

## **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, 2012**

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



**E.C. ORTIZ & CO., LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

**STATE OF ILLINOIS  
 WORKERS' COMPENSATION COMMISSION  
 SELF-INSURERS' SECURITY NONSHARED - PROPRIETARY FUND  
 FINANCIAL AUDIT  
 For the Year Ended June 30, 2012**

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**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION**

**AGENCY OFFICIALS**

Chairman	Mitch Weisz
Fiscal Officer (1/3/12 to Current)	Mary Wells
Acting Fiscal Officer (8/12/11 to 1/2/12)	Robert Devereaux
Legal Counsel	Ron Rascia
Deputy General Counsel (6/18/12 to Current)	Dennie Zankel
Deputy General Counsel (1/16/12 to Current)	Lola Dada-Olley
Assistant General Counsel (4/1/10 to 6/10/12)	Darrell Widen
Chief Internal Auditor	Mark Kimmet

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

401 Main Street, 6<sup>th</sup> Floor  
Peoria, Illinois 61602

200 S. Wyman  
Rockford, Illinois 61101

1014 Eastport Plaza Drive  
Collinsville, Illinois 62234

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

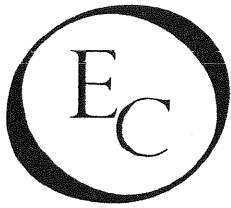
**FINANCIAL STATEMENT REPORT SUMMARY**

The audit of the accompanying financial statement 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 basic financial statements.

**EXIT CONFERENCE**

The Commission waived having an exit conference in a letter dated November 30, 2012 from the Commission's Chairman, Mitch Weisz.



## 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, 2012, 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, 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, 2012, 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, 2012, and the changes in financial position, and where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 5, 2012 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.

Management has omitted 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 require to be presented to supplement the fund financial statements. Such missing information, although not a part of the fund financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the fund financial statements in an appropriate operational, economic, or historical context. Our opinion on the fund financial statements is not affected by this missing information.

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*  
E. C. Ortiz & Co., LLP  
December 5, 2012

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SELF-INSURERS' SECURITY NONSHARED - PROPRIETARY FUND  
STATEMENT OF NET ASSETS  
June 30, 2012**

**ASSETS**

**Current Assets**

Cash in State Treasury	\$ 32,952,490
Cash in Bank and on Hand	233,656
Accrued Interest Receivable	10,830
Excess Insurance Receivable	379,713
Securities Lending Collateral	15,494,060
Total Current Assets	<u>49,070,749</u>

Total Assets	<u><u>\$ 49,070,749</u></u>
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**LIABILITIES**

**Current Liabilities**

Accounts Payable	\$ 78,061
Obligations Under Securities	15,494,060
Deferred Security Deposit	13,697,546
Liabilities for Unpaid Claims	1,522,982
Total Current Liabilities	<u>30,792,649</u>

**Noncurrent Liabilities**

Liabilities for Unpaid Claims	<u>5,921,833</u>
Total Noncurrent Liabilities	<u>5,921,833</u>

Total Liabilities	<u>36,714,482</u>
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**NET ASSETS**

Restricted Net Assets	<u>12,356,267</u>
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Total Liabilities and Net Assets	<u><u>\$ 49,070,749</u></u>
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See accompanying notes to the basic 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, 2012**

**OPERATING REVENUES**

Assessments	\$ 1,083,031
Excess Insurance Recoveries	314,763
Security Deposits Drawn	300,000
Total Operating Revenues	<u>1,697,794</u>

**OPERATING EXPENSES**

Personal Services	63,953
Employee Retirement	21,452
Social Security Contribution	7,214
Group Insurance	16,863
Contractual Services	18,711
Telecommunications	271
Deposit Refunds	54,748
Benefit Payments	1,274,135
Total Operating Expenses	<u>1,457,347</u>

Operating Income	<u>240,447</u>
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**NONOPERATING REVENUES**

Interest Income	<u>108,950</u>
Total Nonoperating Revenues	<u>108,950</u>

Change in Net Assets	349,397
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<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>12,006,870</u>
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<b>NET ASSETS, END OF YEAR</b>	<u><u>\$ 12,356,267</u></u>
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See accompanying notes to the basic financial statements.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SELF-INSURERS' SECURITY NONSHARED - PROPRIETARY FUND  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2012**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash Received from Assessments, Excess Insurance Recoveries and Security Deposits	\$ 1,720,858
Security Deposits Collected and Interest of Deposits Held	838,689
Payments to Suppliers - Net	(133,857)
Payments to Employees and Other Personal Services	(142,482)
Deposit Refunds Paid	(54,748)
Benefit Payments	(2,077,871)
Net Cash Provided by Operating Activities	<u>150,589</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITY**

Transfer from General Revenue Fund	10,000,000
Net Cash Provided by Noncapital Financing Activity	<u>10,000,000</u>

**CASH FLOWS FROM INVESTING ACTIVITY**

Interest and Dividends on Investments	108,277
Net Cash Provided by Investing Activity	<u>108,277</u>

Net Increase in Cash in State Treasury, Cash in Bank , on Hand and In-transit 10,258,866

Cash in State Treasury, Cash in Bank and on Hand, Beginning of Year 22,927,280

Cash in State Treasury, Cash in Bank and on Hand, End of Year \$ 33,186,146

**Reconciliation of Operating Income to Net Cash**

**Provided by Operating Activities:**

Operating Income	\$ 240,447
Adjustments to Reconcile Operating Income to Cash Flows from Operating Activities	
Changes in Assets and Liabilities:	
Deferred Security Deposit	838,689
Excess Insurance Receivable	23,064
Accounts Payable	(112,256)
Due to Other Funds	(2,619)
Compensated Absences	(33,000)
Liabilities for Unpaid Claims	(803,736)
Net Cash Provided by Operating Activities	<u>\$ 150,589</u>

See accompanying notes to the basic financial statements.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SELF-INSURERS' SECURITY NONSHARED - PROPRIETARY FUND  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2012**

**(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 fund 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.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SELF-INSURERS' SECURITY NONSHARED - PROPRIETARY FUND  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2012**

Based upon the required criteria, the Self-Insurers' Security nonshared proprietary fund does not have any component unit, nor is it a component unit 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, 2012, 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 security deposits, assessments, and excess insurance reimbursements, 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.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SELF-INSURERS' SECURITY NONSHARED - PROPRIETARY FUND  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2012**

**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 receives) value without directly receiving (or giving) equal value in exchange are not applicable. On an accrual basis, revenues from assessments, reimbursements from excess insurance, and security deposits are recognized in the fiscal year in which the underlying exchange transaction occurs. Resources received before the exchange has occurred are reported as deferred revenues.

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 in bank and on hand and cash in transit.

**E. 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.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SELF-INSURERS' SECURITY NONSHARED - PROPRIETARY FUND  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2012**

**F. 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. As of June 30, 2012, deposits in the custody of the State Treasurer was \$32,952,490 of which \$13,697,546 is restricted for the payment of deferred security deposits which consist of letters of credit drawn upon and held by the Commission as a security for the payment of the private self-insurers' obligations incurred under the Workers' Compensation Act, cash in bank and on hand was \$233,656.

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 (CAFR).

**(4) Excess Insurance Receivable**

Excess insurance receivable consists of receivables from insurance companies as reimbursements of claims paid by the Commission in excess of the retention limit.

**(5) Securities Lending Transaction**

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

During fiscal year 2012, Deutsche Bank Group lent U.S. Treasury and U.S. agency securities and received as collateral U.S. dollar denominated cash. Borrowers were

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SELF-INSURERS' SECURITY NONSHARED - PROPRIETARY FUND  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2012**

required to deliver collateral for each loan equal to at least 100% of the aggregated market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

The State Treasurer did not impose any restrictions during fiscal year 2012 on the amount of the loans available or the eligible securities. In the event of borrower default, Deutsche Bank Group provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank Group is obligated to indemnify the State Treasurer if the Deutsche Bank Group loses any securities, collateral or investments of the State Treasurer in Deutsche Bank Group's custody. Moreover, there were no losses during fiscal year 2012 resulting from a default of the borrowers or Deutsche Bank Group.

During fiscal year 2012, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by the Deutsche Bank Group and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2012 were \$4,556,511,251 and \$4,551,829,732, respectively.

**(6) Deferred Security Deposit**

Deferred Security Deposit consists of proceeds drawn upon letters of credit by the Commission, including related interest, as a security for the payment of the private self-insurer's obligations incurred under the Workers' Compensation Act.

**(7) 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. The following represents changes in aggregate liabilities during the year ended June 30, 2012.

**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SELF-INSURERS' SECURITY NONSHARED - PROPRIETARY FUND  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2012**

Liability for unpaid claims, beginning of year	\$ 8,248,551
Total provision for events of the current fiscal year and any change in the provision for events of prior fiscal years	128,280
Payments of claims	<u>(932,016)</u>
Liability for unpaid claims, end of year	<u>\$ 7,444,815</u>

**(8) 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 in which State employee participates, 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 years 2012 and 2011 are included in State of Illinois' CAFR for the years ended June 30, 2012 and 2011, respectively. 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.

The Commission pays employer retirement contributions in the Fund based upon an actuarially determined percentage of their payrolls. For fiscal year 2012, the employer contribution rate was 34.190%. The Commission's contribution to SERS was \$21,452 for the year ended June 30, 2012.

**(9) 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

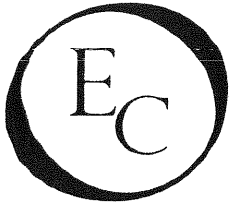


**STATE OF ILLINOIS  
WORKERS' COMPENSATION COMMISSION  
SELF-INSURERS' SECURITY NONSHARED - PROPRIETARY FUND  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2012**

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 may be 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 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.



INDEPENDENT AUDITORS' 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, 2012, and have issued our report thereon dated December 5, 2012. 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

Management of the State of Illinois Workers' Compensation Commission is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the State of 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 State of Illinois Workers' Compensation Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois Workers' Compensation Commission's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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*  
E. C. Ortiz & Co., LLP  
December 5, 2012

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

PRIOR FINDING NOT REPEATED

A. **Finding** (Inadequate controls over financial reporting)

During the prior year engagement, the Illinois Workers' Compensation Commission-Self Insurers' 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 the generally accepted accounting principles. The IWCC-SISF recorded a transfer to be repaid by the General Revenue Fund as interfund transfers instead of interfund receivable.

During the current year engagement, the IWCC-SISF was repaid by the General Revenue Fund. The receipt was properly recorded by IWCC-SISF. (Finding Code Nos. 11-1, 10-1, 09-1)