



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, 2018**

**Release Date: May 16, 2019**

FINDINGS THIS AUDIT: 1	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	1	1	2017	18-01		
Category 2:	0	0	0				
Category 3:	0	0	0				
<b>TOTAL</b>	<b>0</b>	<b>1</b>	<b>1</b>				
FINDINGS LAST AUDIT: 1							

**INTRODUCTION**

This digest covers the financial audit of the Self-Insurers Security Fund as of and for the year ended June 30, 2018, at the Illinois Workers' Compensation Commission. A compliance examination of the entire Commission will be performed next year for the two years ending June 30, 2019.

**SYNOPSIS**

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

**EMPHASIS OF MATTERS AND OTHER MATTER PARAGRAPHS**

- As discussed in Note 15 to the financial statements, the Self-Insurers Security Fund had a total net position (deficit) of (\$4,254,376) as of June 30, 2018.
- As discussed in Note 14(B), we noted the Self-Insurers Security Fund's actuary did not calculate an estimate for four types of speculative losses due to significant uncertainty in estimating these contingencies arising from the Self-Insurers Security Fund's limited historical claim experience.
- During our audit, we noted expenses have exceeded revenues recognized for a significant period of time within the Self-Insurers Administrative Fund.

**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, 2018**

<b>STATEMENT OF NET POSITION (DEFICIT)</b>	<b>2018</b>	<b>2017</b>
<b>Assets and Deferred Outflows of Resources</b>		
Restricted Cash Equity in the State Treasury.....	\$ 18,970,931	\$ 19,774,204
Restricted Cash and Cash Equivalents.....	100	53,094
Restricted Assessments Receivable.....	940	4,037
Restricted Accrued Interest Receivable.....	30,760	19,542
Restricted Excess Insurance Receivable.....	89,117	218,170
Securities Lending Collateral Equity with the State Treasurer....	7,690,000	6,386,000
Deferred Outflow of Resources - Pension.....	327,997	504,565
Deferred Outflow of Resources - OPEB.....	31,662	-
Total Assets and Deferred Outflows of Resources.....	<u>\$ 27,141,507</u>	<u>\$ 26,959,612</u>
<b>Liabilities and Deferred Inflows of Resources</b>		
Accounts Payable.....	\$ 43,527	\$ 28,271
Obligations Under Securities Lending of the State Treasurer.....	7,690,000	6,386,000
Security Deposits.....	750,952	1,198,303
Unearned Security Deposits.....	14,868,964	13,833,750
Unpaid Claims.....	6,526,363	7,988,200
Compensated Absences.....	20,193	19,868
Net Pension Liability.....	658,141	853,635
Net OPEB Liability.....	578,534	-
Deferred Inflow of Resources - Pension.....	168,762	-
Deferred Inflow of Resources - OPEB.....	90,447	80,050
Total Liabilities and Deferred Inflows of Resources.....	<u>\$ 31,395,883</u>	<u>\$ 30,388,077</u>
<b>Net Position (Deficit)</b>		
Total Net Position (Deficit).....	\$ (4,254,376)	\$ (3,428,465)

<b>STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (DEFICIT)</b>	<b>2018</b>	<b>2017</b>
<b>Operating Revenues</b>		
Assessments.....	\$ -	\$ -
Security Deposits Drawn.....	(798,553)	(180,579)
Total Operating Revenues.....	<u>\$ (798,553)</u>	<u>\$ (180,579)</u>
<b>Operating Expenses</b>		
Total Operating Expenses.....	<u>\$ (537,684)</u>	<u>\$ 40,709</u>
<b>Nonoperating Revenues</b>		
Interest Income.....	\$ 82,735	\$ 47,335
Total Nonoperating Revenues.....	<u>\$ 82,735</u>	<u>\$ 47,335</u>
Change in Net Position (Deficit).....	(178,134)	(173,953)
Net Position, Beginning of Year (as Previously Reported).....	(3,428,465)	11,497,347
Prior Period Adjustments.....	(647,777)	(14,751,859)
Net Position (Deficit), Beginning of Year (as Restated).....	(4,076,242)	(3,254,512)
Net Position (Deficit), End of the Year.....	<u>\$ (4,254,376)</u>	<u>\$ (3,428,465)</u>

<b>COMMISSION CHAIR</b>
During Examination Period: Ms. Joann Fratianni (7/1/17 - 3/14/19) and Mr. Michael Brennan (3/15/19 - Present)
Currently: Mr. Michael Brennan

**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 properly presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

During testing, we noted the following:

**OPEB liabilities and related flows were recorded for the wrong fund**

- The Commission did not properly record the Fund's other postemployment benefits liability (OPEB) and related flows, as the Commission recorded the Self-Insurers Administrative Fund's activity as opposed to the Self-Insurers Security Fund's activity. Commission management corrected this error in the Fund's final financial statements by increasing the Fund's beginning net position by \$968,284, decreasing the Fund's OPEB liability by \$909,125, decreasing the Fund's deferred outflows of resources related to OPEB by \$1,948, decreasing the Fund's deferred inflows of resources related to OPEB by \$121,836, decreasing OPEB expense by \$29,252, and decreasing group insurance expense by \$31,477.
- The Commission did not ensure its internal accounting 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:

**Security balances improperly classified**

- We identified two cases where the private self-insurer's obligations had become the responsibility of the Fund, but each self-insurer's remaining security balance was improperly classified as security deposits as opposed to unearned security deposits. Commission management corrected this error by reducing security deposits by \$549,123 and increasing current unearned security deposits by \$549,123.

**Underlying records did not reflect excess insurance recoveries**

- We noted the Commission's underlying records for one private self-insurer did not properly reflect excess insurance recoveries, which were understated by \$68,679. Commission management corrected this error

by increasing unearned security deposits by \$68,679 and decreasing security deposits drawn by \$68,679.

**Investment and interest income not recorded and allocated properly**

- We noted the Commission did not properly record investment and interest income due to (1) not using actual receipts from the State Treasurer and (2) an allocation error between interest earned by the private self-insurers and interest earned by the Fund. Commission management corrected these errors by increasing interest income by \$22,045 and decreasing security deposits drawn by \$22,045.

**Legal action for the collection of delinquent assessments not pursued**

- During testing, we noted the Commission has not sought a judgment in circuit court against seven self-insurers who collectively owe \$4,190 dating back to Fiscal Year 2009. The Commission is not holding any security from three of these companies, who collectively owe \$2,343. (Finding 1, pages 52-55)

**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. In addition, we recommended the Commission work with the Attorney General to ensure assessments receivable are pursued in accordance with the Act, or seek a legislative remedy.

**Commission officials disagree**

Commission officials provided the following verbatim statement:

All items noted by Auditor during testing that caused the single audit finding consist of:

- Immaterial amounts (excess insurance recoveries and investment/interest income testing)
- Liability misclassification with no effect on total liabilities (security deposits vs. unearned security deposits testing)
- Amounts owed to SISF that are too small for Attorney General pursuit in a Circuit Court (seeking circuit court judgement testing)
- Reporting error caused by unfamiliarity of procedure for this first-time reporting requirement (OPEB testing)

Additionally, all items noted by Auditor during testing that caused the audit finding were corrected (except for requesting Attorney General pursuit of small dollar claims in Circuit Court) prior to final issuance of financial statements.

## **Auditor's Comment**

In an auditor's comment, we noted Commission management is responsible for maintaining an adequate internal control environment to prevent, or detect and correct, financial errors on a timely basis. During this engagement, the auditors identified two errors which, if not detected and corrected, would have each individually materially misstated the Fund's financial statements. Further, we identified other non-trivial errors and noncompliance with the Act that, in our opinion, merit attention by those charged with governance. Given this combination of deficiencies which were not corrected until after identification by the auditors and the fact that the Auditor General's post audit program **is not** a substitute for appropriate internal controls at the Commission, we concluded the Commission's internal control structure did not prevent, or detect and correct, errors prior to the Commission submitting its financial statements for audit.

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 Fund had a total net position (deficit) of (\$4,254,376) as of June 30, 2018. 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 Security Board, future assessments will be used to meet the Fund's obligations in the future.

### **Management intends to address deficit through future assessments**

### **Certain speculative types of losses were not projected by the actuary**

Additionally, as discussed in Note 2(M) to the financial statements, the Self-Insurers Security Fund's recorded unpaid claims of \$6,526,363 as of June 30, 2018, were determined from an actuarial analysis performed by the State of Illinois, Illinois Workers' Compensation Commission's actuary. 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 the Self-Insurers Security Fund's limited historical claim experience to date. Given these conditions, it is possible the Self-Insurers Security Fund may experience additional losses than currently reserved for in the Self-Insurers Security Fund's unpaid claims liability at June 30, 2018.

### **It is possible the Fund may experience additional losses than currently reserved for in the Fund's unpaid claims liability.**

## OTHER MATTER

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

### **Expenses have exceeded revenues in the Self-Insurers Administration Fund for several years**

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

The State of Illinois' self-insurance program administered by the Commission consists of two funds: the Self-Insurers Administration Fund and the 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 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 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, \$91 thousand, and \$114 thousand during Fiscal Year 2015, Fiscal Year 2016, Fiscal Year 2017, and Fiscal Year 2018, 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 Commission's unaudited accrual basis financial reports filed with the Office of the State Comptroller reported was \$185 thousand at June 30, 2018.

## AUDITOR'S OPINION

The auditors stated the financial statements of the Self-Insurers Security Fund as of and for the year ended June 30, 2018, 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

FJM:djn