



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS WORKERS' COMPENSATION COMMISSION

State Compliance Examination
 For the Two Years Ended June 30, 2023

Release Date: May 30, 2024

FINDINGS THIS AUDIT: 21				AGING SCHEDULE OF REPEATED FINDINGS			
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	<u>Repeated Since</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>
Category 1:	0	9	9	2021	23-07, 23-08 23-09, 23-10	23-13, 23-15 23-20, 23-21	
Category 2:	2	10	12	2020	23-01	23-02	
				2019	23-04	23-17, 23-18	
Category 3:	0	0	0	2017	23-03	23-14, 23-16	
TOTAL	2	19	21	2015		23-19	
				2013	23-06		
FINDINGS LAST AUDIT: 23				2003	23-05		

INTRODUCTION

This digest covers the Illinois Workers' Compensation Commission's (Commission) compliance examination for the two years ended June 30, 2023. A separate digest covering the Commission's Self-Insurers Security Fund's financial audit as of and for the year ended June 30, 2023 was released on February 15, 2024. In total, this report includes 21 findings, two of which were reported in the financial audit.

SYNOPSIS

- **(23-03)** The Commission lacked adequate internal controls over its cash receipts and Agency Fee Imposition Reports.
- **(23-04)** The Commission did not sufficiently monitor and pursue collection on accounts receivable or properly report its accounts receivable to the Comptroller's Office.
- **(23-05)** The Commission lacked adequate internal control over its equipment.
- **(23-07)** The Commission failed to establish internal control to conduct due diligence or ensure project management controls over the Self-Insurance Plus project.
- **(23-13)** The Commission did not exercise adequate internal control over telecommunication devices.
- **(23-17)** The Commission has not sought judgement in circuit court against self-insurers owing past due assessments.

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

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

INADEQUATE CONTROLS OVER RECEIPTS

The Commission's internal controls over its receipt processing function were not operating effectively during the examination period. In addition, the Commission did not exercise adequate internal control over its annual Agency Fee Imposition Reports (Report).

Due to our ability to rely upon the processing integrity of the Enterprise Resource Planning System (ERP) operated by the Department of Innovation and Technology (DoIT), we were able to limit our receipt and refund testing at the Commission to determine whether certain key attributes were properly entered by the Commission's staff into the ERP. In order to determine the operating effectiveness of the Commission's internal controls related to receipt processing, we selected a sample of key attributes (attributes) to determine if the attributes were properly entered into the ERP based on supporting documentation.

During our testing of 28 receipts and 28 refund receipts, we noted 25 of 140 (18%) attributes and 20 of 140 (14%) attributes, respectively, were not properly entered into the ERP. Therefore, the Commission's internal controls over receipt and refund receipt processing were not operating effectively.

Attributes for 25 (18%) receipts and 20 (14%) refunds receipts tested were not properly entered into ERP resulting in a qualified accountant's opinion.

Due to this condition, we qualified our opinion because we determined the Commission had not complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

Results from testing of the Commission's Reports:

- During Fiscal Year 2022, we noted unreconciled differences of \$5,622, \$19,338, and \$14,872 within the reported fees collected for the Second Injury Fund, Rate Adjustment Fund, and Illinois Workers' Compensation Commission Operations Fund.
- During Fiscal Year 2023 we noted unreconciled differences of \$638, \$3,937, and \$297 within the reported fees collected for the Second Injury Fund, Rate Adjustment Fund, and Illinois Workers' Compensation Commission Operations Fund.

Unreconciled differences of up to \$19,338 in FY22 and \$3,937 in FY23 noted within three Locally Held Funds' Agency Fee Imposition Reports

Finally, this finding was first noted during the Commission's compliance examination for the period ended June 30, 2017. As such, Commission management has been unsuccessful in

implementing a corrective action plan. (Finding 3, pages 18-20)

We recommended the Commission design and maintain internal controls to provide assurance its data entry of key attributes into ERP and fees reported in the Report are complete and accurate.

Commission officials agreed

Commission officials agreed with the finding.

INADEQUATE CONTROLS OVER ACCOUNTS RECEIVABLE

The Commission did not sufficiently monitor and pursue collection on accounts receivable or properly report its accounts receivable to the Comptroller's Office.

During testing of 40 accounts receivable, we noted:

- For Five (13%) delinquent accounts receivable, totaling \$98,335, the Commission had not referred these receivables to either the Illinois Debt Recovery Offset Portal (IDROP) at the Comptroller's Office or the Department of Revenue's Debt Collection Bureau (Bureau) and were not actively monitored and pursued for collection, as follows:
 - Two (5%) accounts, totaling \$83,329, were deferred payment plans arising from settlement agreement for the Injured Workers' Benefit Fund between the debtor employer and the Commission where the employers had not followed the payment plan. We noted these employers had not made any payments during the examination period.
 - Three (8%) accounts, totaling \$15,006, were overpayments by the Commission of benefits from the Injured Workers' Benefit Fund. Further, the Commission did not send first and second notices to these debtors.

Commission had not referred Five (13%) delinquent accounts receivable tested, totaling \$98,335, to either the Illinois Debt Recovery Offset Portal at the Comptroller's Office or the Department of Revenue's Debt Collection Bureau

During testing of the Commission's Quarterly Summary of Accounts Receivable (Form C-97) reports, we noted:

- The Injured Workers' Benefit Fund's estimated uncollectible accounts balance was erroneously reported as \$1,929 thousand in the Commission's third quarter Form C-97 report for Fiscal Year 2023 as opposed to \$2,102 thousand from the Commission's records.
- The Rate Adjustment Fund has discrepancies within the Commission's Form C-97s, as noted:
 - The amount reported in the second quarter for Fiscal Year 2022 as collections had discrepancies

The Injured Workers' Benefit Fund and the Rate Adjustment Fund had discrepancies between the Commission's Form C-97s and the Commission's records

of \$2 thousand when compared to the Commission's records.

- The amount reported in the fourth quarter for Fiscal Year 2022 as new accounts receivable and adjustments had discrepancies totaling \$4 thousand when compared to the Commission's records.
- The amount reported in the third quarter for Fiscal Year 2023 as new accounts receivable had discrepancies of \$4 thousand when compared to the Commission's records. (Finding 4, pages 21-23)

We recommended the Commission review the design and operation of its internal controls over accounts receivable to ensure it timely pursues and attempts to collect amounts due to the Commission, including by referring amounts due to IDROP and the Bureau. In addition, we recommended the Commission implement controls to ensure its quarterly accounts receivable reports are complete and accurate.

Commission officials agreed

Commission officials agreed with our recommendation.

INADEQUATE CONTROLS OVER PROPERTY

The Commission lacked adequate internal control over its property.

During review of the Commission's property and equipment items including its records, we noted:

Five equipment items (6%) observed not on Commission's property records

- During testing of 80 equipment items we either (1) found in use at the Commission Office traced by us to the Commission's records or (2) recorded on the Commission's records traced by us to the Commission's Offices, we noted five (6%) items, including a television, a printer, a trolley, a shredder, and a conference table were found at the Commission Offices but could not be traced to the Commission's property listing. In addition, three (4%) items tested, a podium and two speakers, did not have an inventory tag or other marking of its inventory tag number; as such, we could not trace these items to the Commission's property listing.

Three equipment items (4%) observed did not have an inventory tag or other marking

- During testing of six equipment acquisitions totaling \$21,942, we noted:
 - One (17%) item, a USB-C dock, was incorrectly recorded resulting in an understatement of \$13.
 - Five (83%) items, including a mailing device, three laptops, and a desk, totaling \$21,752, were recorded in the Commission's property records more than 90

Five equipment acquisitions (83%) were recorded to property records 22 to 773 days late

days after acquisition, ranging from 22 to 773 days late.

- During testing of 15 equipment deletions, we noted the Commission did not maintain a copy of internal investigation detailing efforts made to locate the missing item and/or a copy of a police report for one (7%) item, a laptop, amounting to \$1,239, coded as Not Located. In addition, the Commission could not prove this laptop did not have confidential information on their hard drives or that this computers had been protected with encryption technologies.
- The Commission did not identify all of its costs incurred during the application development period of Self-Insurance Plus and CompFile! and did not record the related intangible asset on its property listing. Moreover, invoices from the Self-Insurance Plus development vendor did not provide sufficient details to determine if the vendor was paid in accordance with the contract's requirements.

The Commission did not identify all of its costs incurred during the application development period of Self-Insurance Plus and CompFile! and did not record the related intangible asset on its property listing

Finally, this finding was first noted during the Commission's compliance examination for the period ended June 30, 2003. Although the Commission made significant improvements on its control over equipment, the Commission management has been unsuccessful in implementing a corrective action plan to remedy these problems. (Finding 5, pages 24-26)

We recommended the Commission review its remaining property items in use and ensure these items are properly marked with an inventory number and recorded on its property listing. Additionally, we recommended the Commission monitor its property and the related listing to ensure events and transactions, such as additions and deletions, impacting its property are accurately and timely recorded and are properly supported with required documentation.

Further, we recommended the Commission ensure its equipment items with data storage capabilities, which may process or store confidential data, are protected from exposure.

Commission officials agreed

Commission officials agreed with the finding.

FAILURE TO ESTABLISH PROJECT MANAGEMENT INTERNAL CONTROLS

The Commission failed to establish internal controls to conduct due diligence or ensure project management controls over the Self-Insurance Plus project.

By June 30, 2023, the Commission had implemented the release of Self-Insurance Plus and CompFile! into the production environment

In order to modernize the self-insurance management system, the Commission executed two contracts for the development and oversight of Self-Insurance Plus, totaling \$7,319,870. As of June 30, 2023, the Commission had implemented the release of Self-Insurance Plus and CompFile! into the production environment.

Project management framework had not been implemented

During testing, we noted:

- A project management framework had not been implemented to ensure the development met the Commission’s requirements.

System development standards had not been established

- System development standards had not been established to ensure system developments were properly completed, documented, and properly approved.

Project management plan did not document the change management process followed

- The following project deliverables were not signed-off by the Project Team:
 - Solution Testing Plan; and
 - Functional Design Document.
- The project management plan did not document the change management process followed. (Finding 7, pages 30-31)

We recommended the Commission develop and implement internal controls over its project management of information systems projects. Specifically, we recommended the Commission:

- Develop a project management framework to ensure the development meets the Commission’s requirements;
- Establish system development standards to ensure system developments are properly completed, documented, and properly approved;
- Ensure project deliverables are properly approved or signed-off by the authorized personnel; and
- Ensure the project management plan documents the change management process followed.

Commission officials disagreed

The Commission disagreed with the finding. The Commission stated they contracted the Vendor to develop and implement the Self Insurance and CompFile! Applications, which included utilizing the vendors’ project management framework and system development standards, per industry guidelines. The Commission stated it does not have a project management office to implement or develop custom applications, nor does the Commission plan to develop any other applications

Accountant’s Comment

In the accountant’s comment we reemphasized the Commission is ultimately responsible for ensuring information

systems projects are within industry standards and to maintain documentation showing those standards were followed. Exceptions noted in the findings highlighted the Commission was unable to demonstrate that this occurred.

INADEQUATE CONTROL OVER TELECOMMUNICATION DEVICES

The Commission did not exercise adequate internal control over telecommunication devices.

During testing of issued and canceled wireless communication devices, we noted:

- Four of six (67%) issued wireless communication devices tested did not have the Telecommunication Service Request (TSR) forms completed for the issuance of the wireless communication devices.
- Six of six (100%) issued wireless communication devices tested did not have supporting documents of the request of the respective employees' Manager and the approval of the Chairman.
- One of four (25%) canceled wireless communication devices tested was not returned when employee separated from the Commission for a period of 3 months then returned. The Commission continued to pay for the wireless communication device during the separation. This wireless communication device was noted to be deactivated 244 days after the employee originally separated from the Commission.
- Four of four (100%) canceled wireless communication devices tested did not have supporting documentation (e-mail request/approval) for the cancellation of service or for the change of mobile device from the Chairman. (Finding 13, pages 41-42)

Issued wireless communication devices tested did not have complete documentation for requisition or approval

Canceled wireless communication devices tested were not returned during employee separation or did not have complete documentation for cancellation or change of services

We recommended the Commission implement controls to:

- 1) prepare documentation supporting the need for a new wireless communication device and issuance approval prior to getting a new wireless communication device;
- 2) ensure the timely collection of wireless communication devices and cancellation of all telecommunication services upon an employee's separation; and,
- 3) prepare documentation for request/approval for the cancellation or changes to mobile device services or assignment.

Commission officials agreed

Commission officials agreed with the finding.

FAILURE TO DESIGN AND IMPLEMENT CONTROLS OVER PENALTIES AND FINES

The Commission has not sought a judgment in circuit court against self-insurers owing past due assessments.

During testing, we noted:

Commission has not collected from a self-insurer for an assessment dating back to Fiscal Year 2009, totaling \$228

The Commission had two assessments during the examination period

180 self-insurers owing \$754,438 of the \$1,226,082 (62%) for Fiscal Year 2022 assessment were paid late

158 self-insurers owing \$499,714 of the \$1,110,477 (45%) for Fiscal Year 2023 assessment were paid late

- The Commission has not collected from a self-insurer for an assessment dating back to Fiscal Year 2009, totaling \$228. In response to the prior engagement finding, the Commission requested the Attorney General’s representation in circuit court or for the Attorney General to certify the amount as uncollectible.
- The Commission had two assessments during the examination period on July 30, 2021 and November 15, 2022, which required self-insurers to calculate and remit their amount due no later than August 31, 2021 and December 16, 2022, respectively.
 - We noted 180 self-insurers owing \$754,438 of the \$1,226,082 (62%) for Fiscal Year 2022 assessment wrote a check to pay their balance due after the deadline. The last check was dated June 19, 2022 which was 292 days after the deadline.
 - We noted 158 self-insurers owing \$499,714 of the \$1,110,477 (45%) for Fiscal Year 2023 assessment wrote a check to pay their balance due after the deadline. The last check was dated June 13, 2023 which was 179 days after the deadline. (Finding 17, pages 49-50)

We recommended the Commission continue working with the Attorney General to seek a judgment in circuit court against those self-insurers with past due assessments, or seek a legislative remedy.

Commission officials agreed

The Commission agreed with the finding.

OTHER FINDINGS

The remaining findings are reportedly being given attention by the Commission. We will review the Commission’s progress towards the implementation of our recommendations in our next State compliance examination.

AUDITOR’S OPINION

The financial audit was previously released. The auditors stated the financial statements of the Self-Insurers Security Fund as of and for the year ended June 30, 2023, are fairly stated in all material respects.

ACCOUNTANT'S OPINION

The accountants conducted a State compliance examination of the Commission for the two years ended June 30, 2023, as required by the Illinois State Auditing Act. The accountants qualified their report on State compliance for Finding 2023-001 and Findings 2023-003 through 2023-010. Except for the noncompliance described in these findings, the accountants stated the Commission complied, in all material respects, with the requirements described in the report.

This State compliance examination was conducted by Roth & Co., LLP.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

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

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FRANK J. MAUTINO
Auditor General

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