

## **Note:**

This report of the Illinois Workers' Compensation Commissions' Self-Insurers Security Fund (Fund) should be read in conjunction with the FY16 financial statements of the Fund and the auditor's report dated January 4, 2018.

In FY16, the auditors issued an adverse opinion on the Fund's financial statements due to the Commission having an inadequate process to determine the claims liabilities of the Fund, and because the proper accounting treatment for the insolvent self-insurer security collected by the State of Illinois is not determinable due to two different irreconcilable interpretations of the Worker's Compensation Act. Because of the adverse auditor opinion of the Fund's financial statements for the year ended June 30, 2016, the audit reports for the year ended prior to June 30, 2016 should not be relied upon without considering the auditor's report dated January 4, 2018.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION**

**FINANCIAL AUDIT  
(Self-Insurers' Security Fund)  
For the Year Ended June 30, 2009  
And  
COMPLIANCE EXAMINATION  
For the Two Years Ended June 30, 2009**

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

**STATE OF ILLINOIS  
 WORKERS' COMPENSATION COMMISSION  
 FINANCIAL AUDIT  
 SELF-INSURERS' SECURITY FUND  
 For the Year Ended June 30, 2009  
 And  
 COMPLIANCE EXAMINATION  
 For the Two Years Ended June 30, 2009**

TABLE OF CONTENTS

	<u>Page</u>
Agency Officials .....	1
Management Assertion Letter .....	2
Compliance Report	
Summary .....	4
Accountants' Reports	
Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes.....	7
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> .....	11
Schedule of Findings	
Current Finding – <i>Government Auditing Standards</i> .....	13
Current Findings – State Compliance.....	16
Prior Findings Not Repeated .....	38
Financial Statement Report	
Summary.....	39
Independent Auditors' Report.....	40
Basic Financial Statements	
Statement of Net Assets.....	42
Statement of Revenues, Expenses, and Changes in Net Assets.....	43
Statement of Cash Flows.....	44
Notes to the Financial Statements.....	45

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
FINANCIAL AUDIT  
SELF-INSURERS' SECURITY FUND  
For the Year Ended June 30, 2009  
And  
COMPLIANCE EXAMINATION  
For the Two Years Ended June 30, 2009**

TABLE OF CONTENTS - Continued

	<u>Page</u>
Supplementary Information for State Compliance Purposes	
Summary .....	52
Fiscal Schedules and Analysis	
Schedule of Appropriations, Expenditures and Lapsed Balances.....	53
Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances.....	57
Comparative Schedule of Receipts, Disbursements and Fund Balance (Cash Basis) - Locally Held Funds .....	59
Schedule of Changes in State Property .....	60
Comparative Schedule of Cash Receipts and Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller.....	61
Analysis of Significant Variations in Expenditures.....	64
Analysis of Significant Variations in Receipts .....	66
Analysis of Significant Lapse Period Spending .....	67
Analysis of Significant Account Balances.....	69
Rate Adjustment Fund - Schedule of Fund Balance (Deficit) (Not Examined).....	70
Analysis of Operations	
Agency Functions and Planning Program .....	71
Average Number of Employees.....	73
Emergency Purchases .....	74
Service Efforts and Accomplishments (Not Examined).....	75

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION**

**AGENCY OFFICIALS**

Acting Chairman (11/21/08 to Current)	Amy Masters
Chairman (11/07/08 to 11/20/08)	Vacant
Chairman (10/03/08 to 11/06/08)	Jerry Jutila
Chairman (07/01/07 to 10/02/08)	Dennis Ruth
Fiscal Officer	Carol Reckamp
Legal Counsel	Kathryn Kelley

Agency offices are located at:

James R. Thompson Center  
100 W. Randolph Street, Suite 8-200  
Chicago, Illinois 60601

4500 S. 6th Street Frontage Road  
Springfield, Illinois 62703

202 N.E. Madison Avenue #201  
Peoria, Illinois 61602

200 S. Wyman  
Rockford, Illinois 61101

1014 Eastport Plaza Drive  
Collinsville, Illinois 62234



**ILLINOIS WORKERS' COMPENSATION COMMISSION**

100 W. Randolph St. #8-200

Chicago, IL 60601-3227

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**PAT QUINN**  
GOVERNOR

**AMY J. MASTERS**  
CHAIRMAN

February 25, 2010

E.C. Ortiz & Co., LLP  
333 S. DesPlaines Street, Suite 2-N  
Chicago, Illinois 60661

Ladies and Gentlemen:

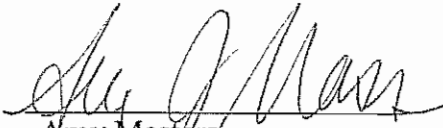
We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Illinois Workers Compensation Commission (Commission). We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the Commission's compliance with the following assertions during the two-year period ended June 30, 2009. Based on this evaluation, we assert that during the years ended June 30, 2009 and June 30, 2008, the Commission has materially complied with the assertions below.

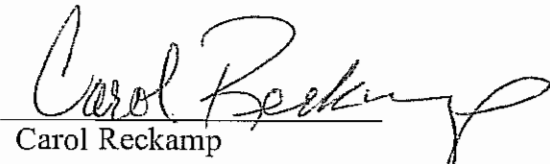
- A. The Commission has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Commission has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Commission has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the Commission are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

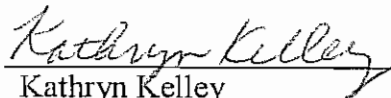
E. The money or negotiable securities or similar assets handled by the Commission on behalf of the State or held in trust by the Commission have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

Illinois Workers' Compensation Commission

  
Amy Masters  
Acting Chairman

  
Carol Reckamp  
Chief Fiscal Officer

  
Kathryn Kelley  
Legal Counsel

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
COMPLIANCE REPORT**

**SUMMARY**

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

**ACCOUNTANTS' REPORTS**

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

**SUMMARY OF FINDINGS**

<u>Number of</u>	<u>Current</u>	<u>Prior</u>
<u>Findings</u>	<u>Report</u>	<u>Report</u>
Findings	10	7
Repeated findings	6	5
Prior recommendations implemented or not repeated	1	4

Details of findings are presented in a separately tabbed report section of this report.

**SCHEDULE OF FINDINGS**

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS ( <i>GOVERNMENT AUDITING STANDARDS</i> )			
09-1	13	Inadequate control over financial reporting	Material Weakness and Noncompliance
FINDINGS ( <i>STATE COMPLIANCE</i> )			
09-2	16	Inadequate controls over the Rate Adjustment Fund program	Noncompliance and Material Weakness
09-3	20	Inadequate controls over Injured Workers Benefit Fund	Noncompliance Significant Deficiency
09-4	22	Noncompliance with the Fiscal Control and Internal Auditing Act	Noncompliance and Significant Deficiency



**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
COMPLIANCE REPORT**

FINDINGS (STATE COMPLIANCE)

09-5	24	Performance evaluations not completed annually	Noncompliance and Significant Deficiency
09-6	26	Inadequate control over State property	Noncompliance and Significant Deficiency
09-7	29	Lack of system development and change control standards	Noncompliance and Significant Deficiency
09-8	31	Computer Security administration deficiencies	Noncompliance and Significant Deficiency
09-9	33	Lack of disaster contingency planning or testing to ensure recovery of computer systems	Noncompliance and Significant Deficiency
09-10	36	Inadequate strategic information technology planning	Noncompliance and Significant Deficiency

In addition, the following finding which are reported as current findings relating to *Government Auditing Standards* also meet the reporting requirements for State Compliance.

09-1	13	Inadequate control over financial reporting	Material Weakness and Noncompliance
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PRIOR FINDING NOT REPEATED

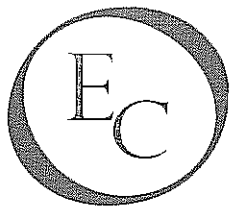
A	38	Noncompliance with Illinois Vehicle Code	
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**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
COMPLIANCE REPORT**

**EXIT CONFERENCE**

The Commission waived having an exit conference in a letter dated February 16, 2010 from the Commission's Acting Chairman, Amy Masters.

The Commission's Responses to the recommendations were provided by Carol Reckamp, Chief Fiscal Officer, and approved by the Acting Chairman in correspondence dated February 23, 2010.



INDEPENDENT ACCOUNTANTS' REPORT ON STATE COMPLIANCE, ON  
INTERNAL CONTROL OVER COMPLIANCE, AND ON SUPPLEMENTARY  
INFORMATION FOR STATE COMPLIANCE PURPOSES

Honorable William G. Holland  
Auditor General  
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined State of Illinois Workers' Compensation Commission's compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the years ended June 30, 2009 and June 30, 2008. The management of the State of Illinois Workers' Compensation Commission is responsible for compliance with these requirements. Our responsibility is to express an opinion on the State of Illinois Workers' Compensation Commission's compliance based on our examination.

- A. The State of Illinois Workers' Compensation Commission has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The State of Illinois Workers' Compensation Commission has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The State of Illinois Workers' Compensation Commission has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the State of Illinois Workers' Compensation Commission are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the State of Illinois Workers' Compensation Commission on behalf of the State or held in trust by the State of Illinois Workers' Compensation Commission have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the State of Illinois Workers' Compensation Commission's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the State of Illinois Workers' Compensation Commission's compliance with specified requirements.

As described in findings 09-1 and 09-2 in the accompanying schedule of findings, the State of Illinois Workers' Compensation Commission did not comply with requirement C and A on the previous page. Requirement C refers to the assertion that the agency has complied in all material respects, with all applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations. Requirement A refers to obligating, expending, receiving and using public funds of the State in accordance with the purpose for which such funds have been authorized by law. Compliance with such requirements is necessary, in our opinion, for the State of Illinois Workers' Compensation Commission to comply with the requirements listed in the first paragraph of this report.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Illinois Workers' Compensation Commission complied, in all material respects, with the requirements listed in the first paragraph of this report during the two years ended June 30, 2009. However, the results of our procedures disclosed other instances of noncompliance, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as findings 09-3, 09-4, 09-5, 09-6, 09-7, 09-8, 09-9 and 09-10.

#### Internal Control

The management of the State of Illinois Workers' Compensation Commission is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the State of Illinois Workers' Compensation Commission's internal control over compliance with the requirements listed in the first paragraph of this report as a basis for designing our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois Workers' Compensation Commission's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois Workers' Compensation Commission's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency* in an entity's internal control over compliance 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 noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance as described in the accompanying schedule of findings as findings 09-1, and 09-02 to be material weaknesses.

A *significant deficiency* is a deficiency, or 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 in internal control over compliance described in findings 09-3, 09-4, 09-5, 09-6, 09-7, 09-8, 09-9 and 09-10 in the accompanying schedule of findings, to be significant deficiencies.

As required by the Audit Guide, immaterial findings excluded from this report have been reported in a separate letter to your office.

The State of Illinois Workers' Compensation Commission's responses to the findings identified in our examination are described in the accompanying schedule of findings. We did not examine State of Illinois Workers' Compensation Commission's responses and, accordingly, we express no opinion on them.

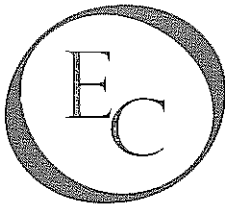
#### Supplementary Information for State Compliance Purposes

Our examination was conducted for the purpose of forming an opinion on compliance with the requirements listed in the first paragraph of this report. The accompanying supplementary information as listed in the table of contents as Supplementary Information for State Compliance Purposes is presented for purposes of additional analysis. We have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the 2009 and 2008 Supplementary Information for State Compliance Purposes, except for the Rate Adjustment Fund Schedule of Net Deficit and Service Efforts and Accomplishments on which we did not perform any procedures. However, we do not express an opinion on the supplementary information.

We have not applied procedures to the 2007 Supplementary Information for State Compliance Purposes, and accordingly, we do not express an opinion thereon.

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

*E. C. Artiz & Co., LLP*  
February 25, 2010



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 William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the Self-Insurers' Security Fund of the State of Illinois Workers' Compensation Commission, as of and for the year ended June 30, 2009, and have issued our report thereon dated February 25, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Illinois Workers' Compensation Commission's internal control over financial reporting of the Self-Insurers' Security Fund as a basis for designing our auditing procedures 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 Illinois Workers' Compensation Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Illinois Workers' Compensation Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting of the Self-Insurers' Security Fund that we consider to be material weaknesses.

*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 misstatements on a timely basis. *A material weakness* is a deficiency, or 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 deficiency described in finding 09-1 in the accompanying schedule of findings to be a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Self-Insurers' Security Fund's financial statements are free of 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 determination of financial statement amounts. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as finding 09-1.

The State of Illinois Workers' Compensation Commission responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the State of Illinois Workers' Compensation Commission's responses and accordingly, we express no opinion on them.

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

*E. C. Ortiz & Co., LLP*  
February 25, 2010



**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SCHEDULE OF FINDINGS**

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

09-1. **Finding** (Inadequate control over financial reporting)

The Illinois Workers' Compensation Commission - Self Insurer's Security Fund (IWCC-SISF) did not have adequate controls over financial reporting to allow management and employees to prevent or detect errors or misstatement in the financial reporting process and ensure proper reporting in accordance with generally accepted accounting principles (GAAP).

During our audit, we noted the following:

- IWCC-SISF did not recognize revenues in the proper accounting period. Reimbursements for claims from excess insurance carriers were recorded in the wrong accounting period. In addition, assessments from self-insured companies that were not received at year end were not recognized as revenues during the year. As such, the receivables and operating revenues for fiscal year 2009 were understated by \$264,341. In addition, the improper revenue recognition resulted in a restatement of beginning net assets of \$284,128.
- IWCC-SISF did not record the prior fiscal year auditors' adjustment of \$1,075,260 to properly disclose the balance of the Liabilities for Unpaid Claims at June 30, 2008. The prior year auditors' adjustment was recorded in the current year accounting records. As such, both the beginning net assets and benefit payment expenses were overstated by \$1,075,260. The adjustment was appropriately recorded in the prior year financial statements.
- IWCC-SISF recorded a net adjustment totaling \$481,565 against the Net Assets in the current fiscal year to adjust the balance of the liabilities for unpaid claims based on bankruptcy reports at June 30, 2009. The adjustment should have been to the current fiscal year benefit payments account instead of directly adjusting the net assets account. An adjustment of \$481,565 was necessary to correct the current fiscal year benefit payments account and reverse the entry made against net assets.
- IWCC-SISF did not properly record the reversal of the prior fiscal year balance of compensated absences. IWCC-SISF practice is to reverse the entire amount of the prior year's accrual of compensated absences and set up a new accrual for the current year. The entry made to reverse the prior year accrual was erroneously made against beginning net assets. As such, beginning net assets and personal services expenditures were overstated by \$28,000.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SCHEDULE OF FINDINGS**

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS* (Continued)

- IWCC-SISF did not properly classify current and noncurrent liabilities for unpaid claims at June 30, 2009. The entire account balance of \$8,431,839 was presented as current liabilities in the Statement of Net Assets at June 30, 2009. However, all the liabilities were not due within the next 12 months and \$6,141,459 should have been classified as non-current liabilities to properly present the unpaid claims liability in the Statement of Net Assets.
- The balance of the liabilities for unpaid claims included accounting estimates. The estimates were not reviewed on a periodic basis to reflect changes in the assumptions and events occurring subsequent to year end. As a result, the liabilities for unpaid claims were understated by \$379,540 at June 30, 2009.

Our review of other funds maintained by the Commission also revealed that revenues were not recognized in the proper accounting period. Receivables were not recorded at the end of the year for GAAP reporting purposes. Receivables that should have been recorded at the end of each fiscal year were as follows:

	Fiscal Year 2009	Fiscal Year 2008
Injured Workers Benefit Fund	\$221,602	\$53,084
Rate Adjustment Fund	\$54,661	\$8,541
Second Injury Fund	\$2,662	\$512

The Injured Workers Benefit is an enterprise fund subject to full accrual accounting while the Rate Adjustment and Second Injury are special revenue funds subject to the modified accrual method of accounting.

Government Accounting Standards Board No. 34, paragraph 92, *Measurement Focus and Basis of Accounting*, states proprietary fund statements of net assets and revenues, expenses and changes in fund net assets should be presented using the economic resources measurement focus and the accrual basis of accounting.

National Council on Governmental Accounting Statement (NCGAS) 1, *Governmental Accounting and Financial Reporting Principles*, GAAP are uniform minimum standards of and guidelines to financial accounting and reporting. Adherence to GAAP assures that financial reports of all state and local governments - regardless of jurisdictional legal provisions and customs – contain the same types of financial statements and disclosures, for the same categories and types of funds, based on the measurement and classification criteria.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SCHEDULE OF FINDINGS**

**CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS (Continued)**

The Fiscal Control and Internal Auditing Act, (30 ILCS 10/3001), requires all State agencies to establish and maintain a system of internal fiscal control to provide assurance that revenues, expenditures and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports.

Statewide Accounting Management System (SAMS) procedure 26.20.10 page 4, states funds which are subject to accrual or modified-accrual accounting for revenues shall recognize and record a receivable at such time that the amount due the State or State agency becomes measurable; such as at the time of billing or assessment, the time of expenditure for cost reimbursement grants, or the time of delivery of goods or services.

Commission officials stated the above issues occurred because employees did not have adequate training and education to implement proper accounting procedures. (Finding Code No. 09-1)

**Recommendation**

We recommend management review its policies, procedures, internal controls over financial reporting and provide adequate oversight to ensure the accuracy of information, completeness of recorded transactions, and appropriate application of accounting policies in accordance with Generally Accepted Accounting Principles (GAAP).

**Commission Response**

The IWCC agrees with this recommendation.

The Commission has implemented the appropriate Accounting Standards Board Rules in regards to Measurements Focus and Basis of Accounting. We note that we have been using a consistent methodology over several years and implementing the changes affect the fund balances for the current year but do not change the cash flow or actual amount of funds in the accounts over a multi-year period. The Commission has corrected the ledgers and GAAP Reports for this fund in FY 09 and will continue to implement the new accounting rules.

Additionally, the Commission has hired professional staff with a CPA license which should contribute to better financial statements. Finally, accounting staff will be sent to accounting/auditing/budgeting classes which should also help ensure familiarity and compliance with current accounting rules.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SCHEDULE OF FINDINGS**

CURRENT FINDINGS – STATE COMPLIANCE

09-2. **Finding** (Inadequate controls over the Rate Adjustment Fund program)

The Illinois Workers' Compensation Commission (Commission) had major internal control weaknesses over its Rate Adjustment Fund program.

The Rate Adjustment Fund (RAF) was created in 1975 to provide annual cost of living adjustments (COLA) to persons who had received awards for permanent total disabilities or to the survivors of fatally injured workers. These awards are usually paid over many years to eligible recipients and are funded by assessments on employers.

In our prior examination we noted the Commission discovered payment discrepancy problems and conducted a review of all its RAF cases, their histories and payments to identify potential cases that may have been eligible for payments. As a result, the Commission, together with the Office of the Comptroller, estimated a potential liability for back claims ranging from \$18 to \$22 million.

In fiscal year 2008, the Commission concluded an interagency agreement with the Office of the Internal Audit to conduct a detailed review of its RAF process. In addition, the Commission tasked the RAF Legal Administrator to identify cases eligible to receive RAF benefits based on decisions from the Commissioners and Arbitrators.

In fiscal year 2009, the Commission hired a RAF Program Manager to help develop and improve policies and procedures and design an integrated database for the RAF. The Program Manager had developed several procedures, however, the procedures have not been formally approved, internal controls have not been implemented, and the procedures are often not followed. During our testing, the policies and procedures were still at the inception stage and had not been implemented. At the end of fiscal year 2009, the Commission estimated a contingent liability of \$22 million and had recorded \$3.6 million of liability for unpaid back claims.

During our current review of RAF processes and procedures, we noted the following internal control deficiencies:

1. The RAF database was not timely updated. The RAF maintains a database that compiles information on self-insured entities and insurance companies. This database is the basis used by the Commission to generate its semi-annual assessments. After assessment payments are received from self-insured entities and insurance companies, the database is updated for information such

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SCHEDULE OF FINDINGS**

**CURRENT FINDINGS – STATE COMPLIANCE (Continued)**

as the workers compensation paid and RAF assessment received from the entities and insurance companies. Our review of the database revealed insurance companies information was not timely updated. The Commission received a monthly bulletin from the Department of Insurance listing newly created insurance companies and address changes of existing insurance companies subject to RAF remittances. The monthly bulletins were not reconciled with the roster of insurance companies maintained in the database. As such, assessment notices may be sent to the wrong insurance company addresses and/or not be sent to the newly created ones subject to RAF. During our testing we noted the following:

- Two of 25 (8%) assessment notices received were not accurately encoded into the database. The database was updated with incorrect amounts of workers compensation paid and RAF assessments received from self-insured entities.
  - Seven of 25 (28%) new insurance companies from the monthly bulletin subject to RAF remittances were not included in the database.
2. The Commission did not have formal procedures to track RAF cases appealed beyond the Commission. The Commission had only developed informal procedures that were not always followed to track cases that were appealed to the Circuit, Appellate, or Supreme Courts. As such, some RAF appealed cases may not have been paid when final decisions from these Courts were made.
  3. The Commission did not always follow procedure, or lacked internal controls for terminating RAF benefit payments. Our testing of 25 recipients whose eligibility to receive RAF benefit payments had ended showed that one continued to receive benefit payments for three months after they should have been terminated, resulting in an overpayment of \$1,887. In addition, benefit payments totaling \$7,390 were erroneously made to the survivors of a fatally injured worker. The accident occurred in September 2005. The Workers Compensation Act (820 ILCS 305/8(g)) states that for accident occurring between July 20, 2005 through November 15, 2005, the annual adjustments to the compensation rate in awards for death benefits or permanent total disability shall be paid by the employer. As of testing date, the Commission did not seek reimbursements for these overpayments.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SCHEDULE OF FINDINGS**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

4. The Commission used incorrect data for benefit payments. During our testing of benefit payments, we noted the following:
  - One of 25 (4%) new cases tested used an incorrect award amount to compute the RAF benefit payment. An award amount of \$511 per week which was superseded with an updated decision of \$534 per week was erroneously used in the computation.
  - One of 25 (4%) new cases tested had an incorrect award amount posted to the docket mainframe system.
  - Five of 25 (20%) new cases tested were not consistently coded as RAF in the docket mainframe system.
  - One of 25 (4%) new cases tested showed the year benefit payments were supposed to start was erroneously calculated. RAF benefit payments should have started the second July from final decision date, which would have been July 2008. The benefit payments started July 2009.
  - Five of 25 (20%) new cases tested had no evidence that a review was performed to ensure accuracy of data entry input into the database.
5. Penalties for nonpayment of assessments were not sought from insurance companies. Two of 25 (8%) insurance companies tested for assessments did not pay the assessments for notices mailed January 17, 2008. Our review of the files of these insurance companies did not indicate that the Commission has pursued penalties for nonpayment of the assessment in accordance with the Statute. The Workers Compensation Act (820 ILCS 305 7(f)) states that upon a finding by the Commission, after reasonable notice and hearing, that any employer has willfully and knowingly failed to pay the proper amounts into the Second Injury Fund or the Rate Adjustment Fund or if such payments are not made within the time periods prescribed within this section, the employer shall, in addition to such payments, pay a penalty of 20% of the amount required to be paid, or \$2,500 whichever is greater, for each year or part thereof of such failure to pay.

Commission officials stated the issues identified were due to inadequate RAF policies and procedures in prior years. New procedures were put in place to address these issues.

Inadequate internal controls resulted in RAF program errors over revenue and benefit payments which were not corrected. (Finding Code No. 09-2, 07-1)

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SCHEDULE OF FINDINGS**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

**Recommendation**

We recommend Commission management strengthened internal controls and procedures over the RAF program to ensure proper payments are made timely to eligible recipients and assessments and other RAF income are diligently pursued, including penalties and benefits erroneously paid to recipients.

**Commission Response**

The Commission agrees with the recommendation. Commission is currently using multiple databases and spreadsheets to track its work. The Commission is working to build a database which will incorporate many checks and balance, and provide automatic terminations, suspensions and provide standardized calculations, which we believe will minimize the errors.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SCHEDULE OF FINDINGS**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

09-3. **Finding** (Inadequate controls over Injured Workers Benefit Fund)

The Illinois Workers' Compensation Commission (Commission) did not have adequate controls to ensure that settlements for noncompliance with insurance requirements in accordance with the Workers Compensation Act (Act) are properly documented and monitored.

The Commission, through its Insurance Compliance Department, administers the Injured Workers Benefit Fund (Fund). The Fund receives and records monies from fees and fines assessed in accordance with the Act. Monies in the fund are expended pursuant to General Assembly appropriations for payment of workers' compensation benefits for injured employees when the employer has failed to provide coverage.

The Commission investigates employers for noncompliance with the requirement to maintain insurance in accordance with the Act. Employers found noncompliant are penalized at \$500 per day for noncompliance or a minimum of \$10,000 if an order is issued by the Commission. In the absence of an order, the penalty can be less than the minimum amount depending on the violation when negotiated between the Commission and the uninsured employer. The Commission determines the amount of penalty and settles with uninsured employers. The settlement amount is determined by the Commission Investigators based on factors such as financial capability and cooperation from uninsured employers. During our testing, we noted the Commission did not have formal policies and procedures to define the proper determination of settlement amount charged to noncompliant employers. The Commission Investigators determine the maximum amount of penalty but this is usually reduced through the negotiation process with the employer and settled at a lower amount. There are no documented guidelines established to reduce the penalty and the extent of the reduction that can be made. As such, the settlement amounts are usually based on judgments of the Commission Investigators which are agreed to by the Insurance Compliance Manager.

The Commission maintains both manual and electronic case files of uninsured employers. The manual files contain correspondences with uninsured employers, computation of fines, penalties, and settlement amounts, and other documents gathered during investigation and settlement. Information from the manual files is supposed to be encoded into the database so that both manual files and electronic files would have updated information. The database was developed to provide accurate online and real time information on cases. We compared the information between the manual and electronic case files and noted the database was not updated to reflect current information evident from the manual files. In 11 of 25 (44%) settled cases tested information such as settlement dates, number of accidents, and



**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SCHEDULE OF FINDINGS**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

number of days of noncompliance were not encoded into the database. In addition, one of 25 (4%) manual files requested for testing was missing and could not be located.

The State Records Act (5 ILCS 160/8) states the head of each agency shall cause to be made and preserved records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency's activities.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) states all State agencies shall establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Good business practice would also require written policies and procedures be established to guide employees in the performance of their duties and responsibilities.

Commission officials stated there was lack of effective supervision to ensure procedures followed during negotiation and settlement of cases, including the maintenance of the database and manual files, were formalized.

Inadequate internal control procedures and policies may result in errors not being timely detected and corrected. (Finding Code No. 09-3)

**Recommendation**

We recommend the Commission establish formal policies and procedures to provide guidelines for negotiation and settlement for uninsured employers. We also recommend the Commission provide adequate oversight so that both manual and electronic case files are properly maintained.

**Commission Response**

The Commission agrees with this recommendation. A new manager is starting February 2010. His first responsibility will be to establish formal policies and procedures for negotiations, case management tracking and internal controls.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SCHEDULE OF FINDINGS**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

09-4. **Finding** (Noncompliance with the Fiscal Control and Internal Auditing Act)

The Commission did not comply with the Fiscal Control and Internal Auditing Act (FCIAA).

In previous engagements, we reported the Commission did not file the FCIAA certifications for fiscal years 2004, 2005, 2006, and 2007. In the current engagement, it was noted the FCIAA certifications for fiscal years 2008 and 2009 were still not filed in compliance the Fiscal Control and Internal Auditing Act.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3003) requires that by May 1 of each year the chief executive officer of all State agencies prepare and transmit to the Auditor General a certification as to whether or not the system of internal fiscal and administrative controls comply with the requirements of FCIAA. The State Comptroller has established guidelines for the evaluation of an agency's systems of internal fiscal and administrative controls and the certification required.

The Commission is neither a designated State agency required to establish a full-time program of internal auditing nor an agency that falls under the jurisdiction of the Illinois Office of Internal Audit. However, this does not relieve the chief executive officer from the responsibility of maintaining an effective internal control system (30 ILCS 10/2001).

Commission officials again cited the lack of internal auditor contributed to them not meeting the FCIAA requirements.

While the Commission is not required to have a full-time program of internal auditing, an evaluation and certification of the Commission's internal control is necessary in order to comply with State law. (Finding Code No. 09-4, 07-2, 05-3, 03-3, 01-4)

**Recommendation**

We recommend the Commission comply with the requirements of the Fiscal Control and Internal Auditing Act.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SCHEDULE OF FINDINGS**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

**Commission Response**

The Commission agrees with this recommendation. The Commission had previously entered into an agreement with the CMS's Internal Audit Office. However, limited resources did not allow for the internal auditor to provide assistance to any other program except the RAF program.

The Commission is in the process of creating an Auditor position and will seek funding from the Governor's Office and the General Assembly this year.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SCHEDULE OF FINDINGS**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

09-5. **Finding** (Performance evaluations not completed annually)

Illinois Workers Compensation Commission (Commission) did not complete performance evaluations for its employees on an annual basis.

During our testing, we noted the following:

- Thirteen of 25 (52%) employees tested did not have performance evaluations for both fiscal years 2008 and 2009.
- Two of 25 (8%) employees tested did not have a performance evaluation in fiscal year 2009.
- Two of 6 (33%) new employees tested had not had a performance evaluation since they were hired. These two employees had worked for the Commission for 9 and 20 months.
- One of 6 (17%) new employees tested did not have a performance evaluation during the six months probationary period.

Personnel rules issued by the Department of Central Management Services (80 Ill. Adm. Code 302.270(d)) require performance records to include an evaluation of employee performance prepared by each agency not less often than annually.

In addition, 80 Illinois Administrative Code 302.270(b) states, for any employee serving a six month probationary period, the agency shall prepare two performance evaluations, one at the end of the third month of the employee's probationary period and another 15 days before the conclusion thereof.

Commission management stated performance evaluations were not performed because supervisory employees did not assign high priority to periodic performance reviews.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SCHEDULE OF FINDINGS**

**CURRENT FINDINGS – STATE COMPLIANCE (Continued)**

Performance evaluations are a systematic and uniform approach used for the development of employees and communication of performance expectations to employees. This is necessary in order to make employees aware of their supervisor's assessments of their performance. Without timely completion of an employee performance evaluation, the employee would not be provided with formal feedback or assessment of his or her performance, and areas for improvements and current year's performance goals and objectives may not be identified and communicated in a timely manner. Performance evaluations

should also serve as a foundation for salary adjustments, promotions, demotions, discharges, layoffs, recalls and retirement decisions. (Finding Code No. 09-5, 07-3, 05-4)

**Recommendation**

We recommend the Commission comply with the Illinois Administrative Code and complete performance evaluations for all employees as required. Management should also design monitoring procedures to ensure that performance evaluations are completed timely.

**Commission Response**

The Commission agrees with this recommendation. Additional evaluation training has been given to staff, and group and individual evaluation training should continue. The HR office is currently working with the IT department to develop electronic system to track evaluation due dates and submission dates, in an effort to improve timeliness.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SCHEDULE OF FINDINGS**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

09-6. **Finding** (Inadequate control over State property)

The Illinois Workers' Compensation Commission (Commission) did not maintain adequate control over State property. The Commission's property and equipment reported on its Agency Report of State Property (C-15) for fiscal years 2008 and 2009 totaled \$2,510,733 and \$2,584,863, respectively.

During our testing, we noted the following:

- The Commission did not conduct an annual physical inventory in fiscal year 2008 and did not submit a complete property listing to the Department of Central Management Services (DCMS). An extension until November 30, 2009 was obtained from DCMS to conduct the fiscal year 2009 inventory. The 2009 annual physical inventory was completed by November 30, 2009 and the property listing was submitted to the DCMS on December 1, 2009.
- The C-15 reports for both fiscal years ended June 30, 2008 and June 30, 2009 did not match with the Commission's detailed equipment listing as follows:

	Per C-15	Per Detailed Equipment Listing	Variance Over (Under)
June 30, 2008	\$2,510,733	\$2,509,232	\$1,501
June 30, 2009	\$2,584,863	\$2,587,016	(\$2,513)

- Two of 25 (8%) equipment additions tested totaling \$2,979 were not properly valued in the detailed asset listing. Recorded acquisition costs of these additions did not agree with the supporting invoices. These were for computers purchased during the two fiscal years.
- Five of 25 (20%) equipment items physically inspected were not properly recorded in the detailed asset listing. A computer was not found on the list, a printer and a disk drive had the same asset number and a file cabinet and another printer did not match the description in the detailed equipment list.
- Twenty-five of 25 (100%) equipment items tested that were transferred to the Department of Central Management Services (DCMS) lacked required information such as historical cost, purchase price and date.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SCHEDULE OF FINDINGS**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

- The detailed asset listings for fiscal years 2008 and 2009 were not properly maintained and organized to allow proper accountability. The detailed assets listing did not include information such as location of the asset and department/division charged with custody. As such, physical tracing of assets from inventory listings to floor locations could not be performed.
- The C-15 reports for the quarters ended June 30, 2009 and June 30, 2008 included items totaling \$21,634 and \$98,103, respectively. These items were for equipment ordered but not actually received at year end and therefore should not have been included in the C-15 reports.

The Statewide Accounting and Management Systems (SAMS), procedure 29.10.10, page 3 states, each State agency should conduct an inventory of its assets on an annual basis in order to support the existence and accuracy of amounts reported. DCMS Property Management Policies and Procedures (44 Illinois Administrative Code 5010.460) states, all agencies are required to make an annual physical inventory of State equipment in their possession.

SAMS procedure 29.10.10, pages 2 and 3, states the C-15 is for reporting by State agencies of State property information classified by major category. The C-15 reconciles the beginning balance of State property by category, per agency records, to the ending balance of State property by category, per agency records.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls which shall provide assurance that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SCHEDULE OF FINDINGS**

**CURRENT FINDINGS – STATE COMPLIANCE (Continued)**

The State of Illinois Central Management Services (CMS) Property Management Policies and Procedures (44 Illinois Administrative Code 5010.230) states the following items must be entered on all agency records and provided by the agencies for Property Control Division records; Identification Number, Location Code Number, Description, Date of Purchase, Purchase Price, Object Code and Voucher Number. Further, CMS Property Management Policies and Procedures (44 Illinois Administrative Code 5010.210) states agencies are responsible for marking each piece of State-owned equipment in their possession with a unique six digit identification number to be assigned by the agency holding the property and Section 5010.240 requires agencies to use the proper location code for reporting the location of equipment.

SAMS procedure 29.10.10, page 2 states purchased assets should generally be included on the Agency Report of State Property in the quarter the assets were received.

Commission management stated the Commission experienced several problems with the old property inventory system. As such, a new property control system was purchased on May 2007 to address the problems with the old system. The new system was not yet fully implemented at the time of testing.

Inadequate control over State property may result in inaccurate statewide property information and impairs the ability of the Commission to safeguard its assets. (Finding Code No. 09-6, 07-4, 05-5, 03-7)

**Recommendation**

We recommend the Commission adhere to Statutory and Administrative requirements of the Statute and improve its control over property and equipment.

**Commission Response**

The Commission agrees with this recommendation. The Commission had purchased a new system and hired new staff to take over the responsibility for inventory. Most of the findings were errors that occurred due to the previous lack of controls and all new personal and systems being implemented. New procedures have been written to address most of these issues.



**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SCHEDULE OF FINDINGS**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

09-7. **Finding** (Lack of System Development and Change Control Standards)

The Illinois Worker's Compensation Commission (Commission) had not established a formal System Development Methodology or Change Control Procedures.

The Commission had several computer applications that were critical for providing a no-fault system of benefits to workers who experience job-related injuries or diseases. The Commission plans to rewrite some of its critical applications; however, a formal methodology to assist in the planning, development, testing and implementation of computer applications did not exist.

The Commission also did not have formal change control procedures for documenting the identification of problems, the requests and approvals of program changes, or the movement of authorized changes into production for all applications.

Commission officials stated that for the past few years, the Commission had been faced with key staff turn-over. As a result, the Commission focused on continuing and accomplishing ongoing information technology projects, rather than establishing formal policies and procedures.

Generally accepted information technology guidance endorses the implementation of:

- System development standards that require new system developments and modifications to existing systems be properly approved, thoroughly tested, and consistently documented.
- Change management procedures to control changes to computer systems. Effective change management procedures reduce the risk of unauthorized or improper changes to computer systems.

Since the Commission is planning to rewrite some of its critical applications, now is an appropriate time to adopt a system development methodology and change management procedures to ensure new applications or changes are appropriately developed, tested, approved, and documented. (Finding Code No. 09-7, 07-6, 05-8, 03-10, 01-3)

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SCHEDULE OF FINDINGS**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

**Recommendation**

We recommend the Commission develop and implement a formal systems development methodology to assist in planning, developing, testing, and implementing new system developments or modifications to existing systems.

Also, formal change control policies and procedures for all change requests should be developed and implemented.

**Commission Response**

The Commission agrees with the recommendation. The Commission has purchased new help desk software to monitor and track all user requests for IT services. The change management component of this software is currently being configured which will allow the Commission to accurately track and automate change using proven best practices. The system will allow the Commission to document who initiated the change, the reason for the change, the required return from the change, the risks involved, the required resources and who the responsible party is. Formal change control policies and procedures will also be developed for all change requests in coordination with implementation of change management component.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SCHEDULE OF FINDINGS**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

09-8. **Finding** (Computer Security Administration Deficiencies)

The Illinois Worker's Compensation Commission (Commission) had not established adequate security policies and control over its computer environment.

The primary mission of the Commission is to provide a no-fault system of benefits paid by employers to workers who experience job-related injuries or diseases. The Commission operates the state court system for workers' compensation cases. To accomplish this, the Commission relies on its mainframe and local area network (LAN) applications. The current computer policy was outdated and did not provide details with regards to computer operations at the Commission. The following documentation either did not exist or was lacking specific detail:

- IT Personnel Responsibilities
- User Responsibilities
- Security Awareness Program
- Security Implementation
- Public Access Terminal Security
- Physical Security
- Hiring, Transferring, and Terminating Employees
- Proper Disposal of Data and Sensitive Information
- Media Storage and Backup

In addition, while Commission employees needed a password to gain access to the local area network, they were not required to change this password on a regular interval. Furthermore, employees could log into many computers at the same time.

Generally accepted information systems audit guidelines endorse the development of computer security policies that adequately address the current technological environment and well-designed and well-managed controls to protect computer systems and data.

Commission officials stated that for the past few years, the Commission had been faced with key staff turn-over. As a result, the Commission focused on continuing and accomplishing ongoing information technology projects, rather than establishing formal policies and procedures. The Commission tried to implement a 30-days password expiration policy but found that it did not have the resources to satisfy the help desk requests for password resets.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SCHEDULE OF FINDINGS**

**CURRENT FINDINGS – STATE COMPLIANCE (Continued)**

The Commission had the responsibility to ensure computer systems are protected from accidental or unauthorized disclosure. The lack of a policies and controls can result in unauthorized access and misuse of the Commission's computer systems. (Finding Code No. 09-8, 07-7, 05-9, 03-9)

**Recommendation**

We recommend the Commission establish comprehensive policies and procedures that outline general security provisions, appropriate use of computer resources, backup and care of data, and other appropriate policies to help ensure that effective controls exist. The policies and procedures should be communicated to all users, and monitored for compliance. In addition, all users should be required to sign a statement acknowledging they have read, understand, and agree to comply with these policies.

The Commission should strengthen computer security within its computing environment by enforcing an access control strategy, such as limiting concurrent connections and ensuring passwords are changed on a periodic basis (The Auditor General's baseline recommendation is a 35 day password change interval).

**Commission Response**

The Commission agrees with the recommendation in regard to establishing comprehensive policies and procedures to be signed by all staff. Although we realize that security can always be enhanced, we do enforce some security measures. The Commission uses a password security system for its court case management system, which requires a password change interval. On other systems, we restrict user access to information based upon job function.

The Commission agrees with the recommendation to limit connections allowing for one sign in at a time, and will review issues related to LAN password changes. The Commission is currently working with a network specialist to continue to improve network security measures.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SCHEDULE OF FINDINGS**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

09-9. **Finding** (Lack of Disaster Contingency Planning or Testing to Ensure Recovery of Computer Systems)

The Illinois Worker's Compensation Commission (Commission) did not have a formal comprehensive disaster contingency plan to promote recovery of its computer systems. In addition, recovery tests had not been performed on the local area network. The Commission tested the recovery of its mainframe-based systems using backup files in April 2009. However, test documentation was limited, there was no written guide outlining the recovery steps, and testing was performed by the backup coordinator (who later retired).

The Commission had not identified key components, such as a recovery site, procurement of replacement equipment and defined personnel assignments in the event of a disaster. Furthermore, the Commission did not perform backups of some applications and data on separate devices, nor did it retain its backup media at an off-site location.

The Commission had several computer applications that were critical for providing a no-fault system of benefits to workers who experience job-related injuries or diseases.

Without an adequately developed and tested contingency plan, the Commission cannot ensure its critical systems could be recovered within an acceptable period and minimize the impact associated with a disaster.

Commission officials stated they plan to mirror its Chicago server and its Springfield server so they would each represent an offsite backup to the other. To complete this, they will have to purchase three additional drives for the Springfield server. The Commission is awaiting approval from the Department of Central Management Services to move forward on this project.

Information technology guidance (including the National Institute of Standards and Technology and Government Accountability Office) endorse the formal testing of disaster recovery plans. Tests of disaster recovery plans (and the associated documentation of the test results) verify that the plan, procedures, resources provide the capability to recover critical systems within the required timeframe.

Failure to adequately document and test the disaster recovery plan leaves the Commission exposed to the possibility of major disruptions of services. (Finding Code No. 09-9)

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SCHEDULE OF FINDINGS**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

**Recommendation**

We recommend that the Commission develop a comprehensive disaster recovery plan to address issues relevant to the continuance of services to users of their essential computer systems. To ensure the Commission has the capability to recover from a disaster, we recommend the Plan include procedures to recover all critical computer systems. The Commission provides services to the employers and employees of Illinois; therefore the recovery of the Commission computing services is essential. In order to minimize risk the Commission should:

- Ensure the Plan reflects the current environment.
- Ensure the Plan is updated each year.
- Formally assign the title of Disaster Recovery Coordinator.
- Include in the Plan:
  - Identification of current personnel, their responsibilities and telephone numbers
  - Listing of backup tapes
  - Listing of prioritized applications
  - Detailed restoration procedures
  - Adequate off-site facility for temporary processing and off-site storage
  - Recovery results
- Copies of the Plan should be distributed accordingly, having one available on-site in a secure location.

In addition, the Commission should perform a test of the disaster recovery plan at least annually in order to determine the effectiveness of the plan and ensure that personnel are adequately trained. The test should include both the Commission's LAN and mainframe. Upon completion of the test, the plan should be updated to reflect the results.

**Commission Response**

The Commission agrees with the recommendation.

The Commission performed a successful disaster recovery test of its mainframe court case management system as its mainframe EDI system with the approval of CMS. The test showed there were adequate backups at an off-site facility for storage. Formal documentation of the process is under development. The Commission plans to perform this test on an annual basis.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SCHEDULE OF FINDINGS**

**CURRENT FINDINGS – STATE COMPLIANCE (Continued)**

In regard to the LAN Disaster recovery, the Commission plans to have a new plan completed, tested and in place before the FY 10 cycle ends. The required hardware and software have been purchased. Hardware setup and configuration is ongoing. This new process will provide disaster recovery between our Chicago and Springfield facilities. Formal documentation will be provided upon completion.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SCHEDULE OF FINDINGS**

CURRENT FINDINGS -- STATE COMPLIANCE (Continued)

09-10. **Finding** (Inadequate Strategic Information Technology Planning)

The Illinois Worker's Compensation Commission (Commission) did not have an information technology (IT) steering committee or an effective strategic planning process.

The Commission had several computer applications that were critical for providing a no-fault system of benefits to workers who experience job-related injuries or diseases. The Commission plans to rewrite some of its critical applications; however, a strategic plan had not been developed to guide ongoing and future IT projects.

The Commission should ensure issues and opportunities for the use of IT are assessed and incorporated into a strategic plan. The planning process should be structured to accommodate changes within the Commission and changing technology. The strategic plan should be comprehensive, evaluate risks and alternatives, analyze cost-benefit relationships of the alternatives, and prioritize projects that support the Commission's objectives. This strategic planning process should be translated into short- and long term plans. Since the Commission is planning to rewrite some of their systems, now is an appropriate time to create a steering committee and develop a strategic plan.

Generally accepted information systems audit guidance endorses the development of formal strategic plans to promote effective, efficient, and compatible implementations that meet organizational needs.

Commission officials stated that for the past few years, the Commission had been faced with key staff turn-over. As a result, the Commission focused to continue and accomplish ongoing information technology projects, rather than establish formal policies and procedures.

Without a strategic IT plan, the Commission could fail to perform its mission to resolve disputes between injured workers and employers. The lack of a strategic planning process could also contribute to deficiencies in the Commission's business process including a lack of strategic direction, inadequate policies and procedures, nonexistent system development methodologies, insufficient disaster contingency capabilities, computer security deficiencies, and ineffective communication of responsibility to staff. (Finding Code No. 09-10)



**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SCHEDULE OF FINDINGS**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

**Recommendation**

We recommend the Commission form an information technology steering committee. The committee should meet regularly, keep minutes of those meetings, and include representation from senior management, user management and IT management. The committee should prepare a strategic information technology plan for the entire Commission. The strategic plan should address business process, policies, system development methodology, disaster contingency planning, computer security and the responsibilities of the Commission staff. The plan should be reviewed periodically and updated at least annually to ensure it meets the needs of the Commission.

**Commission Response**

The Commission agrees with this recommendation. A new committee has been appointed and meetings are to start February 2010.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SCHEDULE OF FINDINGS**

**PRIOR FINDINGS NOT REPEATED**

A. Finding (Noncompliance with Illinois Vehicle Code)

During the prior year engagement, the Commission did not ensure employees using privately owned vehicles for State business were properly licensed and adequately insured as required by State law. The Commission did not maintain the required documentation for 14 of 17 (82%) of employees tested. (Finding Code No. 07-5)

Status: Not Repeated

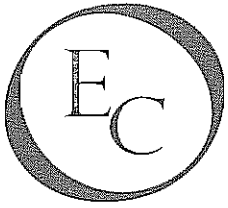
During the current year engagement, our sample testing did not disclose any exceptions relating to the requirement that employees using privately owned vehicles for state business be properly licensed and adequately insured.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SELF-INSURERS' SECURITY NONSHARED - PROPRIETARY FUND  
FINANCIAL STATEMENT REPORT**

**SUMMARY**

The audit of the accompanying financial statements of the Illinois Workers' Compensation Commission Self-Insurers' Security Fund was performed by E.C. Ortiz & Co., LLP.

Based on their audit, the auditors expressed an unqualified opinion on the Self-Insurers' Security Fund's financial statements.



## INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Self-Insurers' Security Fund of the State of Illinois Workers' Compensation Commission as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the State of Illinois Workers' Compensation Commission's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statements present only the Self-Insurers' Security Fund and do not purport to, and do not, present fairly the financial position of the State of Illinois Workers' Compensation Commission as of June 30, 2009, and its changes in financial position including cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Self-Insurers' Security Fund of the State of Illinois Workers' Compensation Commission as of June 30, 2009, and the changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 7, the financial statements have been restated as of July 1, 2008 for prior year reporting errors.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 25, 2010 on our consideration of the State of Illinois Workers' Compensation Commission's internal control over financial reporting of the Self-Insurers' Security Fund and on our tests of the State of Illinois Workers' Compensation Commission's compliance with certain provisions of laws, regulations, contracts and, grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The State of Illinois Workers' Compensation Commission has not presented a management's discussion and analysis and budgetary comparison information for the Self-Insurers' Security Fund that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Self-Insurers' Security Fund of the State of Illinois Workers' Compensation Commission.

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, and agency management, and is not intended to be and should not be used by anyone other than these specified parties.

*E.C. Ortiz & Co., LLP*

February 25, 2010

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SELF-INSURERS' SECURITY NONSHARED - PROPRIETARY FUND  
STATEMENT OF NET ASSETS  
June 30, 2009**

**ASSETS**

**Current Assets**

Cash in State Treasury	\$ 32,456,129
Petty Cash	100
Accrued Interest Receivable	20,612
Receivables	302,147
Total Current Assets	<u>32,778,988</u>

Total Assets	<u>32,778,988</u>
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**LIABILITIES**

**Current Liabilities**

Accounts Payable	102,013
Compensated Absences	31,000
Liabilities for Unpaid Claims	2,290,380
Total Current Liabilities	<u>2,423,393</u>

**Noncurrent Liabilities**

Liabilities for Unpaid Claims	<u>6,141,459</u>
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Total Liabilities	<u>8,564,852</u>
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**NET ASSETS**

Restricted Net Assets	<u>24,214,136</u>
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Total Liabilities and Net Assets	<u><u>\$ 32,778,988</u></u>
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The accompanying notes are an integral part of the financial statements.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SELF-INSURERS' SECURITY NONSHARED - PROPRIETARY FUND  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
For the Year Ended June 30, 2009**

**OPERATING REVENUES**

Assessments, Escrow Fees and Surety Bonds	\$ 4,093,688
Total Operating Revenues	<u>4,093,688</u>

**OPERATING EXPENSES**

Personal Services	143,125
Employee Retirement	29,525
Social Security Contribution	10,302
Group Insurance	24,231
Travel	1,255
Contractual Services	1,835
Telecommunications	450
Deposit Refunds	21,695
Benefit Payments	569,928
Total Operating Expenses	<u>802,346</u>

Operating Income	<u>3,291,342</u>
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**NONOPERATING REVENUES**

Interest Income	701,796
Total Nonoperating Revenues	<u>701,796</u>

Change in Net Assets	3,993,138
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<b>NET ASSETS, BEGINNING OF YEAR, as restated</b>	<u>20,220,998</u>
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<b>NET ASSETS, END OF YEAR</b>	<u><u>\$ 24,214,136</u></u>
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The accompanying notes are an integral part of the financial statements.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SELF-INSURERS' SECURITY NONSHARED - PROPRIETARY FUND  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2009**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash Received from Assessments, Escrow Fees and Surety Bonds	\$ 4,075,670
Payments to Suppliers - Net	(495,944)
Payments to Employees and Other Personal Services	(204,183)
Deposit Refunds Paid	(21,695)
Benefit Payments - Net of Excess Insurance Reimbursements	(1,747,212)
Net Cash Provided by Operating Activities	<u>1,606,636</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest and Dividends on Investments	<u>741,061</u>
Net Cash Provided by Investing Activities	<u>741,061</u>

Net Increase in Cash and Cash Equivalents 2,347,697

Cash and Cash Equivalents, Beginning of Year 30,108,532

Cash and Cash Equivalents, End of Year \$ 32,456,229

**Reconciliation of Operating Income to Net Cash**

**Provided by Operating Activities:**

Operating Income	\$ 3,291,342
Adjustments to Reconcile Operating Income to Cash Flows from Operating Activities	
Changes in Assets and Liabilities:	
Receivables	(18,018)
Accounts Payable	(492,404)
Compensated Absences	3,000
Liabilities for Unpaid Claims	(1,177,284)
Net Cash Provided by Operating Activities	<u>\$ 1,606,636</u>

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



**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SELF-INSURERS' SECURITY NONSHARED - PROPRIETARY FUND  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2009**

**(1) Description of Funds**

The Illinois Workers' Compensation Commission Self-Insurers' Advisory Board (the "Board") established within the Illinois Workers' Compensation Commission (Commission) administers the Self-Insurers' Security nonshared proprietary fund described below. A nonshared fund is a fund in which a single State agency is responsible for administering substantially all financial transactions of the fund.

The Self-Insurers' Security Fund (940), (the "Fund"), was established by the Workers' Compensation Act (820 ILCS 305/4a-5). The Fund provides compensation to employees of insolvent self-insured employers for any type of injury or occupational disease and all claims for related administrative fees, operating costs of the Board, attorney fees and other costs reasonably incurred by the Board. 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.

**(2) Summary of Significant Accounting Policies**

The financial statements of the individual nonshared proprietary funds administered by the Self-Insurers' Advisory Board established within the Commission have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

**A. Reporting Entity**

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- i) 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
- ii) Fiscal dependency on the primary government.

Based upon the required criteria, the Self-Insurers' Security nonshared proprietary fund does not have any component unit, nor is it a component unit

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SELF-INSURERS' SECURITY NONSHARED - PROPRIETARY FUND  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2009**

of another entity. However, because the Self-Insurers' Security nonshared proprietary fund is not legally separate from the State of Illinois (State), it is included in the financial statements of the State as a proprietary fund. The State's Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois 62704-1871.

The financial statements present only the Self-Insurer's Security nonshared proprietary fund administered by the Self-Insurers' Advisory Board established within the Commission and do not purport to, and do not, present fairly the financial position of the Commission as of June 30, 2009, and changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**B. Basis of Presentation**

In government, the basic accounting and reporting entity is a fund. A fund is defined as 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. A Statement of net assets; statement of revenues, expenses and changes in net assets; and statement of cash flows has been presented for the Self-Insurers' Security nonshared proprietary fund administered by the Self Insurers' Advisory Board established within the Commission.

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the Self Insurer's Security Fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

**C. Basis of Accounting**

The Self-Insurers' Security nonshared proprietary 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. Nonexchange transactions, in which the Self Insurers' Advisory Board gives (or

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SELF-INSURERS' SECURITY NONSHARED - PROPRIETARY FUND  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2009**

receives) value without directly receiving (or giving) equal value in exchange are not applicable. On an accrual basis, revenues from assessments, reimbursements, escrow fees and surety bonds are recognized in the fiscal year in which the underlying exchange transaction occurs.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the Self-Insurers' Security nonshared proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The State also has the option of following subsequent private-sector guidance for their business type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance for the Self-Insurers' Security nonshared proprietary fund administered by the Self-Insurers' Advisory Board established within the Commission.

**D. Cash and Cash Equivalents**

Cash and cash equivalents consist principally of deposits held in the State Treasury. Cash and cash equivalents also include cash on hand and cash in banks.

**E. Compensated Absences**

The liability for compensated absences reported in the individual nonshared proprietary funds 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 currently are eligible to receive termination payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., social security and medicare tax).

Legislation that became effective January 1, 1998 capped the paid sick leave for all State Employees' Retirement System 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 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.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SELF-INSURERS' SECURITY NONSHARED - PROPRIETARY FUND  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2009**

**F. Net Assets**

Equity is displayed in one component as follow:

*Restricted* - This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when needed.

**G. 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 could differ from those estimates.

**(3) Deposits**

The State Treasurer is the custodian of the State's deposit and investment maintained in the State Treasury. Deposits in the custody of the State Treasurer and in transit, totaled \$32,456,129 as of June 30, 2009.

Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Self Insurers' Advisory Board does not own individual securities. Details on the nature of these deposits and investments are available within the State of Illinois, Comprehensive Annual Financial Report.

**(4) Liability for Unpaid Claims**

The liability for unpaid claims is established based on estimates of ultimate cost of claims that have been reported but not settled, including the effects of inflation and other societal factors.

**STATE OF ILLINOIS  
 WORKERS' COMPENSATION COMMISSION  
 SELF-INSURERS' SECURITY NONSHARED - PROPRIETARY FUND  
 NOTES TO THE FINANCIAL STATEMENTS  
 June 30, 2009**

The following represents changes in aggregate liabilities during the year ended June 30, 2009.

Liability for unpaid claims, beginning of year	<u>\$ 9,609,123</u>
Incurred claims:	
Incurred claims of current year	352,786
Incurred claims of prior years (net of reversal of accruals for prior year claims settled during the year)	<u>(552,692)</u>
Total incurred claims and claim adjustment	<u>(199,906)</u>
Payments:	
Claims expenses attributable to current year	-
Claims expenses attributable to prior years	<u>977,378</u>
Total payments	<u>977,378</u>
Liability for unpaid claims, end of year	<u>\$ 8,431,839</u>

**(5) Pension**

Substantially all of the Fund's full-time employees who are not eligible for participation in another State-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employee participate, except for those covered by State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2009 are included in State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2009. The SERS also issues a separate "CAFR" that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255 or by calling (217) 785-7202. The State of Illinois CAFR may be obtained in writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams St., Springfield, Illinois 62704-1871 or by calling (217) 782-2053.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established, are included as an integral part of the SERS CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SELF-INSURERS' SECURITY NONSHARED - PROPRIETARY FUND  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2009**

The Commission pays employer retirement contributions in the Fund based upon an actuarially determined percentage of their payrolls. For fiscal year 2009, the employer contribution rate was 21.049%. Commission's contributions to SERS were \$29,525 for the year ended June 30, 2009.

**(6) Post Employment Benefits**

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants maybe required to contribute towards health, dental 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 the State Employee's Retirement System do not contribute towards health, dental 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, dental and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60 at which time the benefit becomes \$5,000.

The total cost of the State's portion of health, dental, vision and life insurance benefits of all members, including post-employment health, dental, vision and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SELF-INSURERS' SECURITY NONSHARED - PROPRIETARY FUND  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2009**

**(7) Restatement**

The Self-Insurers' Security Fund increased the beginning net asset balance by \$284,129. This restatement of net assets was to revise the accounting treatment of when to recognize revenue associated with certain benefit claims paid by the Fund but expected to be subsequently reimbursed by insurance companies. In prior years, these claim reimbursements were recognized as revenues at the time they were received instead of being booked as receivables at the time the claim benefit was advanced.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION**

**SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES**

**SUMMARY**

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:

- Schedule of Appropriations, Expenditures and Lapsed Balances
- Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
- Comparative Schedule of Receipts, Disbursements, and Fund Balance  
(Cash Basis) - Locally Held Funds
- Schedule of Changes in State Property
- Comparative Schedule of Cash Receipts and Reconciliation Schedule of Cash  
Receipts to Deposits Remitted to the State Comptroller
- Analysis of Significant Variations in Expenditures
- Analysis of Significant Variations in Receipts
- Analysis of Significant Lapse Period Spending
- Analysis of Significant Account Balances
- Rate Adjustment Fund - Schedule of Fund Balance (Deficit) (Not Examined)

- Analysis of Operations:

- Agency Functions and Planning Program
- Average Number of Employees
- Emergency Purchases
- Service Efforts and Accomplishments (Not Examined)

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states the auditors have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General, except for information on the Rate Adjustment Fund - Schedule of Fund Balance (Deficit) and Service Efforts and Accomplishments on which they did not perform any procedures. However, the auditors do not express an opinion on the supplementary information.



**STATE OF ILLINOIS**  
**WORKERS' COMPENSATION COMMISSION**  
**SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES**  
**Appropriations for Fiscal Year 2009**  
**Fourteen Months Ended August 31, 2009**

PUBLIC ACT 95-0733	Appropriations (Net After Transfers)	Expenditures through 6/30/09	Lapsed Period Expenditures 7/01 - 8/31/09	Total Expenditures	Balances Lapsed
<b>APPROPRIATED FUNDS</b>					
<u>Illinois Workers' Compensation Commission Operations Fund - 534</u>					
Personal Services	\$ 11,715,200	\$ 10,096,763	\$ 472,585	\$ 10,569,348	\$ 1,145,852
State Contributions to Employee Retirement	2,400,000	2,130,057	98,403	2,228,460	171,540
State Contribution to Social Security	896,200	729,140	34,673	763,813	132,387
Group Insurance	3,146,400	2,074,806	90,492	2,165,298	981,102
Contractual Services	1,870,000	1,464,538	203,825	1,668,363	201,637
Travel	256,000	218,716	21,888	240,604	15,396
Commodities	76,000	74,295	1,669	75,964	36
Printing	37,000	35,150	1,666	36,816	184
Equipment	95,000	35,343	18,758	54,101	40,899
Telecommunications	220,000	172,424	17,552	189,976	30,024
Printing and Distribution of Workers' Compensation Handbooks of Rights and Obligations of Employers	118,000	75,508	20,357	95,865	22,135
Implementation and Operation of an Accident Reporting System	255,000	205,556	9,809	215,365	39,635
Establishment, Administration and Operations of the Insurance Compliance Division	1,150,000	539,642	135,693	675,335	474,665
Establishment of the Medical Fee Schedule	225,000	43,712	71,800	115,512	109,488
 Total Illinois Workers' Compensation Commission Operations Fund - 534	 22,459,800	 17,895,650	 1,199,170	 19,094,820	 3,364,980
 <b>TOTAL APPROPRIATED FUNDS</b>	 <b>\$ 22,459,800</b>	 <b>\$ 17,895,650</b>	 <b>\$ 1,199,170</b>	 <b>\$ 19,094,820</b>	 <b>\$ 3,364,980</b>

**STATE OF ILLINOIS  
 WORKERS' COMPENSATION COMMISSION  
 SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES  
 Appropriations for Fiscal Year 2009  
 Fourteen Months Ended August 31, 2009**

<u>PUBLIC ACT 95-0733</u>	<u>Appropriations (Net After Transfers)</u>	<u>Expenditures through 6/30/09</u>	<u>Lapsed Period Expenditures 7/01/09 - 8/31/09</u>	<u>Total Expenditures</u>	<u>Balances Lapsed</u>
<b><u>NON-APPROPRIATED FUNDS</u></b>					
<b><u>Injured Workers Benefit Fund - 179</u></b>					
Social Assistance		\$ -	\$ 708,142	\$ 708,142	
Total Injured Workers Benefit Fund - 179		\$ -	\$ 708,142	\$ 708,142	
<b><u>Self-Insurers' Administration Fund - 274</u></b>					
General and Administrative		\$ 489,520	\$ 30,234	\$ 519,754	
Total Self-Insurers' Administration Fund - 274		\$ 489,520	\$ 30,234	\$ 519,754	
<b><u>Second Injury Fund - 431</u></b>					
Social Assistance		\$ 1,122,070	\$ 496	\$ 1,122,566	
Total Second Injury Fund - 431		\$ 1,122,070	\$ 496	\$ 1,122,566	
<b><u>Rate Adjustment Fund - 685</u></b>					
Social Assistance		\$ 11,397,940	\$ 24,511	\$ 11,422,451	
Total Rate Adjustment Fund - 685		\$ 11,397,940	\$ 24,511	\$ 11,422,451	
<b><u>Self-Insurers' Security Fund - 940</u></b>					
Social Assistance		\$ 2,099,892	\$ 51,829	\$ 2,151,721	
General and Administrative		219,619	8,304	227,923	
Total Self-Insurers' Security Fund - 940		\$ 2,319,511	\$ 60,133	\$ 2,379,644	
<b>TOTAL NON-APPROPRIATED FUNDS</b>		\$ 15,329,041	\$ 823,516	\$ 16,152,557	
<b>TOTAL ALL FUNDS - FISCAL YEAR 2009</b>	\$ 22,459,800	\$ 33,224,691	\$ 2,022,686	\$ 35,247,377	\$ 3,364,980

Note : The above information was taken from the State Comptroller's records which have been reconciled to the records of the Commission.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES  
Appropriations for Fiscal Year 2008  
Fourteen Months Ended August 31, 2008**

<u>PUBLIC ACT 95-0348</u>	<u>Appropriations (Net After Transfers)</u>	<u>Expenditures through 6/30/08</u>	<u>Lapsed Period Expenditures 7/01 - 8/31/08</u>	<u>Total Expenditures</u>	<u>Balances Lapsed</u>
<b><u>APPROPRIATED FUNDS</u></b>					
<u>Illinois Workers' Compensation Commission Operations Fund - 534</u>					
Personal Services	\$ 11,725,979	\$ 10,107,365	\$ 509,661	\$ 10,617,026	\$ 1,108,953
State Contributions to Employee Retirement	1,857,447	1,649,050	84,503	1,733,553	123,894
State Contributions to Social Security	854,200	735,186	38,275	773,461	80,739
Group Insurance	2,764,800	2,120,086	90,134	2,210,220	554,580
Contractual Services	1,624,000	751,967	720,675	1,472,642	151,358
Travel	256,000	216,960	29,528	246,488	9,512
Commodities	76,000	57,505	12,120	69,625	6,375
Printing	37,000	35,994	90	36,084	916
Equipment	95,000	68,083	24,120	92,203	2,797
Telecommunications	220,000	170,968	15,121	186,089	33,911
Printing and Distribution of Workers' Compensation Handbooks of Rights and Obligations of Employers	118,000	64,700	32,358	97,058	20,942
Implementation and Operation of an Accident Reporting System	255,000	183,738	24,293	208,031	46,969
Establishment and Administration and Operations of the Insurance Compliance Division	1,085,000	425,086	359,172	784,258	300,742
Establishment of the Medical Fee Schedule	250,000	40,760	4,561	45,321	204,679
Peoria Office					
For Rent, Staffing and Equipment to Operate an Office in Peoria	7,472	7,472	-	7,472	-
Establishment and Operation of a Satellite Office in the Metro East Area	11,064	11,063	-	11,063	1
Establishment, Administration and Operation of a Third Commission Panel	67,900	67,900	-	67,900	-
Total Illinois Workers' Compensation Commission Operations Fund - 534	<u>21,304,862</u>	<u>16,713,883</u>	<u>1,944,611</u>	<u>18,658,494</u>	<u>2,646,368</u>
<b>TOTAL APPROPRIATED FUNDS</b>	<u>\$ 21,304,862</u>	<u>\$ 16,713,883</u>	<u>\$ 1,944,611</u>	<u>\$ 18,658,494</u>	<u>\$ 2,646,368</u>

**STATE OF ILLINOIS  
 WORKERS' COMPENSATION COMMISSION  
 SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES  
 Appropriations for Fiscal Year 2008  
 Fourteen Months Ended August 31, 2008**

<u>PUBLIC ACT 95-0348</u>	<u>Appropriations (Net After Transfers)</u>	<u>Expenditures through 6/30/08</u>	<u>Lapsed Period Expenditures 7/01/08 - 8/31/08</u>	<u>Total Expenditures</u>	<u>Balances Lapsed</u>
<b><u>NON-APPROPRIATED FUNDS</u></b>					
<b><u>Injured Workers Benefit Fund - 179</u></b>					
Social Assistance		\$ -	\$ 305,072	\$ 305,072	
Total Injured Workers Benefit Fund - 179		\$ -	\$ 305,072	\$ 305,072	
<b><u>Self-Insurers' Administration Fund - 274</u></b>					
General and Administrative		\$ 404,438	\$ 26,799	\$ 431,237	
Total Self-Insurers' Administration Fund - 274		\$ 404,438	\$ 26,799	\$ 431,237	
<b><u>Second Injury Fund - 431</u></b>					
Social Assistance		\$ 1,132,535	\$ 30	\$ 1,132,565	
Total Second Injury Fund - 431		\$ 1,132,535	\$ 30	\$ 1,132,565	
<b><u>Rate Adjustment Fund - 685</u></b>					
Social Assistance		\$ 10,876,890	\$ 19,395	\$ 10,896,285	
General and Administrative		54,539	-	54,539	
Total Rate Adjustment Fund - 685		\$ 10,931,429	\$ 19,395	\$ 10,950,824	
<b><u>Self-Insurers' Security Fund - 940</u></b>					
Social Assistance		\$ 3,689,793	\$ 568,294	\$ 4,258,087	
General and Administrative		216,129	8,821	224,950	
Total Self-Insurers' Security Fund - 940		\$ 3,905,922	\$ 577,115	\$ 4,483,037	
<b>TOTAL NON-APPROPRIATED FUNDS</b>		\$ 16,374,324	\$ 928,411	\$ 17,302,735	
<b>TOTAL ALL FUNDS - FISCAL YEAR 2008</b>	\$ 21,304,862	\$ 33,088,207	\$ 2,873,022	\$ 35,961,229	\$ 2,646,368

Note : The above information was taken from the State Comptroller's records which have been reconciled to the records of the Commission.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES**

	Fiscal Years Ended June 30,		
	2009 PA 95-0733	2008 PA 95-0348	2007 PA 94-798
<b><u>APPROPRIATED FUNDS</u></b>			
<b><u>Illinois Workers' Compensation Commission Operations Fund - 534</u></b>			
<u>Appropriations (Net After Transfers)</u>	\$ 22,459,800	\$ 21,304,862	\$ 18,551,500
<u>Expenditures</u>			
Personal Services	10,569,348	10,617,026	9,369,063
State Contributions to Employee Retirement	2,228,460	1,733,553	1,081,039
State Contributions to Social Security	763,813	773,461	694,066
Group Insurance	2,165,298	2,210,220	2,127,162
Contractual Services	1,668,363	1,472,642	549,528
Travel	240,604	246,488	240,295
Commodities	75,964	69,625	47,487
Printing	36,816	36,084	32,560
Equipment	54,101	92,203	41,720
Telecommunications	189,976	186,089	151,359
Printing and Distribution of Workers' Compensation Handbooks of Rights and Obligations of Employers	95,865	97,058	57,760
Implementation and Operation of an Accident Reporting System	215,365	208,031	182,186
Establishment and Administration and Operations of the Insurance Compliance Division	675,335	784,258	501,546
Establishment of the Medical Fee Schedule	115,512	45,321	106,454
Peoria Office			
For Rent, Staffing and Equipment to Operate an Office in Peoria	-	7,472	112,499
Establishment and Operation of a Satellite Office in the Metro East Area	-	11,063	115,594
Establishment, Administration and Operation of a Third Commission Panel	-	67,900	758,358
Total Expenditures	<u>19,094,820</u>	<u>18,658,494</u>	<u>16,168,676</u>
<u>Lapsed Balances</u>	\$ <u>3,364,980</u>	\$ <u>2,646,368</u>	\$ <u>2,382,824</u>
<b><u>NON-APPROPRIATED FUNDS</u></b>			
<b><u>Injured Workers' Benefit Fund - 179</u></b>			
<u>Expenditures</u>			
Social Assistance	\$ 708,142	\$ 305,072	\$ -
Total Expenditures, Fund - 179	\$ <u>708,142</u>	\$ <u>305,072</u>	\$ <u>-</u>
<b><u>Self-Insurers' Administration Fund - 274</u></b>			
<u>Expenditures</u>			
General and Administrative	\$ 519,754	\$ 431,237	\$ 359,061
Total Expenditures, Fund - 274	\$ <u>519,754</u>	\$ <u>431,237</u>	\$ <u>359,061</u>

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES**

	Fiscal Years Ended June 30,		
	2009 PA 95-0733	2008 PA 95-0348	2007 PA 94-798
<b><u>Second Injury Fund - 431</u></b>			
<u>Expenditures</u>			
Social Assistance	\$ 1,122,566	\$ 1,132,565	\$ 1,177,405
Total Expenditures, Fund - 431	\$ 1,122,566	\$ 1,132,565	\$ 1,177,405
<b><u>Rate Adjustment Fund - 685</u></b>			
<u>Expenditures</u>			
Social Assistance	\$ 11,422,451	\$ 10,896,285	\$ 11,225,051
General and Administrative	-	54,539	8,401
Total Expenditures, Fund - 685	\$ 11,422,451	\$ 10,950,824	\$ 11,233,452
<b><u>Self-Insurers' Security Fund - 940</u></b>			
<u>Expenditures</u>			
Social Assistance	\$ 2,151,721	\$ 4,258,087	\$ 5,204,560
General and Administrative	227,923	224,950	229,396
Total Expenditures, Fund - 940	\$ 2,379,644	\$ 4,483,037	\$ 5,433,956
<b>TOTAL APPROPRIATIONS ALL FUNDS</b>	<b>\$ 22,459,800</b>	<b>\$ 21,304,862</b>	<b>\$ 18,551,500</b>
<b>TOTAL EXPENDITURES ALL FUNDS</b>	<b>\$ 35,247,377</b>	<b>\$ 35,961,229</b>	<b>\$ 34,372,550</b>
 <u>SALARIES PAID FROM THE COMPTROLLERS</u>			
<u>EXECUTIVE SUMMARY APPROPRIATION:</u>			
Chairman of the Workers' Compensation Commission	\$ 120,486	\$ 120,647	\$ 111,469
Commissioners (Members: Nine in 2007, 2008 and 2009)	1,078,560	1,021,642	955,146
	\$ 1,199,046	\$ 1,142,289	\$ 1,066,615

**STATE OF ILLINOIS  
 WORKERS' COMPENSATION COMMISSION  
 COMPARATIVE SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND  
 BALANCE (CASH BASIS) - LOCALLY HELD FUNDS**

	Fiscal Years Ended June 30,		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b><u>Transcript Deposit Fund - 1168</u></b>			
Cash Balance, July 1	\$ 44,376	\$ 37,850	\$ 34,136
Receipts	14,210	16,645	13,860
Disbursements	<u>(16,086)</u>	<u>(10,119)</u>	<u>(10,146)</u>
Cash Balance, June 30	<u>\$ 42,500</u>	<u>\$ 44,376</u>	<u>\$ 37,850</u>

**STATE OF ILLINOIS  
 WORKERS' COMPENSATION COMMISSION  
 SCHEDULE OF CHANGES IN STATE PROPERTY  
 For the Two Years Ended June 30, 2009**

	Office Furniture and Equipment	EDP Equipment	Equipment not Classified Elsewhere	Others - Capital Lease	Total
Balance July 1, 2007	\$ 967,440	\$ 1,226,904	\$ 163,852	\$ -	\$ 2,358,196
Additions	51,829	77,054	374	23,280	152,537
Deletions and other adjustments	-	-	-	-	-
Net transfers	-	-	-	-	-
Balance June 30, 2008	1,019,269	1,303,958	164,226	23,280	2,510,733
Additions	18,232	135,044	4,047	-	157,323
Deletions and other adjustments	(1,448)	-	-	-	(1,448)
Net transfers	(29,168)	(51,695)	(882)	-	(81,745)
Balance June 30, 2009	<u>\$ 1,006,885</u>	<u>\$ 1,387,307</u>	<u>\$ 167,391</u>	<u>\$ 23,280</u>	<u>\$ 2,584,863</u>

This schedule has been reconciled to property reports submitted to the Office of the Comptroller.



**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
COMPARATIVE SCHEDULE OF CASH RECEIPTS AND RECONCILIATION SCHEDULE OF CASH  
RECEIPTS TO DEPOSITS REMITTED TO THE STATE COMPTROLLER**

	Fiscal Years Ended June 30,		
	2009	2008	2007
<b><u>WORKERS' COMPENSATION BENEFIT TRUST FUND - 124</u></b>			
Statutory Assessments	\$ -	\$ -	\$ 93
Receipts in Transit:			
Beginning of Year	-	-	-
End of Year	-	-	-
Total Deposits Remitted to Comptroller	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 93</u>
<b><u>INJURED WORKERS' BENEFIT FUND - 179</u></b>			
Fines, Penalties or Violations	\$ 1,237,225	\$ 1,802,911	\$ 1,046,300
Receipts in Transit:			
Beginning of Year	158,417	272,500	55,000
End of Year	(262,544)	(158,417)	(272,500)
Total Deposits Remitted to Comptroller	<u>\$ 1,133,098</u>	<u>\$ 1,916,994</u>	<u>\$ 828,800</u>
<b><u>SELF-INSURERS' ADMINISTRATION FUND - 274</u></b>			
Licenses, Fees or Registrations	\$ 320,500	\$ 356,000	\$ 380,500
Receipts in Transit:			
Beginning of Year	14,500	17,000	3,000
End of Year	(14,500)	(14,500)	(17,000)
Total Deposits Remitted to Comptroller	<u>\$ 320,500</u>	<u>\$ 358,500</u>	<u>\$ 366,500</u>

**STATE OF ILLINOIS  
 WORKERS' COMPENSATION COMMISSION  
 COMPARATIVE SCHEDULE OF CASH RECEIPTS AND RECONCILIATION SCHEDULE OF CASH  
 RECEIPTS TO DEPOSITS REMITTED TO THE STATE COMPTROLLER**

	Fiscal Years Ended June 30,		
	2009	2008	2007
<b><u>SECOND INJURY FUND - 431</u></b>			
Statutory Assessments	\$ 1,460,158	\$ 932,391	\$ 1,237,496
Receipts in Transit:			
Beginning of Year	86	1,681	15
End of Year	<u>(5)</u>	<u>(86)</u>	<u>(1,681)</u>
Total Deposits Remitted to Comptroller	<u>\$ 1,460,239</u>	<u>\$ 933,986</u>	<u>\$ 1,235,830</u>
<b><u>OPERATIONS FUND - 534</u></b>			
Statutory Assessments	\$ 16,900,739	\$ 20,286,481	\$ 16,516,469
Receipts in Transit:			
Beginning of Year	84,592,716	66,492,716	52,091,834
End of Year	<u>(99,256,594)</u>	<u>(84,592,716)</u>	<u>(66,492,716)</u>
Total Deposits Remitted to Comptroller	<u>\$ 2,236,861</u>	<u>\$ 2,186,481</u>	<u>\$ 2,115,587</u>
<b><u>RATE ADJUSTMENT FUND - 685</u></b>			
Statutory Assessments	\$ 19,256,455	\$ 18,287,267	\$ 16,175,706
Receipts in Transit:			
Beginning of Year	1,735	16,613	153
End of Year	<u>(32)</u>	<u>(1,735)</u>	<u>(16,613)</u>
Total Deposits Remitted to Comptroller	<u>\$ 19,258,158</u>	<u>\$ 18,302,145</u>	<u>\$ 16,159,246</u>

**STATE OF ILLINOIS  
 WORKERS' COMPENSATION COMMISSION  
 COMPARATIVE SCHEDULE OF CASH RECEIPTS AND RECONCILIATION SCHEDULE OF CASH  
 RECEIPTS TO DEPOSITS REMITTED TO THE STATE COMPTROLLER**

	Fiscal Years Ended June 30,		
	2009	2008	2007
<b><u>SELF-INSURERS' SECURITY FUND - 940</u></b>			
Bonds or Escrow fees, Assessments and Reimbursements	\$ 4,520,563	\$ 3,920,643	\$ 2,888,347
Receipts in Transit:			
Beginning of Year	23,747	145,724	123
End of Year	<u>(73,297)</u>	<u>(23,747)</u>	<u>(145,724)</u>
Total Deposits Remitted to Comptroller	<u>\$ 4,471,013</u>	<u>\$ 4,042,620</u>	<u>\$ 2,742,746</u>

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES**

The Illinois Workers' Compensation Commission's (Commission) explanation for significant fluctuations in expenditures of 20 percent or more as presented in the Comparative Schedule of Appropriations, Expenditures and Lapsed Balances is detailed below.

**Illinois Workers' Compensation Commission Operations Fund - 534**

Expenditures for State contributions to employee retirements increased by \$652,514 or 60% in fiscal year 2008 due to an increase in calculated contribution rate from 11.525% in fiscal 2007 to 16.561% in fiscal year 2008. In fiscal year 2009, it increased by \$494,907 or 29% due to further increase in calculated contribution rate to 21.049%.

Expenditures for contractual services increased by \$923,114 or 168% in fiscal year 2008 due to lease charges from the Department Central Management Services (DCMS) for the office space occupied by the Commission in the State Building. The lease charges were effective July 2007. No lease charges were due to DCMS in previous years.

Expenditures for commodities increased by \$22,138 or 47% in fiscal 2008 due to purchase of papers and stationeries that bears the new name of the Commission. The Commission was previously identified as Industrial Commission.

Expenditures for equipment increased by \$50,483 or 121% in fiscal year 2008 due to upgrades and replacement of local area network equipment, switches and purchase of additional computers. In fiscal year 2009, equipment expenditures decreased by \$38,102 or 41% due to lesser equipment purchased during the fiscal year.

Expenditures for telecommunications increased by \$34,730 or 23% in fiscal year 2008 due to telecommunications expenditures of Peoria and Metro East Satellite offices which were previously appropriated under lump-sums appropriations and additional phone lines added to the data entry department.

Expenditures for lump-sums decreased by \$613,294 or 33% in fiscal year 2008 due to realignment of appropriations of Peoria, Metro East, and Third Commission Panel offices. The expenditures for these offices were previously appropriated under lump-sum, operations. Effective fiscal year 2008, the appropriation and the related expenditures of these offices are now under each type of expenditure line item instead of lump-sum operations line item.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES**

**Injured Workers' Benefit Fund - 179**

Expenditures for Injured Workers' Benefit Fund increased by \$305,072 or 100% in fiscal year 2008, due to payments of claims for injured workers of uninsured employers. The fund was created in fiscal year 2006, but started to payout benefit claims in fiscal year 2008. In fiscal year 2009, it increased by \$403,070 or 132%, due to an increase in the number of benefit claims of injured workers. The payment of benefit claims varies depending on the number of eligible claims received and the amount of money in the fund in each fiscal year.

**Self-Insurers' Administration Fund - 274**

Expenditures for Self-Insurers' Administration Fund increased by \$72,176 or 20% in fiscal year 2008 and \$88,517 or 21% in fiscal year 2009. The increase was primarily due to regular increases in salaries and related expenditures of employees and salary of an additional employee who was hired effective third quarter of fiscal year 2008.

**Self-Insurers' Security Fund - 940**

Expenditures for Self-Insurers' Security Fund decreased by \$2,103,393 or 47% in fiscal year 2009 due to a decline in settlement claims as the Fund continue to settle outstanding claims of employees of bankrupt self-insured companies.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS**

The Illinois Workers' Compensation Commission's (Commission) explanations for significant fluctuations in receipts of 20 percent or more as presented in the Comparative Schedule of Cash Receipts and Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller is as follows:

**Injured Workers' Benefit Fund - 179**

Cash receipts from fines and penalties increased by \$756,611 or 72% in fiscal year 2008 and decreased by \$565,686 or 31% in fiscal year 2009. Receipts from fines and penalties will vary depending upon the number and amount of settled cases during the year.

**Second Injury Fund - 431**

Cash receipts from assessments decreased by \$305,105 or 25% in fiscal year 2008 and increased by \$527,767 or 57% in fiscal year 2009. The fluctuations were due to change in rates of assessments charged to self-insured entities and insurance companies. The Commission charged assessments to self-insured entities and insurance companies twice in each fiscal year. During the first half of fiscal year 2008, the Commission charged assessment at a rate of 0.0625% and the second half of the fiscal year had an assessment rate of 0.125%. The assessments in fiscal year 2009 were charged at 0.125%.

**Illinois Workers' Compensation Commission Operations Fund - 534**

Cash receipts from assessments increased by \$3,770,012 or 23% in fiscal year 2008. Cash receipts will vary depending on the amount of workers compensation paid by insurance companies and self-insured entities.

**Self-Insurers' Security Fund - 940**

Cash receipts from bonds or escrow fees, assessments and reimbursements increased by \$1,032,296 or 36% in fiscal year 2008 due to an increase in the frequency of assessments charged to self-insured companies. During fiscal year 2008, assessments were made twice while there was only one assessment in fiscal year 2007.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING**

The Illinois Workers' Compensation Commission's explanation for significant lapse period spending of 20% or more as presented in the Schedule of Appropriations, Expenditures, and Lapsed Balances for fiscal year 2009 and 2008 is detailed below.

**Fiscal Year 2009**

**Illinois Workers' Compensation Commission Operations Fund - 534**

Lapse period spending on equipment was \$18,758 or 35% of total expenditures. Several equipments were ordered towards the end of the fiscal year. These were received and paid during the lapse.

Lapse period spending on lump-sum, operations was \$237,659 or 22%. Computers were ordered towards the end of the fiscal year but were received and paid during the lapse. In addition, the billings for medical fee schedules contracted in fiscal year 2008 were received and paid during the lapse.

**Injured Workers' Benefit Fund -179**

Lapse period spending on social assistance was \$708,142 or 100% of total expenditures. The Injured Workers' Benefit Fund pays all benefit claims of injured workers of uninsured companies during lapse because the fund will pay eligible claims only to the extent of available money in the fund. If the fund does not have enough money, payment is made proportionately to all eligible claims. As such, all benefit claims are processed towards the end of the fiscal year and paid during the lapse.

**Fiscal Year 2008**

**Illinois Workers' Compensation Commission Operations Fund - 534**

Lapse period spending on contractual services was \$720,675 or 49% of total expenditures. The lease of office premises charged by the Department of Central Management Services for the entire fiscal year 2008 was paid full during the lapse period.

Lapse period spending on equipment was \$24,120 or 26% of total expenditures. Several equipments were ordered towards the end of the year. These were received and paid during the lapse.

Lapse period spending on lump sum, operations was \$420,384 or 34% of total expenditures. The allocated share of the lease for insurance compliance department charged by DCMS in fiscal year 2008 was paid in full during the lapse period and charged under lump-sum expenditures.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING**

**Injured Workers' Benefit Fund -179**

Lapse period spending on social assistance was \$305,072 or 100% of total expenditures. The Injured Workers' Benefit Fund pays all benefit claims of injured workers of uninsured companies during lapse because the fund will pay eligible claims only to the extent of available money in the fund. If the fund does not have enough money, payment is made proportionately to all eligible claims. As such, all benefit claims are processed towards the end of the fiscal year and paid during the lapse.



**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
ANALYSIS OF SIGNIFICANT ACCOUNT BALANCES**

A comparative schedule of significant variations in balance sheet accounts that differed from the previous year by 20 percent or more for the Self-Insurers' Security Fund for the fiscal year ended June 30, 2009 and June 30, 2008, are shown below:

	FISCAL YEAR ENDED JUNE 30		INCREASE (DECREASE)	
	<u>2009</u>	<u>2008</u>	<u>AMOUNT</u>	<u>%</u>
<u>Self-Insurers' Security Fund - 940</u>				
Cash in bank	\$73,297	\$23,747	\$49,550	209%
Accrued interest receivables	\$20,612	\$59,877	(\$39,265)	(66%)
Receivables	\$302,147	\$0	\$302,147	100%
Accounts Payable	\$102,013	\$594,417	(\$492,404)	(83%)

The Illinois Workers' Compensation Commissions' management provided the following explanations for the significant variations in balance sheet accounts.

**Cash in bank**

The increase in cash in bank was due to deposits not submitted to the State Treasury at the end of fiscal year. These deposits were submitted shortly after June 30, 2009.

**Accrued interest receivable**

The decrease in accrued interest receivable was due to a decrease in interest rates in the funds deposited with the State Treasury.

**Receivables**

The increase in receivables was due to accruals of unpaid assessments and reimbursements from excess insurance carriers at the end of the fiscal year. No accruals for unpaid assessments and reimbursement from excess insurance carriers were made in previous year.

**Accounts Payable**

The decrease in accounts payable was due to the decrease in benefit payments during the fiscal year. Benefit claims in fiscal year 2009 were paid before the end of the fiscal year unlike in previous year when more benefit claims incurred were not paid at the end of the year.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
RATE ADJUSTMENT FUND - SCHEDULE OF FUND BALANCE (DEFICIT)  
(Not Examined)**

The Workers' Compensation Act (820 ILCS 305/7(f)) provides for the calculation of assessments for the Rate Adjustment Fund. Assessments have been at the maximum allowed for the 20 years ending June 30, 2009 and the fund balance at that date was \$1,547,556. The Act is very clear in specifying a total allowable fund balance and includes a provision for statutory moratorium on employer contributions should it be reached. However, the Rate Adjustment Fund had to borrow money in order to meet its obligations. Presented below are Rate Adjustment Fund balances (deficits) for the fiscal years ended June 30, 2007, 2008 and 2009 respectively:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Beginning Fund Balance (Deficit)</b>	\$ (6,039,745)	\$ (9,929,119)	\$ (15,008,240)
Cash Receipts			
Statutory Assessments	19,256,455	18,286,956	16,175,706
Interest Income	327,656	378,170	202,816
Prior Year Adjustment	(1,264)	6,149	1,017
Cash Disbursements			
Social Assistance	(11,422,451)	(10,950,824)	(11,233,452)
Interest Expense	(519,908)	(237,757)	(66,966)
Change in Estimated Liabilities for Unpaid Claims	<u>(53,187)</u>	<u>(3,593,320)</u>	<u>-</u>
<b>Ending Fund Balance (Deficit)</b>	<u>\$ 1,547,556</u>	<u>\$ (6,039,745)</u>	<u>\$ (9,929,119)</u>

The Commission is required to provide a cost of living adjustment (COLA) benefits, pursuant to Sections 8(f) and 8(g) of the Workers' Compensation Act, to persons who have received an award from the Commission that provides for Permanent Total Disability 8(f) or Statutory Permanent Total Disability 8(e)18 or if an employee's death is determined to be related to a work injury.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
AGENCY FUNCTIONS AND PLANNING PROGRAM**

FUNCTIONS

The Illinois Workers Compensation Commission (Commission) administers the Workers' Compensation Act (820 ILCS 305/0) (Act) and the Workers' Occupational Diseases Act (820 ILCS 320/). The Self-Insurers' Advisory Board, established within the Commission, was created for the purpose of administrating the Self-Insurers' Security Fund.

The Commission consists of ten members appointed by the Governor with the consent of the Senate. Of the ten members, three are representatives of employers, three are employees covered under the Act and four are representative citizens not identified with either the employing or employee classes. The Chairman of the Commission has the general supervisory authority over all personnel of the Commission, including arbitrators and Commissioners, including but not limited to the assignment and distribution of cases and assignment of Commissioners to panels.

The Act authorizes the Commission to function as a quasi-judicial body with the equivalent of court status in that its records, when properly represented, are accepted by regularly constituted courts as legal evidence and its decisions are final unless an appeal is made to the Courts, i.e. Circuit Court, Appellate Court, and Supreme Court. The Commission has authority to formulate rules and orders for its procedures, administer oaths and issue subpoenas commanding witnesses to produce documents.

The applications for adjustment of claims are first heard by a Commission Arbitrator. Appeal of an Arbitrator's decision is heard by the members of the Commission. The Commission can affirm, reverse or modify the Arbitrator's decision. A case can then be appealed to the Circuit Court after which further appeal is taken to the Appellate Court. Appeals to the Supreme Court are at the option of the Supreme Court.

The mission of the Commission is to resolve disputes that arise between injured workers and their employers regarding workers' compensation, and to assure financial protection to injured workers and their dependents at reasonable costs to employers. The Commission coordinates the various elements of the public service and information functions to structure a cohesive public service and information department. These elements are comprised of telephone responses to requests for information, distribution of forms and literature, *pro se* counseling and preparation of literature for distribution.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
AGENCY FUNCTIONS AND PLANNING PROGRAM**

The Commission is dedicated to resolving workers' compensation disputes in a fair and timely manner. It protects the rights of employees and employers under the Illinois Workers' Compensation and Occupational Diseases Acts, and monitors employers covered by the Acts to confirm that they are adequately insuring their liabilities. The Commission also evaluates and approves eligible employers that seek to insure themselves for their workers' compensation liabilities. Finally, the Commission compiles information on work-related injuries and diseases.

PLANNING PROGRAM

The Commission has established formal written long and short-term goals and objectives, which are conducive to fulfilling its mandates as follows:

- Enhance the quality of case resolutions
- Investigate, identify, and enforce insurance compliance
- Improve technology to enhance customer access to the Commission

Each objective is supported with a written plan, key initiative and performance metrics for achieving the objective. Annually, the Chairman releases an annual report to detail the results of the Commission's operations which provides measurement for the achievement of each goal.

CHAIRMAN AND COMMISSIONERS

Amy Masters, Acting Chairman (during examination period)			
Commissioners			
Employee representatives:	Molly Mason	Barbara Sherman	David Gore
Public representatives:	Paul Rink	Yolaine Dauphin	James DeMunno
Employer representatives:	Nancy Lindsay	Kevin Lamborn	Mario Basurto

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
AVERAGE NUMBER OF EMPLOYEES**

	<u>For Fiscal Years Ended June 30,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Administrative - General	83	83	85
Arbitrators	32	33	33
Court Reporters	28	28	28
Electronic Data Processing	9	10	10
Peoria Office	1	1	1
Metro East Office	1	1	1
Accident Reporting	2	2	2
Insurance Compliance	5	4	4
Administrative Exempt	2	2	2
Third Commission Panel	6	6	7
Self-Insurers' Administration Fund	5	5	4
Self-Insurers' Security Fund	<u>2</u>	<u>2</u>	<u>2</u>
Total Average Employees	<u>176</u>	<u>177</u>	<u>179</u>
Commissioners	<u>9</u>	<u>9</u>	<u>9</u>

The Commissioners are paid from the Comptroller's State Officers' Salaries appropriation. Amounts paid are to be in accordance with State Statutes (820 ILCS 305/13).

**STATE OF ILLINOIS  
 WORKERS' COMPENSATION COMMISSION  
 EMERGENCY PURCHASES  
 For the Two Years Ended June 30, 2009**

The Commission made two emergency purchases for fiscal year 2009 and none in fiscal year 2008.

<b>FY</b>	<b>Vendor (Description)</b>	<b>Actual Amount</b>
2009	Ingenix Health Intelligence, Minnetonka, MN - Service in establishing medical fee schedule and manual	\$ 27,011
2009	True Course Medical Data, Milwaukee, WI - Services to provide assistance in developing medical fees.	<u>15,764</u>
Total		<u>\$ 42,775</u>

**STATE OF ILLINOIS  
 WORKERS' COMPENSATION COMMISSION  
 SERVICE EFFORTS AND ACCOMPLISHMENTS (Not Examined)**

**ANALYSIS OF WORKERS' COMPENSATION CASES**

<u>CASE LOAD VOLUME</u>	Fiscal Years Ended June 30,		
	2009	2008	2007
<u>Summary</u>			
Cases Pending at Beginning of Year	102,120	102,345	104,590
New Cases Filed During the Year	55,512	57,515	56,692
Cases Reinstated During the Year	1,790	1,793	1,744
Total Cases to be Processed	159,422	161,653	163,026
Deduct Cases Closed During Year	(58,637)	(59,533)	(60,681)
<b>CASES PENDING AT YEAR END</b>	<b>100,785</b>	<b>102,120</b>	<b>102,345</b>
 <u>ANALYSIS OF CASES FILED</u>			
Application for Arbitration	46,752	48,193	47,461
Original Applications for Approval of Settlement Contracts	8,760	9,322	9,231
<b>TOTAL NEW CASES FILED</b>	<b>55,512</b>	<b>57,515</b>	<b>56,692</b>
 <u>ANALYSIS OF CASES CLOSED</u>			
<u>By Arbitrators and Commissioners</u>			
Dismissed at Review	90	106	105
Dismissed by Applicants at Arbitration	536	604	589
Dismissed for Want of Prosecution at Arbitration	4,530	4,724	5,053
By Decisions of Arbitrators and Commissioners	2,233	2,550	2,413
By Approval of Settlement Contracts and Lump Sum Settlements	51,248	51,549	52,521
<b>TOTAL CASES CLOSED</b>	<b>58,637</b>	<b>59,533</b>	<b>60,681</b>

**STATE OF ILLINOIS  
 WORKERS' COMPENSATION COMMISSION  
 SERVICE EFFORTS AND ACCOMPLISHMENTS (Not Examined)  
 For the Two Years Ended June 30, 2009**

	Fiscal Years Ended June 30,		
	2009	2008	2007
Cases Pending at Beginning of Year	64.06%	63.31%	64.16%
New Cases Filed During the Year	34.82%	35.58%	34.77%
Cases Reinstated During the Year	1.12%	1.11%	1.07%
Total Cases to be Processed	100.00%	100.00%	100.00%

	<u>2009-2008</u>		<u>2008-2007</u>	
	<u>Increase/(Decrease)</u>		<u>Increase/(Decrease)</u>	
	<u>No. of</u>	<u>%</u>	<u>No. of</u>	<u>%</u>
	<u>Cases</u>		<u>Cases</u>	
Total Cases to be Processed	(2,231)	(1.4%)	(1,373)	(0.8%)
Deduct Cases Closed During the Year	(896)	(1.5%)	(1,148)	(1.9%)
Cases Pending at Year End	(1,335)	(1.3%)	(225)	(0.2%)

Notes on Cases:

*Illinois State Chamber of Commerce v. John Filan, et al*

On November 29, 2004 the Circuit Court of Cook County granted summary judgment in favor of the plaintiff declaring that the Budget Implementation Act of 2004 as it relates to the Illinois Workers' Compensation Commission Operations Fund Surcharge is unconstitutional and ordered that all monies currently held or thereafter received pursuant to the surcharge be placed in an escrow account with no disbursements until further order of the Circuit Court. Defendants appealed to the Illinois Supreme Court. On October 6, 2005 the Illinois Supreme Court reversed the Circuit Court's order granting summary judgment and remanded the case to the Circuit Court for further proceedings. The parties have reached a settlement which will be presented to the Circuit Court of Cook County for approval. The Commission is represented by the Attorney General's Office.