

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 AND COMPLIANCE

EXAMINATION

For the Two Years Ended June 30, 2007

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

STATE OF ILLINOIS
 WORKERS' COMPENSATION COMMISSION
 FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
 For the Two Years Ended June 30, 2007

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AGENCY OFFICIALS
STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION

Acting Chairman (11/21/08 to Current)	Ms. Amy J. Masters
Chairman (11/7/08 to 11/20/08)	Vacant
Chairman (10/3/08 to 11/6/08)	Mr. Jerry Jutila
Chairman (2/22/03 to 10/2/08)	Mr. Dennis R. Ruth
Fiscal Officer (1/6/06 to Current)	Ms. Carol Reckamp
Fiscal Officer (12/1/05 to 1/5/06)	Vacant
Fiscal Officer (11/1/80 to 11/30/05)	Mr. Charles Kusar
Legal Counsel	Ms. Kathryn Kelley

Agency offices are located at:

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AMY J. MASTERS
CHAIRMAN

STATE COMPLIANCE EXAMINATION MANAGEMENT ASSERTION LETTER

March 5, 2009

Martin & Shadid, CPAs, P.C.
3810 N. Prospect Road
Peoria, IL 61614

Ladies and Gentlemen:

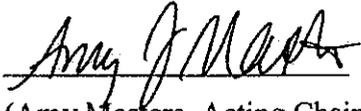
We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Commission. We are responsible for and we have established and maintained an effective system of, internal controls 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, 2007. Based on this evaluation, we assert that during the years ended June 30, 2006 and June 30, 2007, the Commission has materially complied with the assertions below.

- A. Other than what has been previously disclosed, 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. 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.

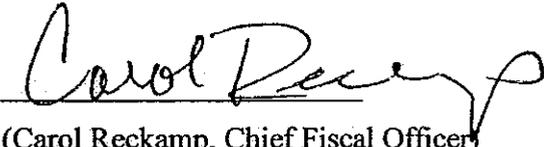
- E. Money or negotiable securities or similar assets handled by the Commission on behalf of the State or held in trust by the Commission have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

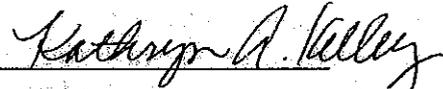
Illinois Workers' Compensation Commission



(Amy Masters, Acting Chairman)



(Carol Reckamp, Chief Fiscal Officer)



(Kathryn Kelley, Legal Counsel)

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 Findings</u>	<u>Compliance Report</u>	<u>Prior Compliance Report</u>
Findings	7	9
Repeated findings	5	5
Prior recommendations implemented or not repeated	4	5

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

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
FINDINGS (STATE COMPLIANCE)		
07-1	11	Major Internal Controls Lacking Over Rate Adjustment Fund (RAF)
07-2	14	Noncompliance with the Fiscal Control and Internal Auditing Act (FCIAA)
07-3	15	Late Performance Evaluations
07-4	16	Inadequate Property Control Records
07-5	18	Noncompliance with Illinois Vehicle Code

07-6 20 Lack of System Development and Change Control Standards

07-7 21 Computer Security Administration Deficiencies

PRIOR FINDINGS NOT REPEATED (STATE COMPLIANCE)

07-8 23 Efficiency Initiative Payments

07-9 23 Official Headquarters Report Deficiencies

07-10 23 Inadequate Controls Over Printing

07-11 23 Inadequate Strategic Information Technology Plan

EXIT CONFERENCE

Commission management waived having an exit conference per correspondence dated March 5, 2009. Responses to the recommendations were provided by Carol Reckamp, Chief Fiscal Officer, per email correspondence dated September 10, 2008 and March 2, 2009.

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, 2006 and June 30, 2007. 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 finding 07-1 in the accompanying schedule of findings, the State of Illinois Workers' Compensation Commission did not comply with requirement A on the previous page which 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, 2007. 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 07-2, 07-3, 07-4, and 07-5.

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 in order to determine 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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and another deficiency that we consider to be a material weakness.

A *control 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 noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to comply with the requirements listed in the first paragraph of this report such that there is more than a remote likelihood that noncompliance with a requirement that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as findings 07-1 through 07-7 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings, we consider item 07-1 to be a material weakness.

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 response 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 response and, accordingly, we express no opinion on it.

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 2006 and 2007 Supplementary Information for State Compliance Purposes, except for Service Efforts and Accomplishments and the Rate Adjustment Fund Schedule of Net Deficit 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 2005 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.

Martin & Shadick, CPAs, P.C.

March 5, 2009

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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, 2007, which collectively comprise the Illinois Workers' Compensation Commission's basic financial statements and have issued our report thereon dated March 5, 2009. 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 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.

A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 Illinois Workers' Compensation Commission'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.

Martin & Shaded, CPAs, P.C.

March 5, 2009

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SCHEDULE OF FINDINGS
FOR THE TWO YEARS ENDED JUNE 30, 2007

CURRENT FINDINGS – State

07-1. **FINDING:** Major Internal Controls Lacking Over Rate Adjustment Fund (RAF)

The Commission had major internal control weaknesses over its Rate Adjustment Fund (RAF).

The 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. As of June 30, 2007, the total number of cases in the RAF database was 5,077 and the total dollar amount paid out over the program was approximately \$179 million.

The Commission discovered payment discrepancy problems during the current compliance examination and conducted reviews of all RAF cases, their histories, and payments to identify potential cases that may have been eligible for payments from this Fund. Our examination of 25 cases disclosed that no RAF payments had been made to eligible recipients in eight cases, two of which were not eligible until fiscal year 2009 (32%); that in nine cases (36%) payments had been made in the wrong amount; and that in eight cases (32%) no further RAF payments were required. This examination indicated appropriate documentation did not exist, nor were there adequate internal controls to determine if or when payments had correctly been provided.

Initially, the Commission compiled 30 years of case and payment history that provided the potential number of RAF cases that were paid and not paid and the set-up calculation to provide if all payments were made to all potentially eligible persons for the longest amount of time the person may be owed benefits. This process identified a large number of cases and a significant dollar amount. This model served as a starting point to determine an accounting and statistical model for a 30-year projection of liability.

Over the past year, the Commission continued to research cases and developed a statistical model based on their experience of back claims in order to refine their potential liability estimates for financial reporting to the Illinois Office of the State Comptroller (IOC). The Commission's model has shown that estimated liabilities could be in the range of \$9,000,000 to \$14,000,000. The (IOC) reviewed the Commission's information and questioned parts of this methodology. At the close of our fieldwork in February 2009, the Commission was working with the IOC to

better estimate this financial reporting liability, which was in the range of \$18,000,000 to \$22,000,000. Commission management states they have a known liability of \$3,500,000 for back claims as of June 30, 2008.

The Illinois Office of Internal Audit has been performing a special audit to determine the cause of the breakdowns in internal control and if the Commission had developed a system of internal controls to ensure payments processed through this Fund were appropriate, accurate, and in compliance with rules and regulations. As of February 11, 2009, the Illinois Office of Internal Audit had not yet finalized their report.

The Workers' Compensation Act (820 ILCS 305/8(g)) requires every award for permanent total disability or death benefits be subject to annual adjustments, which are paid out of the Rate Adjustment Fund.

Commission officials stated RAF payments were improperly administered due to a lack of internal controls and monitoring of the Fund. Policies and procedures regarding this fund were not adequately documented and furthermore, eligibility was not determined by those with the education and training to make the proper decision. Many decisions were made by data entry employees without any assistance by the legal department or the Arbitrators who rendered the decisions. Cases were also not tracked if the case was appealed outside the Commission to the Circuit, Appellate or Supreme Court. Further, discrepancies were found in payment records. The Rate Adjustment Fund was insolvent from Fiscal Years 1981-1983 and then again from Fiscal Years 1987 – 1996. Subsequent efforts to make-up missed payments or underpayments were not documented in Commission files.

Improper RAF payments or failure to make RAF payments to eligible workers is noncompliance with state statute. Furthermore, the amount employers are required to pay into this Fund is based on its fund balance. If the actual amount owed is not known, then employers will not be accurately assessed. (Finding Code No. 07-1)

RECOMMENDATION

We recommend internal controls and monitoring of the Rate Adjustment Fund be strengthened to ensure proper payments are made to eligible recipients. In addition, the Commission should determine and pay any outstanding amounts due to eligible claimants. The Commission should also consult with the Office of the Attorney General to determine if any legal issues exist. Further, the Commission should establish appropriate procedures for recording related liabilities, as well as disclosing contingent liabilities, and annually reporting this information to the Office of the State Comptroller in a timely fashion.

COMMISSION RESPONSE

The Commission concurs with this finding and has already taken several significant steps to correct a 30-year-old program, which appears to have had flaws from the beginning. After an initial review of the files, the Commission took the following actions:

- Notified the Auditor General and Comptroller
- Entered into an inter-agency agreement with the Illinois Office of Internal Audit to review the old files
- Obtained RAF payment data from the Comptroller for the entire history of the program
- Developed a database to capture information from the file review process and tabulate the payment history
- Revised RAF eligibility notification procedures to include letters to Attorneys for both the petitioner and respondent
- Reviewed last four years of claims for RAF back claims from workers who had been eligible but not submitted the required affidavit upon initial eligibility
- For back claim requests since 2008, the Commission has paid benefits on a going forward basis while attempting to determine the entire liability for back claims
- Developed a statistical model to project the potential liability of RAF back claims
- The Attorney General has also been informed of the potential RAF Liability by the Governor's Office, and ongoing discussion is anticipated.
- The Commission has hired a RAF Project manager to assist in the development and implementation of new procedures and better technology.
- The Commission has implemented new procedures for Arbitrators and Commissioners to identify RAF cases when issuing decisions.

In November 2008, the Commission notified the public of the situation by informing more than 1,100 IWCC newsletter subscribers, informing the IWCC Advisory Board, whose members represent labor and business interests, and posting notice on the IWCC web site and asking potential beneficiaries to submit an application. The Commission has stated that since November of 2008, no workers or their survivors have made a claim for back RAF payments.

The IOIA completed its internal audit in March 2009.

The Commission plans to work with Legal Counsel and the Attorney General to better determine who may be eligible for back payments. The Commission also plans to implement appropriate policies and rules as well as pursue statutes legal counsel recommends will be needed to manage the program.

07-2. FINDING: Noncompliance with the Fiscal Control and Internal Auditing Act (FCIAA)

The Commission was not in compliance with the Fiscal Control and Internal Auditing Act (FCIAA)

In the previous engagement, the Commission did not file the FCIAA certification for fiscal years 2004 and 2005 and did not perform any internal audits. In the current engagement it was also noted the FCIAA certifications for fiscal years 2006 and 2007 were not filed and that no internal audits were performed.

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 Audits. 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 an 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 controls is necessary in order to comply with State law. (Finding Code No. 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.

COMMISSION RESPONSE

We agree that we should comply with the Act, but have found it difficult to do so without an auditor. We have reached an official agreement via an Interoffice Agreement with the Office of Internal Audit in FY 08 that is effective for the next five years. With their assistance, the Commission should be able to come into compliance with the law.

07-3. FINDING: Late Performance Evaluations

Performance evaluations were not being performed annually.

Thirteen of the twenty-five personnel files examined (52%) did not contain current performance evaluations. Twenty of the twenty-six evaluations due during fiscal years 2006 and 2007 (77%) were not performed and one evaluation was performed over nine months late. The remaining five were performed in a timely manner.

According to 80 Illinois Administrative Code 302.270(d), for a certified employee, each agency shall prepare such evaluation not less often than annually.

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

Performance evaluations are necessary in order to make employees aware of their supervisor's assessments of their performance. Consequently, in the absence of a formal evaluation, the employees would not have performance goals and objectives that are formally established with their supervisors. Performance evaluations should also serve as the foundation for salary adjustments, promotions, demotions, discharges, layoffs, recalls and retirement decisions. (Finding Code No. 07-3, 05-4)

RECOMMENDATION

We recommend the Commission comply with the Illinois Administrative Code by establishing and following procedures to ensure performance evaluations are conducted on an annual basis for all employees.

COMMISSION RESPONSE

The Commission agrees the performance evaluations should be performed annually. Procedures, including reminders for supervisors/managers on their Outlook calendar and monthly reminders have been put in place to remind supervisors when evaluations are due. Additionally, supervisors and managers went to a class to teach the importance of completing evaluations correctly and on time.

07-4. FINDING: Inadequate Property Control Records

Property and equipment were not adequately reported in the Commission's records. The Commission's property and equipment balance was \$2,358,196 as of June 30, 2007.

Per review of the Commission's Common Systems Inventory Control, the following exceptions were noted:

- The Commission did not conduct a complete physical inventory in 2007 and did not submit a Certification of Inventory to the Department of Central Management Services (DCMS). The previous physical inventory had been performed in 2006.

According to SAMS procedure 29.10.10 page 3, "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."

- Twenty-five of 35 (71%) equipment items, totaling \$17,221, selected from the property control records were tested and the following exceptions were noted. Nine of the 35 (26%) equipment items tested, totaling \$4,820, could not be located because updated property records did not exist. Thirteen of the 35 (37%), totaling \$9,896, equipment items tested were located but were not tagged. Three of the 35 (9%) equipment items tested, totaling \$2,231, were located but appeared to be obsolete and therefore should have been removed from the property control records. One of the 35 (3%) equipment items tested, totaling \$425, was not in the location indicated in the property control records.
- Sixteen of 30 (53%) equipment items physically observed at the Commission's offices had the following exceptions: eleven of the 30 (37%) equipment items physically observed at the Commission's offices could not be traced to the property control records; three of the 30 (10%) equipment items could be traced to the property control records but were not in the location indicated in the property control records; and two of the 30 (3%) equipment items tested were not in use but were still in the property control records.

According to the State Property Control Act (30 ILCS 605/6.02), each State agency must maintain a permanent record of all property under their jurisdiction and control. SAMS procedure 29.10.10 page 1, assigns to State agencies the responsibility of updating property records to accurately reflect State property balances. Records include date of acquisition, purpose, location, and tag number. The SAMS manual also states these records must be maintained at all times. According to CMS property management policies and procedures (44 Illinois Administrative Code

5010.240), agencies must use the proper location code for reporting the location of equipment.

Failure to conduct an annual inventory of property and equipment could result in inaccurate property records and impair the Commission's ability to safeguard assets.

Commission management stated their prior year examinations had indicated their property control records were in need of significant attention. Therefore, in January 2005 they began a property record update and inventory in an attempt to incorporate the recommendations from the prior engagements. Before completing that process, the Commission decided to implement a different inventory system, which would use a bar code scanner. The Commission had not fully implemented this new system prior to the current testing. Therefore, the property control reports generated by the Common Systems Inventory Control (CSIC), were inaccurate. (Finding Code No. 07-4, 05-5, 03-7)

RECOMMENDATION

We recommend the Commission update their property control records and maintain them in accordance with statutory requirements.

COMMISSION RESPONSE

We agree that the Commission should update its property control records and maintain the records in accordance with statutory requirements. The Commission has purchased a new software system and is working with CMS to update our reporting system. We have additionally assigned the inventory control to a new staff person we believe will better implement the statutory requirements.

07-5. FINDING: Noncompliance with Illinois Vehicle Code

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 required all employees to complete a "Certification of License and Automotive Liability Coverage" form every September and also submit a current copy of their driver's license and insurance card. The Commission's unwritten policy was to not reimburse travel expenses if the required documentation had not been received.

The Commission did not maintain the required documentation for 14 of 17 employees tested (82%). Two of the 17 employees (12%) had no certification statement and no copy of a current drivers license and insurance card on file. The remaining twelve employees had a certification statement on file but not a current drivers license and insurance card. These employees' travel should not have been authorized and therefore, mileage reimbursements were improperly paid. These 14 employees' mileage reimbursements during FY'06 and FY'07 totaled \$49,280 and \$69,327, respectively.

In accordance with the Illinois Administrative Code, Title 80, Section 3000.300 of the Travel Regulation Council Rules, agency heads shall require employees to file a statement certifying they are duly licensed and insured prior to allowing them to use private vehicles on State business. In addition, the Illinois Vehicle Code (625 ILCS 5/10-101) requires every State employee who operates a vehicle not owned, leased or controlled by the State for State business, to obtain insurance.

Commission personnel stated there was no system in place to require employees to submit current drivers licenses and insurance cards upon expiration.

Not ensuring employees using privately owned vehicles for State business are properly licensed and adequately insured is noncompliance with State law and could result in legal liability. (Finding Code No. 07-5)

RECOMMENDATION

We recommend the Commission comply with Illinois law by ensuring all employees using private vehicles for State business are properly licensed and adequately insured.

COMMISSION RESPONSE

The Commission's previous procedures required each driver to have a valid drivers license and insurance. Additionally, all drivers were informed of this policy by transmittal of the State Travel Guide. Finally, the Commission required

drivers to provide a copy of a valid drivers license and insurance card annually to the Fiscal Office.

The Commission agrees that this was not adequate to ensure drivers had the required license and insurance before travel reimbursement was provided. We have updated our procedures to require fiscal staff to review employee files to determine if a current drivers license and insurance is on file before reimbursement could be provided.

07-6. FINDING: Lack of System Development and Change Control Standards

The Commission had not established a formal System Development Methodology or Change Control Procedures.

The Commission had thirteen computer applications that were critical for completing its mission. However, there was no formal methodology to assist in the planning, development, testing and implementation of computer applications.

The Commission also did not have formal change control procedures for documenting the identification of the problem, the request for a change, the approval of the change, or the movement of an authorized change into production for all applications.

Commission staff stated the IT department is very small and is responsible for supporting the needs of the entire Commission including remote locations. Historically the department has been called upon to provide support and development to various departments in rapid succession, which hampers the documentation process.

Prudent business practices dictate the Commission institute formal policies and procedures for new system developments and modifications of existing systems, along with formal change control procedures. Failure to adopt sound business practices regarding suitable structured systems development methodology could create ineffective, inefficient, and incompatible developments and modifications. (Finding Code No. 07-6, 05-8, 03-10, 01-3)

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 IT Department is currently in the process of designing and implementing three functions of operational service management, which include incident management, problem management and change management. A formal SDLC process will also be designed and implemented as part of this initiative. The methodology being used is an ITSM based derivative of ITIL called "Visible Operations." Supporting systems have already been purchased and completion of this initiative is on schedule for the end of calendar year 2008.

07-7. FINDING: Computer Security Administration Deficiencies

The Commission had not established adequate security policies to control the computer operations.

The Commission had not established adequate security control over its computer environment. The Commission relied on its mainframe and local area network (LAN) to meet its mission. 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

The computer environment must be maintained and monitored on a daily basis to verify that only approved activities are occurring. Proper policies and procedures, when implemented and monitored, help confirm that activities are completed with the desired intentions.

Commission staff stated that IT department has requested additional staff in order to provide broader support of the Commission's resources. The request is pending due to budgeting and hiring issues. The current staff shares a wide range of support roles and responsibilities and too often find themselves in the position of being reactive rather than proactive.

Prudent business practices dictate the Commission strengthen their security to protect their assets and resources against unauthorized access and misuse. The Commission uses information technologies to provide most of the business activities that occur at the Commission. Without proper policies and procedures the Commission may not be able to maintain an efficient and effective organization. Failure to develop comprehensive security policies and identify specific weakness could leave the Commission exposed to major disruption of services to the public. Identification of weaknesses can greatly assist management to mitigate risks associated with unauthorized access or modification of computer resources. (Finding Code No. 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 security within its computing environment by establishing, implementing, monitoring, maintaining and enforcing an access control strategy relating to computer systems.

COMMISSION RESPONSE

The Commission agrees with this recommendation. Many of these processes and policies either already exist and need updating or need documentation and formalization. The IT Department is working with the HR Department to include the correct information in an updated employee handbook. Everything else specific to IT related security and operations is being handled as part of our overall service management implementation. All is scheduled for completion and remediation by end of calendar year 2008.

PRIOR FINDINGS NOT REPEATED – State Compliance

07-8. Finding: Efficiency Initiative Payments

The Commission made payments for efficiency initiative billings from improper line item appropriations. The Commission made payments for efficiency initiative billings from line item appropriations with available funds, rather than line item appropriations from where the cost savings were anticipated to have occurred. (Finding Code No. 05-1)

Status: Not Repeated

Commission officials stated no efficiency initiatives billings were received or paid during fiscal years 2006 and 2007.

07-9. Finding: Official Headquarters Report Deficiencies

The Commission did not submit Official Headquarters Reports to the Legislative Audit Commission in accordance with statute. Additionally, the Commission did not follow State rules concerning Agency Head's headquarters designation. (Finding Code No. 05-2)

Status: Reported as Immaterial Finding

Current examination procedures revealed the Commission corrected the Official Headquarters Reports to remove the Chairman as he spent the majority of his time at headquarters. However, the Official Headquarters Reports were not timely filed and were inaccurate. (Finding Code No. IM07-2)

07-10. Finding: Inadequate Controls Over Printing

Items published by the Commission did not include the following information: "Printed by the authority of the State of Illinois", the date of each publication, the number of copies printed, and the printing order number as required by the Illinois Procurement Code. (Finding Code No. 05-6)

Status: Not Repeated

Current examination procedures revealed the Commission included the required information on its publications.

07-11. Finding: Inadequate Strategic Information Technology Plan

The Commission did not have an information technology (IT) steering committee or an effective strategic planning process.

Status: Reported as Immaterial Finding

Current examination procedures revealed a steering committee was formed, regular meetings were held and minutes maintained. However, no strategic plan existed for the use of Information Technology to support the Commission's mission. (Finding Code No. IM07-10)

State of Illinois
WORKERS' COMPENSATION COMMISSION
SELF-INSURERS' SECURITY
NONSHARED PROPRIETARY FUND
FINANCIAL AUDIT
For the Years Ended June 30, 2007 and 2006

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the Illinois Workers' Compensation Commission Self-Insurers' Security Fund was performed by Martin & Shadid CPAs, P.C.

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

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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, 2007, 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.

The prior year comparative information has been derived from the Commission's 2006 financial statements and, in our report dated October 18, 2006, we expressed an unqualified opinion on the financial statements of the Self-Insurers' Security Fund of the State of Illinois Workers' Compensation Commission.

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, 2007, and its changes in financial position including cash flows for the years 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, 2007, and the changes in financial position and cash flows, where applicable, thereof for the years 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 March 5, 2009 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 State 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.

Martin & Shaded, CPAs, P.C.

March 5, 2009

STATE OF ILLINOIS
 WORKERS' COMPENSATION COMMISSION
 SELF-INSURERS' SECURITY
 NONSHARED - PROPRIETARY FUND
 STATEMENTS OF NET ASSETS
 June 30, 2007 and 2006

	2007	2006
ASSETS		
Current Assets:		
Cash in Bank	\$ 145,724	\$ 123
Cash in State Treasury	28,660,946	30,035,963
Petty Cash	100	100
Accrued Interest Receivable	113,805	116,779
Intergovernmental Receivable	305	-
Total Current Assets	28,920,880	30,152,965
Total Assets	\$ 28,920,880	\$ 30,152,965
 LIABILITIES AND NET (DEFICIT) ASSETS		
Current Liabilities:		
Accounts Payable	\$ 78,192	\$ 242,591
Compensated Absences	32,000	32,000
Liabilities for Unpaid Claims	10,309,613	10,910,343
Total Current Liabilities	10,419,805	11,184,934
Total Liabilities	10,419,805	11,184,934
Restricted Net Assets (Deficit)	18,501,075	18,968,031
Total Liabilities and Net Assets (Deficit)	\$ 28,920,880	\$ 30,152,965

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

STATE OF ILLINOIS
 WORKERS' COMPENSATION COMMISSION
 SELF-INSURERS' SECURITY
 NONSHARED - PROPRIETARY FUND
 STATEMENTS OF REVENUE, EXPENSES
 AND CHANGE IN NET ASSETS (DEFICIT)
 For the Two Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Escrow Fees and Surety Bonds	\$ 2,888,347	\$ 3,985,337
Total Operating Revenues	<u>2,888,347</u>	<u>3,985,337</u>
OPERATING EXPENSES		
Personal Services	129,432	185,418
Employee Retirement	14,928	11,963
Social Security Contribution	9,500	11,269
Group Insurance	27,703	33,920
Travel	1,601	3,272
Contractual Services	3,536	12,867
Telecommunications	920	616
Deposit Refunds	44,403	2,129
Benefit Payments	5,197,173	6,598,947
Total Operating Expenses	<u>5,429,196</u>	<u>6,860,401</u>
Operating Income (Loss)	<u>(2,540,849)</u>	<u>(2,875,064)</u>
NONOPERATING (EXPENSES) REVENUES		
Miscellaneous	-	(2,010)
Interest Income	1,473,164	1,200,299
Change in Liability for Unpaid Claims	600,729	48,722
Total Nonoperating Revenues (Expenses)	<u>2,073,893</u>	<u>1,247,011</u>
TRANSFERS OUT		
	<u>-</u>	<u>-</u>
Change in Net Assets (Deficit)	(466,956)	(1,628,053)
Restricted Net Assets (Deficit), Beginning of Year	<u>18,968,031</u>	<u>20,596,084</u>
Restricted Net Assets (Deficit), End of Year	<u>\$ 18,501,075</u>	<u>\$ 18,968,031</u>

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

STATE OF ILLINOIS
 WORKERS' COMPENSATION COMMISSION
 SELF-INSURERS' SECURITY
 NONSHARED - PROPRIETARY FUND
 STATEMENTS OF CASH FLOWS
 For the Two Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from Escrow Fees and Surety Bonds	\$ 2,888,347	\$ 3,985,337
Payments to Suppliers, Net	(115,531)	(196,745)
Payments to Employees and Other Personal Services	(229,396)	(208,560)
Deposit Refunds Paid	(44,403)	(2,129)
Claims Paid - Benefit Payments	(5,204,570)	(6,600,957)
Net Cash Provided by (Used in) Operating Activities	<u>(2,705,553)</u>	<u>(3,023,054)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and Dividends on Investments	<u>1,476,137</u>	<u>1,162,934</u>
Net Cash Provided by Investing Activities	<u>1,476,137</u>	<u>1,162,934</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	(1,229,416)	(1,860,120)
 Cash and Cash Equivalents, Beginning of Year	<u>30,036,186</u>	<u>31,896,306</u>
 Cash and Cash Equivalents, End of Year	<u>\$ 28,806,770</u>	<u>\$ 30,036,186</u>
 Reconciliation of Operating (Loss) Income to Net Cash (Used in) Provided by Operating Activities:		
Operating Income (Loss)	\$ (2,540,849)	\$ (2,875,064)
Adjustments to Reconcile Operating Income (Loss) to Net Cash (Used in) Provided by Operating Activities:		
Changes in Assets and Liabilities:		
Increase (Decrease) in Accounts Payable	(164,399)	(179,990)
Increase (Decrease) in Compensated Absences Payable	-	32,000
(Increase) Decrease in Intergovernmental Receivables	(305)	-
Net Cash Provided by (Used in) Operating Activities	<u>\$ (2,705,553)</u>	<u>\$ (3,023,054)</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
For the Year Ended June 30, 2007

(1) Description of Funds

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

PROPRIETARY FUND

The Self-Insurers' Security Fund (940), the "Fund", was established by 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 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 under this Section.

(2) Summary of Significant Accounting Policies

The financial statements of the individual nonshared proprietary funds administered by the Self-Insurers' Advisory Board 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

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SELF-INSURERS' SECURITY NONSHARED – PROPRIETARY FUND
Notes to the Financial Statements
For the Year Ended June 30, 2007

ii) Fiscal dependency on the primary government.

Based upon the required criteria, the Self-Insurers' Security nonshared proprietary fund does not have any one component unit of any other entity. However, because the Self-Insurers' Security nonshared proprietary fund is not legally separate from the State of Illinois, it is included in the financial statements of the State as a proprietary fund. The State of Illinois, 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 State of Illinois Workers' Compensation Commission and do not purport to, and do not, present fairly the financial position and cash flows, where applicable, for the year 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. Statements of Net Assets; statements of revenue, expenses and changes in net (deficit) assets; and statements of cash flows have been presented for the Self-Insurers' Security nonshared proprietary fund administered by the Self Insurers' Advisory Board.

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 expenses, 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 Financial Statements
For the Year Ended June 30, 2007

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 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 issue 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 funds administered by the Self-Insurers' Advisory Board.

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. Interfund Transactions

The Self-Insurers' Security nonshared proprietary fund has the following type of interfund transactions with other funds of the State:

Operating transfers – flows of assets (cash) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported after nonoperating revenues and expenses.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SELF-INSURERS' SECURITY NONSHARED – PROPRIETARY FUND
Notes to the Financial Statements
For the Year Ended June 30, 2007

f. Compensated Absences

The liability for compensated absences reported in the individual nonshared proprietary funds consists of unpaid, accumulated vacation and sick leave balances for Department 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.

g. Net Assets

Equity is displayed in one component as follows:

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.

h. 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.

STATE OF ILLINOIS
 WORKERS' COMPENSATION COMMISSION
 SELF-INSURERS' SECURITY NONSHARED – PROPRIETARY FUND
 Notes to the Financial Statements
 For the Year Ended June 30, 2007

(3) Deposits

The State Treasurer is the custodian of the State's cash and cash equivalents for the Self Insurers' Security Fund maintained in the State Treasury. The Self-Insurers' Advisory Board independently manages cash and cash equivalents maintained outside the State Treasury.

<u>Fund</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Description</u>
Self Insurers' Security Fund	\$ 145,724	\$ 145,724	Insured (FDIC)

Deposits in the custody of the State Treasurer and cash on hand at June 30, 2007 was as follows:

<u>Fund</u>	<u>Deposits in Custody of State Treasurer</u>	<u>Cash on Hand</u>
Self Insurers' Security Fund	\$ 28,660,946	\$ 28,660,946

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 investments is available within the State of Illinois, Comprehensive Annual Financial Report.

(4) Liability for unpaid claims

The liability for unpaid claims includes claims in all phases of processing and adjudication and are computed based on claims filed. Claims incurred but not reported were not considered significant.

(5) Post-employee Benefits

The State provides health, dental and life insurance benefits for certain retirees and their dependents. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SELF-INSURERS' SECURITY NONSHARED – PROPRIETARY FUND
Notes to the Financial Statements
For the Year Ended June 30, 2007

currently in force. Life insurance benefits are limited to \$5,000 per annuitant age 60 and older.

Costs incurred for health, dental, and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the year ended June 30, 2005. However, post-employment costs for the State as a whole for all State agencies/departments for dependent health, dental and life insurance for annuitants and their dependents are disclosed in the Illinois Comprehensive Annual Financial Report for the State. Cost information for retirees by individual fund or State agency is not available. Payments are made on a "pay-as-you-go" basis.

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
- Combined Schedule of Expenditures – General Revenue Fund and Workers' Compensation Commission Operations Fund
- Schedule of Efficiency Initiative Payments
- Comparative Schedule of Cash Receipts, Disbursements, and Fund Balance (Cash Basis) – Locally Held Funds
- Schedule of Changes in State Property
- Comparative Schedule of Cash Receipts
- 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 Net Deficit

- Analysis of Operations:

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

The auditors' 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 Illinois First Projects 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 2007
 Fourteen Months Ended August 31, 2007

	Appropriations (Net After Transfers)	Expenditures through 6/30/07	Lapsed Period		Balances Lapsed
			Expenditures 7/01 - 8/31/07	Total Expenditures	
PUBLIC ACT 94-798					
APPROPRIATED FUNDS					
Illinois Workers' Compensation Commission Operations Fund - 534					
Personal Services	\$ 10,249,500	\$ 8,783,741	\$ 585,322	\$ 9,369,063	\$ 880,437
Employee Retirements	1,181,200	1,012,653	68,386	1,081,039	100,161
Social Security Contributions	732,600	649,458	44,608	694,066	38,534
Contractual Services	560,000	488,743	60,785	549,528	10,472
Travel	252,500	219,785	20,510	240,295	12,205
Commodities	47,500	47,487	-	47,487	13
Printing	37,000	31,540	1,020	32,560	4,440
Equipment	54,000	12,593	29,127	41,720	12,280
Telecommunications	170,000	131,251	20,108	151,359	18,641
Peoria Office					
For rent, staffing and equipment to operate an office in Peoria	114,000	108,869	3,630	112,499	1,501
Printing and distribution of Workers Compensation handbooks					
of rights and obligations of employers.	115,000	54,591	3,169	57,760	57,240
Establishment and operation of a satellite office in the Metro East area	118,000	108,064	7,530	115,594	2,406
Group Insurance	2,686,000	2,037,691	89,471	2,127,162	558,838
Implementation and operation of an accident reporting system	244,200	172,647	9,539	182,186	62,014
Establishment, administration and operations of the					
Insurance Compliance Division	800,000	323,908	177,638	501,546	298,454
Establishment, administration and operation of a third Commission panel	940,000	572,876	185,482	758,358	181,642
Establishment of the Medical Fee Schedule	250,000	105,938	516	106,454	143,546
Total Illinois Workers' Compensation Commission	18,551,500	14,861,835	1,306,841	16,168,676	2,382,824
Operations Fund - 534					
TOTAL APPROPRIATED FUNDS	\$ 18,551,500	\$ 14,861,835	\$ 1,306,841	\$ 16,168,676	\$ 2,382,824

NONAPPROPRIATED FUNDS

	Appropriations (Net After Transfers)	Expenditures through 6/30/07	Lapsed Period Expenditures		Balances Lapsed
			7/01/07 - 8/31/07	Total Expenditures	
<u>PUBLIC ACT 94 - 798</u>					
Self-Insurers' Administration Fund - 274					
Social Assistance		\$ 336,433	\$ 22,628	\$ 359,061	
Total Self-Insurers' Administration Fund - 274		\$ 336,433	\$ 22,628	\$ 359,061	
Second Injury Fund - 431					
Social assistance		\$ 1,177,667	\$ (262)	\$ 1,177,405	
Total Second Injury Fund - 431		\$ 1,177,667	\$ (262)	\$ 1,177,405	
Rate Adjustment Fund - 685					
General and administrative		\$ 11,065,045	\$ 168,407	\$ 11,233,452	
Total Rate Adjustment Fund - 685		\$ 11,065,045	\$ 168,407	\$ 11,233,452	
Self-Insurers' Security Fund - 940					
General and administrative		\$ 5,357,689	\$ 76,267	\$ 5,433,956	
Total Self-Insurers' Security Fund - 940		\$ 5,357,689	\$ 76,267	\$ 5,433,956	
TOTAL NON-APPROPRIATED FUNDS		\$ 17,936,834	\$ 267,040	\$ 18,203,874	
TOTAL ALL FUNDS - FISCAL YEAR 2007	\$ 18,551,500	\$ 32,798,669	\$ 1,573,881	\$ 34,372,550	\$ 2,382,824

Note: The data contained in this schedule was taken directly from Commission records which have been reconciled to those of the State Comptroller.

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

Appropriations for Fiscal Year 2006
 Fourteen Months Ended August 31, 2006

	Appropriations (Net After Transfers)	Expenditures through 6/30/06	Lapsed Period		Balances
			Expenditures 7/01 - 8/31/06	Total Expenditures	
PUBLIC ACT 94-0015					
APPROPRIATED FUNDS					
<u>Illinois Workers' Compensation Commission Operations Fund - 534</u>					
Personal Services	\$ 9,929,000	\$ 8,891,383	\$ 413,724	\$ 9,305,107	\$ 623,893
Employee Retirements	909,300	732,450	32,263	764,714	144,586
Social Security Contributions	705,700	647,373	31,114	678,486	27,214
Contractual Services	595,000	532,706	43,618	576,323	18,677
Travel	232,000	152,386	62,688	215,074	16,926
Commodities	47,000	46,002	587	46,590	410
Printing	37,000	31,690	5,030	36,719	281
Equipment	33,000	30,693	333	31,026	1,974
Telecommunications	159,500	125,102	34,228	159,330	170
Peoria Office					
For rent, staffing and equipment to operate an office in Peoria	108,100	103,889	3,599	107,488	612
Printing and distribution of Workers Compensation handbooks					
of rights and obligations of employers	114,000	74,859	9,918	84,777	29,223
Establishment and operation of a satellite office in the Metro East area	113,200	103,430	7,482	110,912	2,288
Group Insurance	2,456,400	2,071,665	90,511	2,162,176	294,224
Implementation and operation of an accident reporting system	279,300	216,373	25,424	241,797	37,503
Establishment, administration and operations of the					
Insurance Fraud Division	950,000	76,055	12,664	88,719	861,281
Establishment, administration and operations of the					
Insurance Compliance Division	950,000	194,461	132,996	327,457	622,543
Establishment, administration and operation of a third Commission panel	1,040,000	246,749	451,113	697,862	342,138
Establishment of the Medical Fee Schedule	450,000	155,253	3,264	158,517	291,483
Total Illinois Workers' Compensation Commission	19,108,500	14,432,519	1,360,555	15,793,074	3,315,426
Operations Fund - 534					
TOTAL APPROPRIATED FUNDS	\$ 19,108,500	\$ 14,432,519	\$ 1,360,555	\$ 15,793,074	\$ 3,315,426

NONAPPROPRIATED FUNDS

	Appropriations (Net After Transfers)	Lapsed Period		Balances Lapsed
		Expenditures through 6/30/06	Expenditures 7/01/06 - 8/31/06	
<u>PUBLIC ACT 94-0015</u>				
Self-Insurers' Administration Fund - 274				
Social assistance		\$ 132,146	\$ 7,902	\$ 140,048
Total Self-Insurers' Administration Fund - 274		\$ 132,146	\$ 7,902	\$ 140,048
Second Injury Fund - 431				
Social assistance		\$ 1,179,690	\$ 134,400	\$ 1,314,090
Total Second Injury Fund - 431		\$ 1,179,690	\$ 134,400	\$ 1,314,090
Rate Adjustment Fund - 685				
Social assistance		\$ 10,725,630	\$ 8,214	\$ 10,733,844
Total Rate Adjustment Fund - 685		\$ 10,725,630	\$ 8,214	\$ 10,733,844
Self-Insurers' Security Fund - 940				
General and administrative		\$ 6,585,811	\$ 231,709	\$ 6,817,520
Total Self-Insurers' Security Fund - 940		\$ 6,585,811	\$ 231,709	\$ 6,817,520
TOTAL NON-APPROPRIATED FUNDS		\$ 18,623,277	\$ 382,225	\$ 19,005,502
TOTAL ALL FUNDS - FISCAL YEAR 2006		\$ 19,108,500	\$ 1,742,780	\$ 34,798,576
				\$ 3,315,426

Note : The data contained in this schedule was taken directly from Commission records which have been reconciled to those of the State Comptroller.

STATE OF ILLINOIS
INDUSTRIAL COMMISSION
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,
EXPENDITURES AND LAPSED BALANCES
YEARS ENDED JUNE 30

APPROPRIATED FUNDS

	<u>Fiscal Year</u>		
	2007	2006	2005
	<u>PA 94-798</u>	<u>PA 94-0015</u>	<u>PA 93-0842</u>
<u>Illinois Workers' Compensation Commission</u>			
<u>Operations Fund - 534</u>			
<u>Appropriations (Net After Transfers)</u>	\$ 18,551,500	\$ 19,108,500	\$ 16,320,050
<u>Expenditures</u>			
Personal Services	9,369,063	9,305,107	9,028,576
Employee Retirement	1,081,039	764,714	1,558,005
Social Security contributions	694,066	678,486	653,540
Contractual services	549,528	576,323	621,547
Travel	240,295	215,074	191,062
Commodities	47,487	46,590	46,991
Printing	32,560	36,719	36,796
Equipment	41,720	31,026	56,900
Telecommunications	151,359	159,330	170,127
Peoria Office	112,499	107,488	130,714
Workers' compensation handbooks	57,760	84,777	118,726
Accident reporting system	182,186	241,797	275,641
Metro East Area	115,594	110,912	120,593
Group Insurance	2,127,162	2,162,176	1,871,380
Insurance Fraud	-	88,719	-
Insurance Compliance	501,546	327,457	-
Third Commission Panel	758,358	697,862	-
Medical Fee Schedule	106,454	158,517	-
Total Expenditures	<u>16,168,676</u>	<u>15,793,074</u>	<u>14,880,598</u>
<u>Lapsed Balances</u>	<u>\$ 2,382,824</u>	<u>\$ 3,315,426</u>	<u>\$ 1,439,452</u>

NON-APPROPRIATED FUNDS

Self-Insurers' Administration Fund - 274

<u>Expenditures</u>			
General and Administrative	\$ 359,061	\$ 140,048	\$ 607,389
Total Expenditures, Fund - 274	<u>\$ 359,061</u>	<u>\$ 140,048</u>	<u>\$ 607,389</u>

Second Injury Fund - 431

<u>Expenditures</u>			
Social assistance	\$ 1,177,405	\$ 1,314,090	\$ 1,097,124
Total Expenditures, Fund - 431	<u>\$ 1,177,405</u>	<u>\$ 1,314,090</u>	<u>\$ 1,097,124</u>

Rate Adjustment Fund - 685

<u>Expenditures</u>			
Social assistance	\$ 11,233,452	\$ 10,733,844	\$ 10,185,998
Total Expenditures, Fund - 685	<u>\$ 11,233,452</u>	<u>\$ 10,733,844</u>	<u>\$ 10,185,998</u>

Self-Insurers' Security Fund - 940

<u>Expenditures</u>			
Social assistance	\$ 5,433,956	\$ 6,817,520	\$ 6,430,335
Total Expenditures, Fund - 940	<u>\$ 5,433,956</u>	<u>\$ 6,817,520</u>	<u>\$ 6,430,335</u>

TOTAL APPROPRIATIONS ALL FUNDS

\$ 18,551,500 \$ 19,108,500 \$ 16,320,050

TOTAL EXPENDITURES ALL FUNDS

\$ 34,372,550 \$ 34,798,576 \$ 33,201,444

SALARIES PAID FROM THE COMPTROLLERS

EXECUTIVE SUMMARY APPROPRIATION:

Chairman of the Workers' Compensation Commission	\$ 111,469	\$ 106,370	\$ 106,370
Commissioners (Members: Six in 2005; Nine in 2006 and 2007)	955,146	610,740	563,912
	<u>\$ 1,066,615</u>	<u>\$ 717,110</u>	<u>\$ 670,282</u>

STATE OF ILLINOIS
 WORKERS' COMPENSATION COMMISSION
 COMPARATIVE SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE (CASH BASIS) -
 LOCALLY-HELD FUNDS
 For the Years Ended June 30,

<u>Transcript Deposit Fund - 1168</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Beginning cash	\$ 34,136	\$ 30,496	\$ 26,012
Cash receipts			
Revenue and other sources	13,860	11,340	10,640
Transfers		-	-
Cash disbursements			
Expenditures	4,720	5,254	6,156
Other	5,426	2,446	-
Ending Cash	<u>\$ 37,850</u>	<u>\$ 34,136</u>	<u>\$ 30,496</u>

STATE OF ILLINOIS
 WORKERS' COMPENSATION COMMISSION
 SCHEDULE OF CHANGES IN STATE PROPERTY
 For the Two Years Ended June 30, 2007

	June 30, 2005	Purchases		Transferred		June 30, 2006	Purchases 2007	Transferred		June 30, 2007
		2006	2007	In	Out			In	Out	
Office Furniture and Equipment	\$ 640,892	\$ 300,837	\$ -	\$ -	\$ -	\$ 941,729	\$ 132,791	\$ -	\$ (107,080)	\$ 967,440
EDP Equipment	1,036,354	180,659	-	-	-	1,217,013	72,829	-	(62,938)	1,226,904
Equipment not classified elsewhere	59,240	7,550	-	-	-	66,790	97,062	-	-	163,852
	<u>\$ 1,736,486</u>	<u>\$ 489,046</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,225,532</u>	<u>\$ 302,682</u>	<u>\$ -</u>	<u>\$ (170,018)</u>	<u>\$ 2,358,196</u>

	2006	2007
Purchases - General Office	\$ 26,409	\$ 33,491
Purchases - EDP appropriations	4,617	8,229
Purchases - 3rd Commission Pnl	335,404	107,873
Purchases - Contractual Services	665	-
Purchases - Insurance Compliance	121,209	152,598
Purchases - Telecommunications	742	491
Total Purchases	<u>\$ 489,046</u>	<u>\$ 302,682</u>
Installment Purchases	-	-
	<u>\$ 489,046</u>	<u>\$ 302,682</u>

The Schedule of Changes in State Property 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
 For the Years Ended June 30,

**WORKER'S COMPENSATION BENEFIT
 TRUST FUND #124**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Statutory assessments	\$ 93	\$ 2,374	\$ 4,077
Receipts in transit:			
Beginning of year	-	-	-
End of year	-	-	-
Total Deposits Remitted to Comptroller	<u>\$ 93</u>	<u>\$ 2,374</u>	<u>\$ 4,077</u>

INJURED WORKERS' BENEFIT TRUST FUND #179

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Bonds & Escrow fees	\$ 1,046,300	\$ 159,467	\$ -
Receipts in transit:			
Beginning of year	55,000	-	-
End of year	<u>(272,500)</u>	<u>(55,000)</u>	-
Total Deposits Remitted to Comptroller	<u>\$ 828,800</u>	<u>\$ 104,467</u>	<u>\$ -</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
 For the Years Ended June 30,

SELF-INSURERS' ADMINISTRATION FUND #274

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Statutory assessments	\$ 380,500	\$ 348,444	\$ 382,500
Receipts in transit:			
Beginning of year	3,000	7,500	11,500
End of year	<u>(17,000)</u>	<u>(3,000)</u>	<u>(7,500)</u>
Total Deposits Remitted to Comptroller	<u>\$ 366,500</u>	<u>\$ 352,944</u>	<u>\$ 386,500</u>

SECOND INJURY FUND #431

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Statutory assessments	\$ 1,237,496	\$ 1,451,910	\$ 1,221,064
Receipts in transit:			
Beginning of year	15	977	106
End of year	<u>(1,681)</u>	<u>(15)</u>	<u>(977)</u>
Total Deposits Remitted to Comptroller	<u>\$ 1,235,830</u>	<u>\$ 1,452,872</u>	<u>\$ 1,220,193</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
 For the Years Ended June 30,

OPERATIONS FUND #534

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Statutory assessments	\$ 16,516,469	\$ 11,886,973	\$ 13,550,288
Receipts in transit:			
Beginning of year	52,091,834	42,215,818	30,698,067
End of year	<u>(66,492,716)</u>	<u>(52,091,834)</u>	<u>(42,215,818)</u>
Total Deposits Remitted to Comptroller	<u>\$ 2,115,587</u>	<u>\$ 2,010,957</u>	<u>\$ 2,032,537</u>

RATE ADJUSTMENT FUND #685

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Statutory assessments	\$ 16,175,706	\$ 12,076,041	\$ 9,292,190
Warranty Voids			-
Receipts in transit:			
Beginning of year	153	4,953	848
End of year	<u>(16,613)</u>	<u>(153)</u>	<u>(4,953)</u>
Total Deposits Remitted to Comptroller	<u>\$ 16,159,246</u>	<u>\$ 12,080,841</u>	<u>\$ 9,288,085</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
 For the Years Ended June 30,

SELF-INSURERS' SECURITY FUND #940

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Bonds & Escrow fees	\$ 2,888,347	\$ 3,985,337	\$ 23,960,624
Receipts in transit:			
Beginning of year	123	47,059	281
End of year	<u>(145,724)</u>	<u>(123)</u>	<u>(47,059)</u>
Total Deposits Remitted to Comptroller	<u><u>\$ 2,742,746</u></u>	<u><u>\$ 4,032,273</u></u>	<u><u>\$ 23,913,846</u></u>

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For The Two Years Ended June 30, 2007

Fiscal Years 2007 and 2006

Injured Workers' Benefit Fund 179

In fiscal year 2006, the Illinois Workers' Compensation Commission created the Injured Workers' Benefit Fund. Large fluctuations in fund receipts resulted due to some receipts for the Injured Workers' Benefit Fund that came from fines previously deposited to the Operations Fund.

In addition to the significant variances attributable to the Commissions' funding source change, the Self-Insurers' Security Fund (940), the Second Injury Fund (431), the Rate Adjustment Fund (685), and the Self-Insurers' Administration Fund (274) also had significant variations in expenditures between fiscal years 2005, 2006, and 2007. These variances are described on the following pages.

STATE OF ILLINOIS
 WORKERS' COMPENSATION COMMISSION
 ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
 For The Two Years Ended June 30, 2007

Fiscal Year 2007

A comparative schedule of significant variations in expenditures that differed from the previous year by at least 20% and; \$130,000 for the Self-Insurers' Security Fund 940 and at least \$12,000 for the Self-Insurers' Administration Fund 274 for the fiscal year ended June 30, 2007 and June 30, 2006, are shown below:

	FISCAL YEAR ENDED JUNE 30		INCREASE (DECREASE)	%
	<u>2007</u>	<u>2006</u>	<u>AMOUNT</u>	
<u>Self-Insurers' Administration Fund- 274</u>				
Social Assistance	\$359,061	\$140,048	\$219,013	156%
<u>Self-Insurers' Security Fund- 940</u>				
Social Assistance	\$5,433,956	\$6,817,520	(\$1,383,564)	(20%)

Workers' Compensation Commission management provided the following explanations for the significant variations in expenditures.

Self-Insurers' Administration Fund - 274

Social Assistance

Fiscal year 2007 expenditures increased because significant new office equipment was purchased. In addition, the Self-Insurance Manager's salary was paid entirely from this fund in 2007, rather than being partially allocated to the Self-Insurance Security Fund.

Self-Insurers' Security Fund - 940

Social Assistance

The benefit payments decreased in fiscal year 2007 due to less workers' compensation claims.

STATE OF ILLINOIS
 WORKERS' COMPENSATION COMMISSION
 ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
 For The Two Years Ended June 30, 2006

Fiscal Year 2006

A comparative schedule of significant variations in expenditures that differed from the previous year by at least 20 percent and; at least \$8,000 for the Self-Insurers' Administration Fund and at least \$16,000 for Second Injury Fund for the fiscal year ended June 30, 2006 and June 30, 2005, is shown below:

	FISCAL YEAR ENDED JUNE 30		INCREASE (DECREASE)	%
	<u>2006</u>	<u>2005</u>	<u>AMOUNT</u>	
<u>Self-Insurers' Administration Fund- 274</u>				
Social Assistance	\$140,048	\$607,389	\$(467,341)	(77%)
<u>Second Injury Fund- 431</u>				
Social Assistance	\$1,314,090	\$1,097,124	\$216,966	20%

Workers' Compensation Commission management provided the following explanations for the significant variations in expenditures.

Self-Insurers' Administration Fund - 274

Social Assistance

The decrease in expenditures in fiscal year 2006 resulted from there being no large furniture and equipment purchases.

Second Injury Fund - 431

Social Assistance

The increase in expenditures in fiscal year 2006 resulted from back pay given to workers' compensation recipients as directed by the Attorney General.

STATE OF ILLINOIS
 WORKERS' COMPENSATION COMMISSION
 ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS
 For The Two Years Ended June 30, 2007

Fiscal Year 2007

A comparative schedule of significant variations in receipts which differed from the previous year by more than 20% and; at least \$11,000 for Injured Workers' Benefit Fund, \$83,000 for Rate Adjustment Fund, \$130,000 for Self-Insurers' Security Fund, and \$150,000 for the Illinois Workers' Compensation Commission Operations Fund for the fiscal year ended June 30, 2007 and June 30, 2006, are shown below:

	FISCAL YEAR ENDED JUNE 30		INCREASE (DECREASE)	
	<u>2007</u>	<u>2006</u>	<u>AMOUNT</u>	<u>%</u>
<u>Injured Workers' Benefit Fund- 179</u>				
Statutory Assessments	\$1,046,300	\$159,467	\$886,833	556%
<u>Illinois Workers' Compensation Commission Operations Fund- 534</u>				
Statutory Assessments	\$16,516,469	\$11,886,973	\$4,629,496	39%
<u>Rate Adjustment Fund- 685</u>				
Statutory Assessments	\$16,175,706	\$12,076,041	\$4,099,665	34%
<u>Self-Insurers' Security Fund- 940</u>				
Surety Bonds and Escrow Deposits Collected	\$2,888,347	\$3,985,337	(\$1,096,990)	(28%)

Workers' Compensation Commission management provided the following explanations for the significant variations in receipts.

Injured Workers' Benefit Fund - 179

Statutory Assessments

There was a significant increase in fiscal year 2007 receipts because the fund, which started collecting receipts during fiscal year 2006, became actively enforced during fiscal year 2007. Although the Injured Workers' Benefit Fund was established in fiscal year 2005, receipts from the assessment did not fully materialize until January 2006. Therefore fiscal year 2006 receipts cover only six months, while fiscal year 2007 receipts are for a full year. Additionally, the

program was enhanced with statutory language, which allowed the Commission to actively enforce compliance, fines, and penalties.

Illinois Workers' Compensation Commission Operations Fund - 534

Statutory Assessments

There was an increase in fiscal year 2007 receipts because the Commission had more funds transferred in from escrow accounts per court order, for administrative purposes. Several penalty payments were also collected for late payment of the operation fee in fiscal year 2007.

Rate Adjustment Fund - 685

Statutory Assessments

The increase in receipts in fiscal year 2007 was due to the assessment rate of 1.25% being collected for the entire year. The rate increased during fiscal year 2006.

Self-Insurers' Security Fund - 940

Surety Bonds and Escrow Deposits Collected

The decrease in receipts in fiscal year 2007 resulted from no bonds being collected from bankrupt companies. The fund had more self-insured companies to assess in fiscal year 2006.

STATE OF ILLINOIS
 WORKERS' COMPENSATION COMMISSION
 ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS
 For The Two Years Ended June 30, 2006

Fiscal Year 2006

A comparative schedule of significant variations in receipts that differed from the previous year by more than 20% and; at least \$120,000 for Self-Insurers' Security Fund and at least \$66,000 for the Rate Adjustment Fund for the fiscal year ended June 30, 2006 and June 30, 2005, are shown below:

	FISCAL YEAR ENDED JUNE 30		INCREASE (DECREASE)	%
	<u>2006</u>	<u>2005</u>	<u>AMOUNT</u>	
<u>Rate Adjustment Fund- 685</u>				
Statutory Assessments	\$12,076,041	\$9,292,190	\$2,783,851	30%
<u>Self-Insurers' Security Fund- 940</u>				
Surety Bonds and Escrow Deposits Collected	\$3,985,337	\$23,960,624	(\$19,975,287)	(83%)

Workers' Compensation Commission management provided the following explanations for the significant variations in receipts.

Rate Adjustment Fund - 685

Statutory Assessments

The increase in receipts was due to an increase in the assessment rate from .75% to 1.25% for the last six months of fiscal year 2006.

Self-Insurers' Security Fund - 940

Surety Bonds and Escrow Deposits Collected

The decrease in Surety Bonds and Escrow deposits collected was a result of fewer bankruptcy filings during fiscal year 2006 due to the willingness of bankrupt employers to continue to pay their workers' compensation claims.

STATE OF ILLINOIS
 WORKERS' COMPENSATION COMMISSION
 ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING
 For The Two Years Ended June 30, 2007

Fiscal Year 2007

A comparative schedule of significant variations in lapse period expenditures that were at least 20% of total year expenditures are shown below.

	Lapse Period Expenditures July 1, 2007 through August 31, 2007	Total Expenditures for 14 Months Ended August 31, 2007	%
<u>IWCC Operation Fund- 534</u>			
Equipment	\$29,127	\$41,720	70%
Insurance Compliance	\$177,638	\$501,546	35%
Third Commission Panel	\$185,482	\$758,358	24%

Workers' Compensation Commission Management provided the following explanations for the significant lapse period expenditures.

Equipment

Lapse period expenditures were significant due to receipt of bills from creditors of equipment purchases contracted prior to July 1, 2007 that were received during the lapse period.

Insurance Compliance

Lapse period expenditures for the Insurance Compliance Department for fiscal year 2007 consisted of bills, purchase orders, and services contracted prior to July 1, 2007 that were received during lapse period.

Third Commission Panel

The significant expenditures during lapse period for Third Commission Panel were bills for ordinary business expenses contracted prior to July 1, 2007 that were received during the lapse period.

STATE OF ILLINOIS
 WORKERS' COMPENSATION COMMISSION
 ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING
 For The Two Years Ended June 30, 2006

Fiscal Year 2006

A comparative schedule of significant variations in lapse period expenditures that were at least 20% of total year expenditures are shown below.

	Lapse Period Expenditures July 1, 2006 through August 31, 2006	Total Expenditures for 14 Months Ended August 31, 2006	%
<u>IWCC Operations Fund- 534</u>			
Travel	\$62,688	\$215,074	29%
Telecommunications	\$34,228	\$159,330	21%
Insurance Compliance	\$132,996	\$327,457	41%
Third Commission Panel	\$451,113	\$697,862	65%

Workers' Compensation Commission Management provided the following explanations for the significant lapse period expenditures.

Travel

Lapse period expenditures for Travel were significant due to Commission officials and employees that turned in related expenses incurred during fiscal year 2006 during the lapse period.

Telecommunications

Lapse period expenditures for Telecommunications included the June 2007 bills paid during lapse period to prevent an advance payment.

Insurance Compliance

Insurance Compliance had significant lapse period expenditures due to invoices for equipment and services contracted prior to July 1, 2006 which were received and paid during lapse period.

Third Commission Panel

Third Commission Panel had significant lapse period expenditures due to invoices for services contracted prior to July 1, 2006 which were received and paid during lapse period.

STATE OF ILLINOIS
 WORKERS' COMPENSATION COMMISSION
 ANALYSIS OF SIGNIFICANT ACCOUNT BALANCES
 For The Two Years Ended June 30, 2007

Fiscal Year 2007

A comparative schedule of significant variations in balance sheet accounts that differed from the previous year by at least \$120,000 and by more than 20 percent for Fund 940 for the fiscal year ended June 30, 2007 and June 30, 2006, are shown below:

	FISCAL YEAR ENDED JUNE 30		INCREASE (DECREASE)	%
	<u>2007</u>	<u>2006</u>	<u>AMOUNT</u>	
<u>Self-Insurers' Security Fund- 940</u>				
Cash In Bank	\$145,724	\$123	\$145,601	1184%
Accounts Payable	\$78,192	\$242,591	(\$164,399)	(68%)

The Workers' Compensation Commission 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 two deposits not submitted to the State treasury at the end of the fiscal year. The deposits were submitted shortly after June 30, 2007.

Accounts Payable

The significant decrease in accounts payable in fiscal year 2007 resulted from a decrease in Workers' Compensation benefit payments. More Workers' Compensation cases were settled during fiscal year 2006.

STATE OF ILLINOIS
 WORKERS' COMPENSATION COMMISSION
 RATE ADJUSTMENT FUND - SCHEDULE OF NET DEFICIT
 For the Two Years Ended June 30, 2007

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, 2007 and the fund balance at that date was a deficit of \$9,929,119. 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 has had to borrow money in order to meet its obligations. Presented below are the net deficits in the Rate Adjustment Fund for the fiscal years ended June 30, 2005, 2006 and 2007 respectively:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Beginning Fund Deficit	\$15,008,240	\$15,924,302	\$14,828,479
Cash Receipts			
Statutory Assessments	16,175,706	12,076,041	9,292,190
Interest Income	202,816	23,316	5,036
Prior Year Adjustment	1,017	-	-
Cash Disbursements			
Social Assistance	11,233,452	10,733,843	10,185,998
Interest Expense	66,966	445,333	195,451
Transfer Out	-	-	11,600
Prior Year Adjustment	-	4,119	-
Ending Fund Deficit	<u>\$9,929,119</u>	<u>\$15,008,240</u>	<u>\$15,924,302</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.

As mentioned in Finding 07-1, prior to the release of this report, the Commission discovered improprieties surrounding the Rate Adjustment Fund. They have since conducted an in-depth investigation into the source of the problem, the magnitude of the liability that may exist and what corrective action is necessary. As of the date of our

report, Commission management calculated the maximum potential liability to be between \$18 and \$22 million. Commission management also stated they have a known liability of \$3,500,000 for back claims as of June 30, 2008.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
AGENCY FUNCTIONS AND PLANNING PROGRAM
For the Two Years Ended June 30, 2007 and 2006

FUNCTIONS

The Illinois Workers' Compensation Commission administers the Workers' Compensation Act (820 ILCS 305/) 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 not identified with either employers or employees. The Chairman is designated by the Governor. No more than six of the Commissioners come from the same political party (820 ILCS 305/13).

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. 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 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.

The Commission is to report in writing to the Governor on the thirtieth day of June, annually, the details and results of its administration of the Workers' Compensation Act.

PLANNING PROGRAM

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

CHAIRMAN AND COMMISSIONERS

Dennis R. Ruth, 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
 For the Years Ended June 30,

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Administrative - General	85	88	86
Metro East	1	1	0
Arbitrators	33	33	34
Court Reporters	28	28	24
Electronic Data Processing	10	9	11
Peoria Office	1	1	1
Accident Reporting	2	2	2
Insurance Compliance	4	4	0
Administrative Exempt	2	1	0
Third Commission Panel	7	3	0
Self-Insurers' Administration Fund	4	1	5
Self-Insurers' Security Fund	<u>2</u>	<u>3</u>	<u>2</u>
Total	<u>179</u>	<u>174</u>	<u>165</u>
Commissioners	<u>9</u>	<u>9</u>	<u>6</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, 2007

The Commission made two emergency purchases for fiscal year 2006 and no emergency purchases for fiscal year 2007.

FY	Vendor (Description)	Actual Amount	Estimated Amount
2006	Midwest Comp Review Services, Milwaukee, WI – Assistance with establishing a Medical Fee Schedule and User Manual and also providing educational training	\$ 63,583	\$ 50,000
2006	Ingenix Health Intelligence, Minnetonka, MN – Creation of Medical Fee Schedule	<u>72,100</u>	<u>78,600</u>
	Totals	<u>\$ 135,683</u>	<u>\$ 128,600</u>

STATE OF ILLINOIS
 WORKERS' COMPENSATION COMMISSION
 SERVICE EFFORTS AND ACCOMPLISHMENTS – NOT EXAMINED
 ANALYSIS OF WORKERS' COMPENSATION CASES
 For the Two Years Ended June 30, 2007

<u>CASE LOAD VOLUME</u>	<u>FISCAL YEAR</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
<u>Summary</u>			
Cases pending at beginning of year	104,590	109,791	114,222
New cases filed during year	56,692	56,931	58,715
Cases reinstated during year	<u>1,744</u>	<u>2,327</u>	<u>2,331</u>
 Total cases to be processed	 163,026	 169,049	 175,268
Deduct cases closed during year	<u>(60,681)</u>	<u>(64,459)</u>	<u>(65,477)</u>
 CASES PENDING AT YEAR END	 <u>102,345</u>	 <u>104,590</u>	 <u>109,791</u>
 <u>ANALYSIS OF CASES FILED</u>			
Application for arbitration	47,461	47,135	48,711
Original applications for approval of settlement contracts	<u>9,231</u>	<u>9,796</u>	<u>10,004</u>
 TOTAL NEW CASES FILED	 <u>56,692</u>	 <u>56,931</u>	 <u>58,715</u>
 <u>ANALYSIS OF CASES CLOSED</u>			
<u>By Arbitrators and Commissioners</u>			
Dismissed at review	105	115	109
Dismissed by applicants at arbitration	589	673	712
Dismissed for want of prosecution at arbitration	5,053	7,043	6,352
By decisions of Arbitrators and Commissioners	2,413	2,160	1,977
By approval of settlement contracts and lump sum settlements	<u>52,521</u>	<u>54,468</u>	<u>56,327</u>
 TOTAL CASES CLOSED	 <u>60,681</u>	 <u>64,459</u>	 <u>65,477</u>

Note: The above data was taken from agency records and was not examined.

STATE OF ILLINOIS
 WORKERS' COMPENSATION COMMISSION
 SERVICE EFFORTS AND ACCOMPLISHMENTS – NOT EXAMINED
 ANALYSIS OF CASE LOAD VOLUME
 For the Two Years Ended June 30, 2007

	<u>FISCAL YEAR</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cases pending at beginning of year	64.1%	64.9%	65.2%
New cases filed during year	34.8%	33.7%	33.5%
Cases reinstated during year	<u>1.1%</u>	<u>1.4%</u>	<u>1.3%</u>
TOTAL CASES TO BE PROCESSED	<u>100.0%</u>	<u>100.0 %</u>	<u>100.0 %</u>

	<u>2007-2006</u>		<u>2006-2005</u>	
	<u>Increase/(Decrease)</u>		<u>Increase/(Decrease)</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Total cases to be processed	(6,023)	(3.6%)	(6,219)	(3.5%)
Deduct cases closed during year	<u>(3,778)</u>	(5.9%)	<u>(1,018)</u>	(1.6%)
CASES PENDING AT YEAR END	<u>(2,245)</u>	(2.1%)	<u>(5,201)</u>	(4.7%)

Note: The above data was taken from agency records and was not examined.

Notes on Cases:

Pervis Daniels v. Industrial Commission and Archibald Candy Corporation

On March 21, 2002, the Illinois Supreme Court issued a four-member plurality opinion finding that section 13 of the Workers' Compensation Act does not provide the Chairman of the Commission with the authority to appoint arbitrators to serve as acting Commissioners during a permanent vacancy on the Commission. The Court remanded the Daniels case, which was heard and decided by a Commission panel which included two acting commissioners serving in permanent vacancies, to the Commission for a new

hearing by a legally constituted panel. The Court did not invalidate decisions rendered by an improperly constituted commission in other 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 Industrial 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 case is now pending before the Circuit Court. The Commission's operations are being funded on a monthly basis from monies released from the escrow by the Circuit Court. The defendants are represented by the Attorney General's Office.