows were not recorded

- The Commission did not record the Fund's net pension liability or related flows. Commission management corrected this error by posting an adjusting entry at July 1, 2017, which decreased the Fund's net position by \$269,419, increased the Fund's net pension liability by \$448,131, increased the Fund's deferred outflows of resources related to pensions by \$260,741, and increased the Fund's deferred inflows of resources related to pensions by \$109,029 in the Fund's final financial statements.
- The Commission did not ensure its internal records supporting the Fund's financial statements were complete and accurate. We noted the following errors during our audit, which were corrected by Commission management in the Fund's final financial statements:

Cash in-transit amounts also recorded as accounts receivable

- We found certain cash in-transit amounts, totaling \$51,714, were also recorded as excess insurance receivables, which resulted in an overstatement of the Fund's assets.

Assessment revenue recognized in the wrong fiscal year

- We noted Fiscal Year 2016 assessment revenue was recognized in Fiscal Year 2017, totaling \$76,154.

Incomplete reconciliation of accounts resulted in \$180,579 error

- We identified an overpayment of the benefit claims expense and security deposits drawn revenue accounts, totaling \$180,579, due to an incomplete reconciliation of benefit claims.

Legal action for the collection of delinquent assessments not pursued

- During testing, we noted the Commission has not sought judgment in circuit court against six self-insurers who collectively owe \$4,037 dating back to Fiscal Year 2009. Further, the Commission had not developed a reasonable estimation of uncollectible assessments receivable. (Finding 1, pages 50-53)

Auditor's Recommendation

We recommended the Commission ensure its staff members involved in preparing and reviewing financial activity reported in accordance with U.S. GAAP have sufficient training and knowledge to prevent, or detect and correct, misstatements on a timely basis. Additionally, we recommended the Commission implement controls to identify and review recently released GASB guidance, at least on an annual basis, for any impact on the Fund's financial reporting process. In addition, we recommended the Commission implement controls to ensure transactions are properly recorded within the correct fiscal period and all accounts reconcile and balance with each other. Finally, we recommended the Commission ensure assessments receivable are pursued in accordance with the Act and an allowance for uncollectible accounts is developed.

Commission officials agree

Commission officials agreed with the recommendations.

We will review the Commission's progress towards the implementation of our recommendations in our next financial audit.

EMPHASIS OF MATTERS

Self-Insurers Security Fund has a significant deficit

As discussed in the Independent Auditors Report (pages 4-7), the Self-Insurers Security Fund had a total net position (deficit) of (\$3,428,465) as of June 30, 2017. 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 Illinois Workers' Compensation Commission stated that, subject to approval by the Self-Insurers Security Board, future assessments will be used to meet the Self-Insurers Security Fund's obligations in the future.

Management intends to address deficit through future assessments

Self-insurance program run through two State Treasury-held funds

Further, the State of Illinois' self-insurance program administered by the Illinois Workers' Compensation Commission consists of two funds: the Self-Insurers Administration Fund and the Self-Insurers Security Fund. Pursuant to the Workers' Compensation Act (820 ILCS 305/4a-4 and 820 ILCS 305/4a-6.1), the Self-Insurers Administration Fund collects a \$500 application fee from each private self-insurer applying for or seeking renewal of the self-insurance privilege, which is available only for paying the salaries and benefits of the employees and the operating costs of the Self-Insurers Advisory Board within the Illinois

Expenses have exceeded revenues in the Self-Insurers Administration Fund

Without operational changes and/or a legislative remedy, the continuing negative trend will eventually consume the Self-Insurers Administrative Fund's remaining net position.

Workers' Compensation Commission. During our audit, we noted the Self-Insurers Administration Fund's expenses have exceeded revenues recognized for a significant period of time. According to the Illinois Workers' Compensation Commission's unaudited accrual basis financial reports filed with the Office of the State Comptroller, the Self-Insurers Administration Fund's net loss was \$157 thousand, \$132 thousand, and \$86 thousand during Fiscal Year 2015, Fiscal Year 2016 and Fiscal Year 2017, respectively. Without operational changes and/or a legislative remedy, the continuing negative trend will eventually consume the Self-Insurers Administration Fund's remaining net position, which the Illinois Workers' Compensation Commission's unaudited accrual basis financial reports filed with the Office of the State Comptroller reported was \$304 thousand at June 30, 2017.

AUDITOR'S OPINION

The auditors stated the financial statements of the Self-Insurers Security Fund as of and for the year ended June 30, 2017, are fairly stated in all material respects.

This financial audit was conducted by E. C. Ortiz & Co., LLP.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

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

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

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