STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION

FINANCIAL AUDIT
(Self-Insurers' Security Fund)
For the Year Ended June 30, 2013
And
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2013

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

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

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
FINANCIAL AUDIT
SELF-INSURERS' SECURITY FUND
For the Year Ended June 30, 2013
And
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2013

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STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
FINANCIAL AUDIT
SELF-INSURERS' SECURITY FUND
For the Year Ended June 30, 2013
And
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2013

AGENCY OFFICIALS

Chairman (3/22/13 to Current)	Michael Latz
Chairman (3/22/10 to 3/21/13)	Mitch Weisz
Chief Fiscal Officer (1/3/12 to Current)	Mary Wells
Acting Fiscal Officer (8/12/11 to 1/2/12)	Robert Devereaux
Secretary to the Commission (9/9/11 to Current)	Kimberly Janas
Chief Internal Auditor	Mark Kimmet
General Counsel	Ronald Rascia

Agency offices are located at:

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

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

401 Main Street, Suite 640
Peoria, Illinois 61602

200 S. Wyman
Rockford, Illinois 61101

1014 Eastport Plaza Drive
Collinsville, Illinois 62234

Illinois Workers' Compensation Commission

100 W. Randolph, Suite 8-200
Chicago, IL 60601
312-814-6500

Pat Quinn, Governor *Michael P. Latz, Chairman*

January 28, 2014

E.C. Ortiz & Co., LLP
333 South Des Plaines Street, Suite 2-N
Chicago, Illinois 60661

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the State of Illinois Workers' Compensation Commission (Commission). We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the Commission's compliance with the following assertions during the two-year period ended June 30, 2013. Based on this evaluation, we assert that during the years ended June 30, 2013 and June 30, 2012, the Commission has materially complied with the assertions below, except as identified in the Schedule of Findings.

A. The Commission has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The Commission has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. The Commission has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. 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

Michael Latz
Chairman

Mary Wells
Fiscal Officer

Ronald Rascia
General Counsel

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
FINANCIAL AUDIT
SELF-INSURERS' SECURITY FUND
For the Year Ended June 30, 2013
And
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2013

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.

ACCOUNTANT'S REPORTS

The Independent Accountant's Report on State Compliance, on Internal Control Over Compliance and on Supplementary Information for State Compliance Purposes does not contain scope limitations or disclaimers, but does contain report qualifications for compliance and internal control.

SUMMARY OF FINDINGS

Number of	Current Report	Prior Report
Findings	10	7
Repeated findings	4	6
Prior recommendations implemented or not repeated	3	4

SCHEDULE OF FINDINGS

Item No.	Page	Description	Finding Type
		FINDINGS (*GOVERNMENT AUDITING STANDARDS*)	
2013-001	13	Inadequate Control over Financial Reporting	Material Weakness and Material Noncompliance
		FINDINGS (STATE COMPLIANCE)	
2013-002	15	Inadequate Controls over the Rate Adjustment Fund Program	Material Noncompliance and Material Weakness
2013-003	18	Inadequate Controls over Revenues, Refunds and Receivables	Noncompliance and Significant Deficiency

FINDINGS (STATE COMPLIANCE)

2013-004	21	Employee Performance Evaluations Not Completed Annually and Timely	Noncompliance and Significant Deficiency
2013-005	23	Inadequate Control over State Property	Noncompliance and Significant Deficiency
2013-006	26	Inadequate Controls Over the Rate Adjustment Fund and Second Injury Fund Assessments	Noncompliance and Significant Deficiency
2013-007	29	Inadequate Control over Voucher Processing	Noncompliance and Significant Deficiency
2013-008	31	Inadequate Controls over Timely Termination of Benefit Payments	Noncompliance and Significant Deficiency
2013-009	32	Weaknesses Regarding the Security and Control of Confidential Information	Noncompliance and Significant Deficiency
2013-010	35	Weaknesses in Collection of Penalty for Noncompliance to Maintain Insurance in Accordance with the Workers Compensation Act	Noncompliance and Significant Deficiency

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

2013-001	13	Inadequate Control over Financial Reporting	Material Noncompliance and Material Weakness

PRIOR FINDINGS NOT REPEATED

A	38	Inadequate Control over Financial Reporting
B	38	Noncompliance with the Fiscal Control and Internal Auditing Act
C	38	Inadequate Controls Over Injured Workers' Benefit Fund

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Commission personnel at an exit conference on January 21, 2014.

Attending were:

Illinois Workers' Compensation Commission
Michael Latz, Chairman
Kim Janas, Secretary of the Commission
Mary Wells, Chief Fiscal Officer
Ron Rascia, Legal Counsel
Robert Ruiz, Insurance Compliance Manager
Maria Parrino, Fiscal Staff
Maria Sarli-Dehlin, Self-Insurance Manager
Bob Devereaux, Fraud Prevention/Efficiency Controller

Office of the Auditor General
Jose Roa, Audit Manager

E. C. Ortiz & Co., LLP
Edilberto Ortiz, Partner
Marites Sy, Partner
Epifanio Sadural III, Manager
Marceliana Caragan, IT Manager

The Commission's responses to the recommendations were provided by Mark Kimmet, Chief Internal Auditor and approved by the Chairman in a correspondence dated January 28, 2014.

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

INDEPENDENT ACCOUNTANT'S 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 the 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 two years ended June 30, 2013. 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.

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Our examination was conducted 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 item 2013-001 in the accompanying Schedule of Findings, the State of Illinois Workers' Compensation Commission did not comply with requirements regarding applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations. As described in item 2013-002 in the accompanying Schedule of Findings, the State of Illinois Workers' Compensation Commission did not comply with requirements regarding the use of public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise 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, 2013. However, the results of our procedures disclosed other instances of noncompliance with those requirements, 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 items 2013-003, 2013-004, 2013-005, 2013-006, 2013-007, 2013-008, 2013-009, and 2013-010.

Internal Control

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 to determine the examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois Workers' Compensation Commission's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois Workers' Compensation Commission's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that a material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance as described in the accompanying schedule of findings as items 2013-001 and 2013-002 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2013-003, 2013-004, 2013-005, 2013-006, 2013-007, 2013-008, 2013-009, and 2013-010 to be significant deficiencies.

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

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

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 for the years ended June 30, 2013 and June 30, 2012 in Schedules 1 through 14 and the Analysis of Operations Section 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 June 30, 2013 and June 30, 2012 accompanying supplementary information in Schedules 1 through 11. However, we do not express an opinion on the supplementary information.

We have not applied procedures to the June 30, 2011 accompanying supplementary information in Schedules 3-9 and to the Analysis of Operation Section and Schedules 11-13, and accordingly, we do not express an opinion or provide any assurance on it.

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

E. C. Ortiz & Co., LLP

Chicago, Illinois
January 28, 2014

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

INDEPENDENT AUDITOR'S 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, in accordance with the 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, 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, 2013, and the related notes to the financial statements, and have issued our report thereon dated January 28, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Illinois Workers' Compensation Commission's internal control over financial reporting (internal control) of the Self-Insurers' Security Fund to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois Workers' Compensation Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois Workers' Compensation Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control of the Self-Insurers' Security Fund that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings as item 2013-001 to be a material weakness.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois Workers' Compensation Commission Self-Insurers' Security Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item 2013-001.

State of Illinois Workers' Compensation Commission's Response to Findings

The State of Illinois Workers' Compensation Commission's response to the finding identified in our audit is described in the accompanying schedule of findings. The State of Illinois Workers' Compensation Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Illinois Workers' Compensation Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois Workers' Compensation Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

E. C. Ortiz & Co., LLP
Chicago, Illinois
January 28, 2014

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SCHEDULE OF FINDINGS

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

2013-001. **FINDING** (Inadequate Control over Financial Reporting)

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

During our audit, we noted the following:

- Excess insurance receivables totaling $124,039 were not recorded.

- Liabilities for unpaid claims reported in the GAAP forms submitted to the Office of the Comptroller were the balance as of March 31, 2013 and not as of June 30, 2013. As a result, the liabilities for unpaid claims were understated by $524,902.

- Letters of credit totaling $200,000 of a private self-insurer that was drawn down without SISF assuming the obligations to pay and administer its workers' claims were recognized as revenue instead of a liability.

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

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

GAAP requires that revenue is to be recognized only when it is earned. Revenues are considered to have been earned when the entity substantially accomplished what it must do to be entitled to the benefits represented by the revenues.

Commission officials stated these issues were due to staffing shortages in the Fiscal Department. Only one person prepared the GAAP packages for all funds.

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS* (Continued)

Failure to establish internal controls over financial reporting may result in misstatements in the financial statements. (Finding Code No. 2013-001)

RECOMMENDATION

We recommend the Commission implement a comprehensive preparation and/or review procedures to ensure that the financial statements, including disclosures, are complete and accurate.

COMMISSION RESPONSE

The Commission agrees with the recommendation.

In reference to the understated liabilities noted in the Finding, the reason that the Commission used the third quarter estimate for the fourth quarter liabilities was because this was the best number available as of the August reporting deadline. The deadline for reporting fourth quarter liabilities was more than a month earlier in FY 2013 as compared to FY 2012, which allowed less time to determine the liability amount for FY 2013.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SCHEDULE OF FINDINGS

CURRENT FINDINGS – STATE COMPLIANCE

2013-002 **FINDING** (Inadequate Controls over the Rate Adjustment Fund Program)

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

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

In previous years, the Commission discovered payment discrepancy problems and conducted a review of all its RAF cases, their histories and payments to identify potential cases that may have been eligible for payments. At the end of Fiscal Year 2013, the Commission recorded a liability of $2.9 million for unpaid back claims.

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

- The Commission did not have adequate control on benefit payments. During our testing, we noted the following:

  - Twenty of 37 (54%) case files selected for testing could not be located by the Commission.

  - Six of 17 (35%) case files tested have no copies of Arbitrator's decision on file.

  - Sixteen of 17 (94%) new cases tested had no evidence that a review was performed to ensure accuracy of data entry input into the database.

  - One of 17 (6%) case files tested had a different weekly benefit amount entered in the database and the mainframe docket system compared to the actual amount indicated in the Arbitrator's written decision. As a result, an overpayment of benefit payments totaling $1,241 was made in Fiscal Year 2013.

  - One of 17 (6%) case files tested was settled with a lump sum payment on February 15, 2013 but the Commission continued to pay monthly benefits until June 2013, resulting in an overpayment of $765.

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

- The Commission lacked internal controls for terminating RAF benefit payments. During our testing, we noted the following:

  - Six of 37 (16%) case files selected for testing could not be located by the Commission.

  - Twenty six of 31 (84%) case files tested have no Termination of RAF Benefit form or other documents to support the nature and effective date of termination. As a result, we could not verify the accuracy of the nature and effective date of termination entered in the database to determine if there was any overpayment of benefits paid.

  - There were no formal procedures to timely detect disqualification of beneficiaries to receive RAF benefit payments. The Commission relies on the reporting and information provided by the petitioner, dependent or lawyer through telephone, letters and email, and annual affidavit on change in status, condition or any disqualifying events such as death, remarriage of surviving spouse, dependent child has reached the age of 18 or 25 if full time student in accredited school, and other factors that made the surviving dependent no longer qualified to receive RAF benefit payments.

- As part of the draft policies and procedures manual, the Commission developed a procedure to track cases appealed to the Circuit Court. However, our testing indicated that the procedures were not followed. In addition, there were no procedures established and observed to track cases appealed to Appellate or Supreme Court. As such, some RAF appealed cases may not have been paid when final decisions from these Courts were made.

The State Records Act (5 ILCS 160/8) requires each agency to preserve records which contain adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency's activities.

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

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

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

Commission officials stated the issues identified were due to lack of policies and procedures for the RAF program.

Inadequate internal controls may result in errors, misstatements, and noncompliance over RAF benefit payments not timely detected. (Finding Code Nos. 2013-002, 11-2, 09-2, 07-1)

RECOMMENDATION

We recommend Commission management strengthen internal controls and procedures over the RAF program to prevent, detect, and correct misstatements or noncompliance on a timely basis. We also recommend the Commission establish and implement formal policies and procedures on the administration of the Rate Adjustment Fund.

COMMISSION RESPONSE

The Commission agrees with the recommendations.

The Commission has reassigned the Rate Adjustment Fund Program administration to new staff in order to seek improvement in this area. In addition, new fiscal procedures have been implemented, legal procedures are in the process of being drafted, and a dedicated staff worker has been assigned to improve the filing of Rate Adjustment Fund documents.

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

2013-003. **FINDING** (Inadequate Controls over Revenues, Refunds and Receivables)

The Illinois Workers Compensation Commission (Commission) did not have adequate controls over processing and reporting its revenue, refunds, and receivables.

- During our testing of receipts and refunds, we noted the following:

  - 9 of 40 (22%) receipts tested totaling $774,099 and 2 of 5 (40%) refunds tested totaling $9,264 were not deposited timely. These receipts and refunds were deposited 1 to 5 days late.

  - 17 of 40 (42%) receipts totaling $532,114 and 3 of 5 (60%) refunds tested totaling $6,766 did not have information of when the checks were received. As such, we could not determine whether the checks were deposited timely.

  The State Officers and Employees Money Disposition Act (30 ILCS 230/2) (Act) requires agencies to keep proper documentation of all moneys received showing the date of receipt, the payor, purpose and amount. The Act also requires the Commission to deposit into the State Treasury individual receipts of $10,000 or more within 24 hours, receipts between $500 and $10,000 within 48 hours, and cumulative receipts valued up to $500 on the next first or fifteenth day of the month.

  - In 2 of 5 (40%) current year refunds tested totaling $3,173, the Commission did not use the appropriate transmittal form when refunds were submitted to the Office of the Comptroller. The Commission erroneously used the Receipt Deposit Transmittal (Form C-64) instead of the Expenditure Adjustment Transmittal (Form C-63) to report the refund received.

  Statewide Accounting Management System (SAMS) Procedure 25.20.20 requires the use of an Expenditure Adjustment Transmittal if the receipt is a result of an erroneous overpayment made and the fund and the expenditure authority has not lapsed.

- The Report of Receipts and Disbursements for Locally Held Funds (Form C-17) for the first and second quarters of Fiscal Year 2012 were not filed with the Office of the Comptroller.

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

SAMS Procedure 33.13.20 states that the C-17 report is to be filed on a quarterly basis and should be submitted to the Office of the Comptroller no later than the last day of the month following the last day of the quarter.

- Quarterly Summary of Accounts Receivable – Accounts Receivable Activity (C-97) and the Quarterly Summary of Accounts Receivable – Aging of Total Gross Receivables (C-98) for the first quarter of Fiscal Year 2012 were not filed with the Office of the Comptroller.

SAMS Procedure 26.30.10 states that State agencies shall report receivables information to the Office of the Comptroller quarterly.

- The Fiscal Year 2013 Agency Fee Imposition Report did not include receipts for the Injured Workers' Benefit Fund.

SAMS Procedure 33.16.20 states the agency's fee imposition report must be filed by August 1 with the agency head's cover letter which certifies all the information provided is complete and accurate.

- The Commission did not adequately provide allowance for estimated uncollectible accounts. The Injured Workers' Benefit Fund's accounts receivables include delinquent accounts (i.e. more than 180 days old) totaling $101,820 and no allowance for estimated uncollectible accounts was provided.

SAMS Procedure 26.20.20 states the Allowance for Estimated Uncollectible Accounts represents the agency's estimate of outstanding receivables that the agency believes will ultimately be uncollectible. The method for estimating the uncollectible portion of receivables will vary by agency and type of receivable. Generally, the estimate of uncollectible accounts will be based upon the collection experience of the agency and the age of the receivables.

Commission officials stated due to limited staff at the Fiscal Department, no full time staff is dedicated to process checks received. Further, during the first part of Fiscal Year 2012, there was a turnover of the Chief Financial Officer (CFO) position and a period of time when this position was filled by an interim CFO. Due to staff shortage, lack of training, and staff turnover, not all quarterly reports were filed at the start of the audit period. The incorrect form used in transmitting current year refunds to the Office of the Comptroller and the failure to include the Injured Workers Benefit Fund on the Fiscal Year 2013 Agency Fee Imposition Report were due to oversight. The inadequate allowance for estimated uncollectible accounts provided was due to oversight because of staffing issue.

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

Failure to deposit collections in a timely manner may result in lost interest revenue and increased the risk of misappropriation of funds. Failure to maintain proper documentation of the date of receipts is a non compliance with the Act. The use of incorrect transmittal form in processing refunds may result in incomplete information reported to the Office of the Comptroller. Failure to file the required C-17, C-97 and C-98 reports reduces the ability of the State to reliably report the status of locally held fund, receivables and related collection activity of each fund and the State as a whole. Inaccurate filing of the fee imposition report may result in inaccurate statewide revenues compiled by the Office of the Comptroller for the General Assembly. Failure to provide adequate allowance for estimated uncollectible accounts on delinquent receivables may result in unreliable financial information. (Finding Code Nos. 2013-003, 11-4)

RECOMMENDATION

We recommend the Commission strengthen its controls to ensure that receipts and refunds are deposited timely, collection dates are documented, and appropriate transmittal forms are used. We also recommend the Commission accurately file the fee imposition report and provide adequate oversight so that locally held funds and receivables are properly reported quarterly to the Office of the Comptroller. Lastly, we recommend the Commission assess the adequacy of the allowance set up for uncollectible accounts.

COMMISSION RESPONSE

The Commission agrees with the recommendations.

During the audit period, the Commission strengthened its deposit controls based on Internal Audit review. The Commission developed a new system for depositing checks that required four people to "touch" each check as it is processed. With the improved controls, the check processing time increased, resulting in noncompliance with the 24/48 hour deposit requirement set forth in the State Officers and Employees Money Disposition Act, as summarized in the Finding. The Commission sought and was granted an exception to this requirement by the Office of the Comptroller and State Treasurer. The exception applies starting October 14, 2013.

In addition, the Commission implemented an electronic deposit system in order to facilitate the deposit of checks received in all Commission remote locations. This reduces incidents where checks may be lost in the mail and also increases the timeliness of deposits.

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

2013-004. **FINDING** (Employee Performance Evaluations Not Completed Annually and Timely)

The Illinois Workers' Compensation Commission (Commission) did not perform an annual employee performance evaluation on a timely basis.

During our testing of 40 employee files for performance evaluations, we noted the following:

- One (2%) employee did not have performance evaluations for both Fiscal Years 2012 and 2013.

- Two (5%) employees did not have performance evaluations from their supervisors for Fiscal Year 2012.

- Ten (25%) employees did not receive their performance evaluations timely for Fiscal Years 2012 and 2013. Performance evaluations for these employees were completed 23 to 123 days late.

The Illinois Administrative Code (80 Ill. Adm. Code 302.270(d)) requires performance records to include an evaluation of employee performance prepared by each agency not less often than annually. The Commission sets the due date of employee evaluations at 30 days after the employee's credible service date evaluation period.

Commission officials stated performance evaluations were not performed or not timely performed due to inadequate monitoring of the completion of employee performance evaluations.

Employee performance evaluations are a systematic and uniform approach used for the development of employees and communication of performance expectations to employees. Without timely completion of an employee performance evaluation, the employee would not be provided with formal feedback or assessment of his or her performance, and areas for improvements and current year's performance goals and objectives may not be identified and communicated in a timely manner. Employee performance evaluations should also serve as a foundation for salary adjustments, promotions, demotions, discharges, layoff, recall, or reinstatement decisions. (Finding Code Nos. 2013-004, 11-5, 09-5, 07-3, 05-4)

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

RECOMMENDATION

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

COMMISSION RESPONSE

The Commission agrees with the recommendations.

While there is still improvement to be made, the Commission significantly improved its results in the area of personnel evaluations since FY 2010-2011. At that time 14% of evaluations were not completed and 31% were completed untimely. In the most current audit those numbers decreased to 2% and 25%, respectively.

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

2013-005. **FINDING** (Inadequate Control over State Property)

The Illinois Workers' Compensation Commission (Commission) did not maintain adequate control over State property. The Commission's property and equipment reported on its Agency Report of State Property (C-15) as of June 30, 2013 and June 30, 2012 were $2,837,809 and $2,756,239, respectively.

During our testing, we noted the following:

- The Commission purchased a fixed assets system in prior years to account for equipment owned and maintained by the Commission. While the Commission was building the property information in the system, the Commission also maintained an excel file listing all its equipment items. The excel file was used as a basis in reporting State property to the Office of the Comptroller. The fixed asset system was not utilized as planned; as such the Commission discontinued using the system in January 2012. In Fiscal Year 2013, the Commission developed a database for monitoring and managing its property and equipment. The Commission conducted a physical count of its property and equipment between August 2012 and April 2013 and used the result of the physical count to build property information into the database. However, the property information in the database was not reconciled with the excel file maintained to account for assets reported to the Office of the Comptroller through the quarterly C-15 reports. The following issues were noted upon comparison of the excel file and property listing generated by the database:

  - The total amount of property items in the database was short by $529,286 compared to the excel file.
  - There were 1,237 property items totaling $270,726 recorded in the database that could not be traced to the excel file.
  - There were 1,067 property items totaling $896,243 recorded in the excel file but not in the database.

- Two of 39 (5%) equipment items physically inspected could not be traced to the property listing from the database.

- The database property listing did not include inventory details such as, but not limited to: (1) Reference to acquisition source document; (2) Acquisition date and date placed in service; (3) Name and address of vendor; (4) Method of acquisition; (5) estimated useful life; (6) estimated salvage value; (7) date, method and authorization of disposition; (8) Accumulated depreciation; (9) Depreciation method; and (10) insured value, if applicable.

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

- The Commission did not submit its annual Certification of Inventory to the Department of Central Management Services for Fiscal Year 2013.

The Illinois Administrative Code (44 Ill. Admin. Code 5010.230) states the following items must be entered on all agency records and provided by the agencies for Property Control Division records; Identification Number, Location Code Number, Description, Date of Purchase, Purchase Price, Object Code and Voucher Number.

The Illinois Administrative Code (44 Ill. Admin. Code 5010.220) states that all equipment with an acquisition value of $500 or more is subject to being reported to State of Illinois Central Management Services (CMS) by the holding agency. Further, the Illinois Administrative Code (44 Ill. Admin. Code 5010.460) requires all agencies to make an annual physical inventory of State equipment in their possession. Agencies shall provide the CMS Property Control Division on an annual basis a listing of all equipment items valued in excess of $500. All inventory checks must include 100% of all State equipment subject to being reported to CMS as required by Section 5010.220(a). Both the location code and the identification number of each item of equipment must be verified. When an agency completes its inventory, the agency head or his designee shall complete and sign the "Certification of Inventory" and "Discrepancy Report" and forward the completed certificate, with a complete inventory listing to the CMS Property Control Division.

Statewide Accounting Manual System (SAMS) Procedure 29.10.10 states that although agencies are required to report to the Comptroller on the summary level, supporting detail records must be maintained. Such detail records are to be organized by major asset category and include the following information for each asset: (1) Cost (or other value); (2)function and activity; (3) reference to acquisition source document; (4) acquisition date and date placed in service; (5) name and address of vendor; (6) short description of asset; (7) organization unit charged with custody; (8) location; (9) fund and account from which the item was purchased; (10) method of acquisition; (11) estimated useful life; (12) estimated salvage value; (13) date, method and authorization of disposition; (14) tag number; (15) accumulated depreciation; (16) depreciation method; (17) depreciation convention; and (18) insured value (if applicable).

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

Commission officials stated these issues were caused by lack of adequate procedures and communication concerning proper recordkeeping of State property.

Inadequate control over State property may result in inaccurate Statewide property information and impairs the ability of the Commission to safeguard its assets. (Finding Code Nos. 2013-005, 11-7, 09-6, 07-4, 05-5, 03-7)

RECOMMENDATION

We recommend the Commission adhere to the Illinois Administrative Code and SAMS requirements and improve its control over property and equipment.

COMMISSION RESPONSE

The Commission agrees with the recommendation.

Over the last 18 months, the Commission has overhauled its inventory tracking system after many prior years of inadequate and incomplete attempts at reconciling actual Commission inventory. This effort included merging together numerous data files, developing new procedures, performing a new physical inventory, reconciling with the Commission's General Ledger, and the Department of Central Management Services inventory lists.

As a result of this process, the Commission is making major adjustments to its current inventory. It appears that the property discrepancy in the Finding was caused by the failure of prior Commission administrations to remove items from its inventory. The Commission's inventory was not updated for disposals and transfers for over forty years. A preliminary review by Internal Audit reveals that a majority of the items in the discrepancy are obsolete computer equipment.

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

2013-006. **FINDING** (Inadequate Controls Over the Rate Adjustment Fund and Second Injury Fund Assessments)

The Illinois Worker's Compensation Commission (Commission) did not furnish to the Department of Insurance (DOI) the list of amounts collected and paid into the Rate Adjustment Fund (RAF) and Second Injury Fund (SIF) by insurance companies on behalf of their insured employers on an annual basis. Instead, the Commission provides DOI with a list of all indemnity payments which is the basis of RAF and SIF assessments to be paid by the employers.

In addition, the Commission did not establish policies and procedures to properly and timely collect RAF and SIF assessments, and to give reasonable notice and conduct hearings for employers who have failed to pay the required assessments knowingly and willfully or have failed to pay within the prescribed period. The Commission maintains a list of employers who failed to pay the RAF and SIF assessments for different periods. During Fiscal Year 2012, SIF issued two assessments while RAF did not issue any assessments. In Fiscal Year 2013, both SIF and RAF issued two assessments. The Commission sent reminder letters to each noncompliant employer at the direction of the Chairman of the Commission for SIF and RAF assessments due in September 2012. No reminder letters were sent for all the other referenced assessments. In some instances, the Commission called and/or emailed noncompliant employers to pursue collection.

The Workers' Compensation Act (Act) (820 ILCS 305/7) requires the Chairman of the Commission to annually furnish to the Director of the Department of Insurance a list of the amounts paid into the Second Injury Fund and the Rate Adjustment Fund by each insurance company on behalf of their insured employers. The Act also states that upon a finding by the Commission, after reasonable notice and hearing, that any employer has willfully and knowingly failed to pay the proper amounts into the Second Injury Fund or the Rate Adjustment Fund or if such payments are not made within the time periods prescribed, the employer shall, in addition to such payments, pay a penalty of 20% of the amount required to be paid or $2,500, whichever is greater, for each year or part thereof of such failure to pay.

The Commission officials stated the lists of indemnity payments of RAF and SIF were provided to DOI instead of the actual payments made by each insurance company to avoid a needless mathematical computation by the DOI in verifying the accuracy of indemnity payments reported by insurance companies. In addition, no procedures are established and implemented to pursue collections for nonpayment of assessments due to an inconsistency in the Act relating to the party responsible for payment of the assessment and means by which the Commission is able to verify

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

payments. There is a question as to whether the non-filers could be pursued in such a legal action by the Commission because the Act imposes the responsibility to pay the assessments to employers, while the method by which the payment is collected and verified is through insurers licensed to write workers' compensation insurance in Illinois.

Failure to furnish the amounts paid into RAF and SIF to the Department of Insurance may prevent the DOI from creating its own, independent calculation to determine the indemnity payment reported by the employer. Lack of policies and procedures on collection of Rate Adjustment Fund and Second Injury Fund assessments may affect cash flows and could delay payments of benefits to employees and beneficiaries. (Finding Code No. 2013-006)

RECOMMENDATION

We recommend the Commission comply with the statutory requirement to provide DOI the amounts collected and paid by insurance companies to the RAF and SIF or seek a legislative amendment to the statutory requirement.

We also recommend the Commission establish and implement policies and procedures to collect RAF and SIF assessments. The policy and procedures should include penalty provisions for nonpayment in compliance with the Act.

COMMISSION RESPONSE

The Commission disagrees with the Finding.

The Commission disagrees that it lacks policies and procedures to properly and timely collect RAF and SIF assessments. The Commission has procedures to send emails, certified letters, and make phone calls to companies which do not respond to the initial assessment letter.

Collection procedures are limited because Commission is unable to independently derive the RAF/SIF assessment amounts due. This information is self-reported. In many cases, non-responders do not owe the Commission money since assessments are levied against firms licensed to write workers' compensation insurance, rather than against firms that actually write workers' compensation insurance. Until the company reports, the Commission cannot assume that an assessment is owed.

The finding further states that the lack of policies and procedures on collection may affect cash flows and could delay payments of benefits to employees and

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

beneficiaries. The current non-response rate for the RAF/SIF assessments is under 3 percent. The actual revenue risk is less than 3 percent, since some non-responders do not owe assessments due to the fact that they have not written workers' compensation insurance during the assessment period.

AUDITOR'S COMMENT

As noted in the finding above, the Commission only sent one reminder letter during a two year period for employers who either knowingly or willfully failed to pay within the time period prescribed by the Commissioner's order. The Commission stated they send emails, certified letters, and make phone calls to companies which do not respond to the initial assessment letter; however, the auditors did not note a consistent process for documenting the minimal collection effort. The Commission also states collection procedures are limited because the Commission is unable to independently derive the RAF/SIF assessment amounts due. An established policy and procedures should define proper and adequate process to address this limitation and collect assessments as they are due.

Further, the Commission's response only indicated the non-response rate and used this rate to project the potential impact on revenue. The actual revenue risk as noted by the Commission cannot be determined without considering the dollar value of noncompliant employers, not the gross number of noncompliant employers.

We continue to recommend the Commission adopt formal policies and procedures to collect RAF/SIF assessments timely and comply with the statutory reporting requirement within State law or seek legislative remedy.

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

2013-007. **FINDING** (Inadequate Control over Voucher Processing)

The Illinois Workers' Compensation Commission (Commission) did not maintain adequate controls over voucher payment processing.

During our examination of 263 voucher payments for Personal Services, Contractual, Travel, Commodities, Printing, Equipment, Telecommunications, Awards and Grants, Lump Sum and Lapse Period expenditures, we noted the following:

- Twenty-six vouchers (10%) totaling $222,510 have no evidence that invoices were reviewed by appropriate receiving officer to indicate the goods were received or services were rendered or and the date of invoice receipt.

- Fourteen vouchers (5%) totaling $118,916 were approved for payment 5 to 49 days late.

- Eight vouchers (3%) and their supporting documents totaling $240,820 could not be located by the Commission; hence, propriety of expenditures could not be verified.

The Illinois Administrative Code (74 Ill. Admin. Code 900.30) states it is the duty and responsibility of each State agency to develop and implement internal procedures that will permit full compliance with the provisions of the State Prompt Payment Act and the Comptroller's SAMS manual. Further, the Illinois Administrative Code requires all State agencies to maintain written or electronic records reflecting the date or dates on which the goods were received and accepted or the services were rendered.

The Illinois Administrative Code (74 Ill. Admin. Code 900.70) requires an agency to approve or deny bills with defects within 30 days after receipt.

The Statewide Accounting Management System Procedure 17.10.20 requires State agencies to maintain all supporting documentation necessary to substantiate their encumbrances, expenditures and other transactions.

Commission officials stated the exceptions were due to understaffing and staff turnover at all levels in the Commission's Fiscal Department over the course of the audit period.

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

Payment of invoices that are not properly reviewed to indicate goods were received or services were rendered, not maintaining vouchers and their supporting documents, and untimely voucher approvals are noncompliance with the Illinois Administrative Code, and may result in incorrect payments to vendors. (Finding Code No. 2013-007)

RECOMMENDATION

We recommend the Commission strengthen its controls to ensure invoices are properly reviewed, vouchers and its supporting documents are maintained, and timely approved for payment.

COMMISSION RESPONSE

The Commission agrees with the recommendation.

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

2013-008. **FINDING** (Inadequate Controls over Timely Termination of Benefit Payments)

The Illinois Workers' Compensation Commission (Commission) did not have adequate controls to ensure that benefit payments are discontinued upon death of the beneficiary.

During our testing of 37 case files of beneficiaries whose benefit payments from the Self-Insurers' Security Fund (SISF), Second Injury Fund (SIF), and Rate Adjustment Fund (RAF) were terminated during the Fiscal Year 2013 and 2012, we noted 4 (11%) beneficiaries continued to receive payments subsequent to death. The total overpayments were $5,008, $540, and $7,228 from SISF, SIF, and RAF, respectively. The Commission pursued collections of the overpayments from the SISF and RAF funds. The checks for the payment from SIF were refunded to the Commission.

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

Commission officials stated the issues identified were due to lack of formal policies and procedures for the SISF, SIF, and RAF programs.

Inadequate controls over timely termination of benefit payments result in overpayments that may not be recouped by the Commission. (Finding Code No. 2013-008)

RECOMMENDATION

We recommend management establish and implement formal policy and procedures to timely detect an event to terminate benefit payments.

COMMISSION RESPONSE

The Commission agrees with the recommendation.

In September 2013, the Commission began comparing its list of beneficiaries to an eligibility database on a monthly basis, allowing it to determine on a timely basis which beneficiaries have been disqualified due to death.

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

2013-009. **FINDING** (Weaknesses Regarding the Security and Control of Confidential Information)

The Illinois Workers' Compensation Commission (Commission) has weaknesses in the area of security and control of confidential information.

During the review of the Commission, the following weaknesses were noted:

- Failure to perform a comprehensive risk assessment of the Commission's computer resources.

- Failure to adequately secure case files containing confidential and sensitive information. Paper case files containing confidential and personal health information of claimants are stored in boxes placed in cubicles that are easily accessible.

- Failure to develop and implement a policy to promote compliance with the Health Information Portability and Accountability Act (HIPAA).

- Failure to observe the requirements in the Identity Protection Act. The Commission said it adopted the Department of Central Management Services' Identity Protection Policy; however, there was no evidence of a formal adoption or compliance with employee identification, training, or statement of purpose requirements.

Generally accepted information technology guidance endorses the development of well-designed and well-managed controls to protect computer systems and data. Effective computer security controls provide for safeguarding, securing, and controlling access to hardware, software, and the information stored in the computer system.

Commission officials stated the above issues were due to limited IT staff. The Commission does not have a secured area within the premises to hold case files currently located in areas easily accessible. In addition, the Identity Protection Policy was not established due to competing priorities.

The Commission has the responsibility to ensure that confidential information is protected from accidental or unauthorized disclosure. Failure to establish, maintain adequate procedures to handle and protect confidential information could result in identity theft or other unintended use. (Finding Code No. 2013-009)

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

RECOMMENDATION

We recommend the Commission:

- Perform a comprehensive risk assessment to identify all forms of confidential or personal information (including personal health information) and ensure adequate security controls, including adequate physical and logical access restrictions, have been established to safeguard data and resources.

- Develop and implement a policy to promote compliance with HIPAA.

- Formally approve and implement an Identity Protection Policy as required in the Identity Protection Act.

COMMISSION RESPONSE

The Commission agrees with the recommendations.

While there is still improvement to be made, the Commission significantly improved the security of confidential information since the previous audit period in FY 2010-2011. The Commission obtained approval of an updated records retention policy from the State Records Commission. The Commission was then able to destroy more than 96,000 pounds of outdated case management records (prior to 1988) at the Hollander Warehouse, allowing the Commission to move 1,000 boxes of case management boxes containing HIPAA-protected information from storage throughout the Commission to the Hollander warehouse. In addition, the Commission relocated filing cabinets with confidential information to a more secure area, discontinued use of social security numbers from Commission databases and forms, limited 24-hour access to the Commission's Chicago office, and implemented of a 24-hour waiting period to obtain information stored in the Commission's File Room to allow redaction of confidential information. The Commission made numerous changes to protect confidential data in the IT Department, including development of policies and procedures concerning portable computers, encrypting all laptop computers, and locking down Commission laptops to desks. Finally, in November 2011 the Commission developed a policy and procedure for files requested by the public and published it on the Commission website. This policy requires legal review of any information before it is provided to any person that is not a party to the case.

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

On January 6, 2014 the Commission adopted an official Identity Protection Policy and sent a copy to the Chairman of the Social Security Number Protection Task Force of the Office of the Attorney General.

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

2013-010. **FINDING** (Weaknesses in Collection of Penalty for Noncompliance to Maintain Insurance in Accordance with the Workers' Compensation Act)

The Illinois Workers' Compensation Commission (Commission) did not ensure timely collections of settlement amounts and penalties from noncompliant employers.

The Commission, through its Insurance Compliance Department (ICD), administers the Injured Workers Benefit Fund (Fund). The Fund receives and records monies from fees and fines assessed in accordance with the Workers' Compensation Act (Act).

The ICD investigates employers for noncompliance with the requirement to maintain insurance in accordance with the Act. Employers found noncompliant are penalized up to $500 per day for noncompliance or a minimum of $10,000 if an order is issued by the Commission. The ICD determines the amount of penalty and settles with uninsured employers using several factors listed on its policy.

The ICD maintains manual case files which contain correspondences with uninsured employers, settlement agreements, record of payment and other documents gathered during investigation and settlement.

During our testing of case files, we noted the following:

- In 1 of 40 (2%) case file tested, a noncompliant employer is paying monthly installments of $500 instead of two payments of $5,000 as agreed in the settlement agreement. There were no correspondences maintained on file documenting the change in the payment terms.

- Three of 40 (8%) case files tested were not referred to the Illinois Attorney General for collection. An employer did not pay the balance of $6,000 from the $10,000 penalty. Another employer did not continue $500 monthly payments on a balance of $4,000 after December, 2011. The other employer did not continue $1,000 monthly payments on a balance of $35,000 after November, 2012.

- One of 40 (2%) case files tested was not referred to the Illinois Attorney General for prosecution. The employer did not sign the Commission's proposed settlement agreement and no corresponding payment was received by ICD. The Commission did not gather necessary documentation to allow for timely submission of documents to the Illinois Attorney General to set the case for a hearing and to request a penalty for the period of noncompliance.

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

The State Records Act (5 ILCS 160/8) requires each agency to preserve records which contain adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the State and of persons directly affected by the agency's activities.

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

The Workers' Compensation Act (Act) (820 ILCS 305/4(d)) states that upon investigation by the insurance non-compliance unit of the Commission, the Attorney General shall have the authority to prosecute all proceedings to enforce the civil and administrative provisions of this Section of the Act before the Commission. The Commission may bring a civil action to recover the amount of the penalty in Cook County or in Sangamon County in which litigation the Commission shall be represented by the Attorney General. The Commission shall send notice of its finding of non-compliance and assessment of the civil penalty to the Attorney General.

Commission officials stated the ICD investigator did not document in writing when the settlement payment terms were changed upon request by the employer due to employer's inability to meet the $5,000 payment. Further, the ICD was awaiting review of cases to be referred to the Illinois Attorney General for collection. ICD will institute new procedures that will alert the investigator to follow up when the employer is 30 days behind in scheduled payments.

Inadequate control and oversight on collection efforts may result to lost revenue and may affect cash flow of the State. (Finding Code No. 2013-010)

RECOMMENDATION

We recommend the Commission strengthen its controls and provide adequate oversight to ensure timely collections of settlement amounts from noncompliant employers. We also recommend the Commission refer to the Illinois Attorney General accounts for collections as required by the Act.

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

COMMISSION RESPONSE

The Commission agrees with the recommendations. One of the three companies that was not referred to collection to the Attorney General has since paid the $6,000 balance due.

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STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SCHEDULE OF FINDINGS

PRIOR FINDINGS NOT REPEATED

A. **FINDING** (Inadequate Controls over Financial Reporting)

During the 2011 audit, the Illinois Workers' Compensation Commission - Self Insurers' Security Fund (SISF) did not have adequate controls over financial reporting to allow management and employees to prevent or detect errors or misstatement in the financial reporting process and ensure proper reporting in accordance with the generally accepted accounting principles. The IWCC-SISF recorded a transfer to be repaid by the General Revenue Fund as interfund transfers instead of interfund receivable. (Finding Code Nos. 11-1, 10-1, 09-1)

Status: Implemented

During the 2012 audit, the SISF was repaid by the General Revenue Fund. The receipt was properly recorded by SISF. However in the current year audit, the auditors noted inadequate controls over financial reporting as reported in Finding Code No. 2013-001.

B. **FINDING** (Noncompliance with the Fiscal Control and Internal Auditing Act)

During the prior examination, the Illinois Workers' Compensation Commission (Commission) did not file the Fiscal Control and Internal Auditing Act (FCIAA) certification for Fiscal Years 2004 through 2011. (Finding Code Nos. 11-3, 09-4, 07-2, 05-3, 03-3, 01-4)

Status: Implemented

During the current examination, it was noted the Commission completed and filed its FCIAA in accordance with the Fiscal Control and Internal Auditing Act.

C. **FINDING** (Inadequate Controls Over Injured Workers' Benefit Fund)

During the prior examination, the Commission did not have adequate controls to ensure that settlements for noncompliance with insurance requirements were properly documented and monitored. (Finding Code Nos. 11-6, 09-3)

Status: Implemented

During the current examination, the Commission developed and implemented the use of Settlement Recommendation Form which assists investigators in determining the amount of penalties and settlements. However, the auditors noted weakness in collection of settlement amounts and penalties from noncompliant employers described within Finding 2013-010.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
For the Year Ended June 30, 2013
MANAGEMENT AUDIT FOLLOW-UP

As part of the FY13 Financial Audit and Compliance Examination of the Illinois Workers' Compensation Commission (Commission), we conducted follow up on the status of recommendations contain in the **management audit of the Illinois Workers' Compensation Program as it applies to State Employees** conducted pursuant to House Resolution Number 131. The audit was released in April 2012 and contained 10 recommendations to the Illinois Workers' Compensation Commission.

The exhibit on this page summarizes the recommendations from the management audit and the status of each recommendation as of June 30, 2013. A more detailed summary of each recommendation and its status is also included on the following pages.

Summary of Recommendation Status

Management Audit of the Illinois Workers' Compensation Program As it Applies To State Employees

Recommendations To Commission	**Implemented?**		
	Yes	Partially	No
Workers' Compensation Data		√	
Application for Adjustment			√
Call List/Red Line Cases		√	
Arbitrators Evaluations	√		
Commission Cases/State Employees		√	
Timely Award Decisions			√
Award Guidelines			√
Conflict of Interest Policies	√		
Review Board		√	
Fraud Referral Policies	√		
Total	**3**	**4**	**3**

Recommendation No.:	**1 - WORKERS' COMPENSATION DATA**
Recommendation:	***The Department of Central Management Services and the Illinois Workers' Compensation Commission should take steps to improve the quality of the data contained in their workers' compensation information systems. CMS and the Commission should also consider implementing and/or enhancing web based reporting systems.***

Synopsis of Management Audit Finding:

The Illinois Workers' Compensation Commission provided a download of 218,376 records which represented the entire population of cases filed by all injured employees - both State workers and non-State workers - with the Commission for the four-year period 2007-2010. However, because the data field in the Commission's information system used to identify State employees is not always accurate and because of the inconsistent methods used to record the employer name for each claim, **it was not possible to determine the number of cases and claims attributable to State employees with any accuracy**. In addition to inconsistent and incomplete listing of employers, other data issues included vague injuries, invalid social security numbers, and no Arbitrator assigned to the case.

Contributing to the data issues at the Commission is that data is taken from application forms completed by injured employees or their attorneys. This form is called an Application for Adjustment of Claim. In our review of files, we identified applications that were incomplete or only listed a general statement for items like the injury type listed as **"to be determined"** or ***"to be shown"*** or ***"serious and permanent."***

Since the data in the Commission's information system is taken from these forms, the Commission should require them to be completed accurately; otherwise its ability to aggregate and analyze data is greatly diminished. This problem could be addressed, at least in part, by the use of web based filing with required fields and menus that limit options to ensure consistency.

Consistent and accurate data is critical to tracking cases and conducting analysis of workers' compensation claims filed by State employees. Better quality data is needed from CMS and the Commission to accurately identify trends in workers' compensation claims and to flag cases of suspected fraud or abuse.

Injury Reporting

Employers are required to notify the Commission of all injuries which cause an employee to lose more than three scheduled work days. According to Commission officials, about half of the reports received are electronic while the other half are paper.

For the paper accidents reports (IC-45s), Commission employees only enter the name and address of the injured employee so that a workers' compensation handbook can be sent to the employee. The IC-85 (Employer's Supplementary or Final Report of Injury) forms are also sent to the Springfield Office but, according to Commission officials, are not entered into the system. Therefore, for paper accident reports, the Commission does not have readily available electronic data to report aggregate injury statistics, such as the type of injury, employer, and any other pertinent information that is included on the IC-45 and the IC-85.

The Workers' Compensation Act requires the Commission to compile and distribute to interested persons aggregate statistics taken from the reports filed (820 ILCS 305/6 (b)). The Commission cannot comply with this section of the Act without inputting the information from paper injury reports. Paper reports could be eliminated through a web based reporting system, thereby ensuring more consistent and complete electronic injury data.

Status:
Partially Implemented

According to Commission officials, the Commission has undertaken two primary courses of action to improve the completeness and accuracy of the data in its case management system: (1) Improving the existing case management mainframe system by creating programs which interface with the current system; and (2) Stabilizing both the current system and securing key staff to maintain the mainframe in order to create a plan to transition towards electronic filing at the Commission.

The Commission hired a full-time mainframe programmer on April 11, 2013, to assist in maintaining, improving, and gathering data from the case management system. According to Commission officials they have also posted two application programmer positions but as of July 2013, no hiring decisions had been made. Part of the focus of one application programmer would concern enhancements to accuracy and timeliness of case management system data. Both of the application programmers will have the business planning skills necessary to map current systems to be replaced with electronic filing.

In terms of improving the Commission's accident reporting system, the Commission has had several meetings with the University of Illinois Chicago's (UIC) Environmental and Occupational Health Science's Department. The goal of these meetings was to improve the Commission's current electronic accident reporting system, which is out-of-date. The Commission's July 2013 Regulatory Agenda included a proposal to mandate only the electronic submission of accident reporting system, thus eliminating paper submissions and allowing for more effective use of this data by the Commission.

More steps that have been taken to improve data in the mainframe are included in Recommendation 9 below concerning Call List Accuracy and Red-Line Cases.

Recommendation No.:	**8 - APPLICATIONS FOR ADJUSTMENT**
Recommendation:	***The Illinois Workers' Compensation Commission should require an Application for Adjustment to be filed and a case file established in all cases, prior to the approval of any settlement agreements.***

Synopsis of Management Audit Finding:

An Application for Adjustment is a key document for the Commission because it is used to establish a case file, assign a case number, and establish the city that the accident occurred in so that a call site and Arbitrator can be assigned. According to the Commission's rules, upon receipt of an Application for Adjustment of Claim, the Commission shall assign a place for hearing and a date for initial status before an Arbitrator of the Commission in accordance with the applicable Act. "The place designated shall be a hearing site located in or nearest geographically to the vicinity in which the alleged accident or exposure occurred" (50 Ill. Adm. Code 7020.50). Of the 109 settlements and awards sampled, 13 did not contain an Application for Adjustment in the file at the Commission. According to the Commission's administrative rules:

> ***"Applications for Adjustment of Claim with a certificate setting forth the date of service shall be filed in triplicate on an appropriate form provided by the Commission. The filing party shall serve one copy of the Application which has been filed on all opposing parties."*** (50 Ill. Adm. Code 7020.20 (a))

The Commission's rules further state that:

> ***"Application for Adjustment of Claim should be completed in full and must provide a description of how the accident occurred, the part of the body injured, the geographical location of the accident for purposes of establishing venue, and a description of how notice of the accident was given or acquired by the Respondent."*** (50 Ill. Adm. Code 7020.20 (c))

According to Commission officials there are several reasons why there would be no Application for Adjustment in the case file. If the case was settled pro se (without an attorney), there is no application in the file and the Commission is not aware of the case until it receives, or is notified of, a settlement agreement. This would also be the case if the case is settled by the petitioner and respondent's attorney if no application has been filed by the injured worker. In the case of State workers, CMS decides whether to pay benefits. At some point, the injured party may enter into an agreement with the Office of the

Attorney General to settle the case. An Arbitrator approves the settlement agreement (which has already been agreed to between the worker and the AG) and then sends the settlement agreement to the Commission. Starting in the Spring of 2011, procedures were established and communicated to the Arbitrators that they are not allowed to approve settlement agreements without the party first notifying the Commission and being assigned a case number. Previously most of these cases were pre-assigned case numbers but these new written procedures improved file controls.

We also found that 3 of 109 files did not exist at the Commission. For one case that we sampled in which the petitioner was an Arbitrator with the Commission, there was no Application for Adjustment form filed with the Commission and officials had to create a file for us for this case. There is evidence in CMS' files that the injured Arbitrator had spoken directly with another Arbitrator about getting his settlement contract signed. The Arbitrator who signed the settlement contract was not the Arbitrator who was located at the call site nearest the location of the accident. The AG's file for this case contained a notice from the Commission (8 months after the settlement was approved) assigning a different Arbitrator to the case than the one who signed the settlement.

Because the Application for Adjustment lists the location of the accident for purposes of establishing a venue, it is not clear how the status call location/Arbitrator was determined in instances in which there was no application in the file. Not requiring injured employees to file an Application for Adjustment allows injured employees and/or the attorneys representing them to go to the Arbitrator of their choice instead of the call site nearest to the location of the accident as required by Commission rules.

According to the Commission, downstate settlement contracts were being reviewed by Arbitrators before the case was assigned a case number. The Commission estimates that this happened over 3,500 times in Calendar Year 2010. The Commission's system did not give it a way to determine if any of those contracts were getting entered into the Commission's system. The Commission changed its process as of March 1, 2011, and stated on its website that no settlement contracts will be approved until the case has been assigned a case number and setting. The case number and setting must now be entered on the face of each contract.

Status:
Not Implemented

The Commission continues to disagree with requiring an Application for Adjustment for settlement contracts as it would create duplicative information and unnecessarily slow the approval of settlement

contracts, a process which provides finality to both injured employees, who desire to obtain compensation for their claim, and employers, who strive to remove the pending liability for outstanding workers' compensation claims. The Commission believes that there are adequate safeguards for the current approval process for settlement contracts. The Arbitrator reviewing the settlement contract verifies that the contract has been presented to the correct venue for approval, based on the location of the accident. If there were any malfeasance on the part of an Arbitrator in approving a settlement contract, this would be reportable to the Judicial Inquiry Board, the Commission Review Board, or possibly the Attorney Registration & Disciplinary Commission.

***Auditor Comment*: The Application for Adjustment helps ensure all necessary information is collected, maintained, and recorded and that a venue is established in accordance with Commission rules. Further, as recommended in Recommendation 14, the Application for Adjustment can be a useful tool in identifying whether the claimant is a State employee.**

Recommendation No.:	**9 - CALL LIST ACCURACY AND RED-LINE CASES**
Recommendation:	***The Commission should take steps to ensure that the data on the call lists is correct and updated timely in order to accurately reflect the status of pending cases. The Commission should be proactive in removing cases that have been on the call list for more than three years.***

Synopsis of Management Audit Finding:

Commission rules provide that cases that were filed three years ago or more must proceed to arbitration unless the parties show they have good reason to wait. These are known as "red-line" cases. These cases can be dismissed by filing an IC-19 (Motion to Voluntarily Dismiss) or an IC-17 (Order to Dismiss for Want of Prosecution). If dismissed for Want of Prosecution, the parties have 60 days from the receipt of the order to file a Petition to Reinstate. At each call date the Arbitrator reviews the list of red-line cases and their status.

Because of data accuracy issues the call status red-line reports are not accurate. At one call that we visited, during the reading of the red-line cases we observed that there were several errors in the status call report and attorneys who were present at the call had to tell the Arbitrator several times that cases listed as red-line cases had either been settled, a trial had occurred, or the cases had been dismissed months ago. According to the Arbitrator, incorrect data has been an ongoing problem with call lists for some time and either some of the information is not being input or it has been input incorrectly or not timely. The Commission has even posted a request on its website for assistance from parties in removing settled cases from the call lists.

Of the 109 cases we sampled that received a settlement or award, 15 (14%) were more than three years old and may have warranted dismissal. These cases were 36 to 164 days past the three year mark.

Status:
Partially Implemented

According to the Commission, in order to improve the accuracy of each arbitrator's docket, the Commission is taking steps to utilize Arbtrack which is updated by each arbitrator when a dispositive action (settlement, dismissal) occurs. The Access version of Arbtrack provides the capability to interface data into the mainframe each night. By contrast, the mainframe case management system currently relies on updating through manual entry of paper documents, which may be delayed for several days as each document makes its way to the data entry department and waits to be inputted by hand. Consequently, the mainframe creates call lists that often include cases that should no longer appear on the call list.

All arbitrators were trained on the Access version of Arbtrack and were using it by April 2013. The Access version was a necessary first step in allowing nightly interfacing of Arbtrack information to the mainframe case management system which creates call lists.

In May 2013, programs were written and procedures established to allow interfacing Arbtrack dismissals to the mainframe on a nightly basis. In June 2013, Internal Audit conducted a walkthrough of the system and found it to be working as planned.

- When procedures are established to support interfacing Arbtrack dismissals to the mainframe on a nightly basis, and these procedures are audited, then the nightly interfacing will begin.
- Interfacing settlements, consolidations, and reinstatements from Arbtrack to the mainframe is under consideration.

According to information provided by Commission officials the amount of red-line cases has been reduced. The Former Chairman issued an e-mail memo on July 18, 2012, to all Arbitrators regarding his goals for each Arbitrator's percentage of redline cases on each of their calls. In this e-mail, he indicated that well-managed dockets probably have a red-line percentage not higher than 18 percent of all pending cases (number of cases over three years old divided by number of all cases). He also indicated that every arbitrator should reduce red-line cases so as to not exceed 20 percent of the total call, which should be achievable within six to twelve months (i.e. by June 2013). The Commission provided data to show that the percentage of red-line cases was reduced to an average of 12 percent of cases as of December 31, 2012.

Recommendation No.:	**10 - ANNUAL REVIEW OF ARBITRATORS**
Recommendation:	***The Commission should conduct annual evaluations of Arbitrators and include them in their personnel files.***

Synopsis of Management Audit Finding:

The Workers' Compensation Act requires annual performance reviews for Arbitrators. The Act states that:

> ***"All Arbitrators shall be subject to the provisions of the Personnel Code, and the performance of all Arbitrators shall be reviewed by the Chairman on an annual basis."*** (820 ILCS 305/14)

We reviewed the personnel files for 31 Arbitrators assigned to call sites as of April 2011 and found that there were no annual reviews being conducted to evaluate their performance. The personnel files did not contain any other information to indicate that reviews of Arbitrators' performance had been conducted.

Status:
Implemented

The Commission began using a new Arbitrator Evaluation Form for FY 2013 which included Commissioner Observation & Evaluation and a Survey of Attorneys. The Commission provided a summary of arbitrator evaluations showing that all arbitrators received an evaluation during FY 2013.

Recommendation No.:	**14 - COMMISSION CASES INVOLVING STATE EMPLOYEES**
Recommendation:	***The Commission should:*** • ***Make changes to the Application for Adjustment form to identify whether the employer is the State of Illinois;*** • ***Notify CMS of cases filed by State employees; and*** • ***Give CMS access to its workers' compensation information systems.***

Synopsis of Management Audit Finding:

We were not able to identify all cases involving State employees for several reasons. First, although the Commission's information system contains a data field used to identify State employees, the field is not always accurate. The Commission's Application for Adjustment does not contain a specific question regarding whether the employer is the State of Illinois. Also, according to the Commission, sometimes it is not clear from the name of the employer on the Application for Adjustment whether the employer is a State agency or not.

Identifying whether the employee is with the State is critical so that the Commission can generate a notification to the employer. When a State employee files an Application for Adjustment with the Commission, the Commission generates a notice to the agency where the employee works and the AG. CMS is not notified directly that an employee has filed a case with the Commission. Therefore, unless the workers' compensation coordinator at the agency or the Attorney General notifies CMS, CMS may be unaware of the case. Because there are hundreds of workers' compensation coordinators, the opportunity for miscommunication, or no communication, is greatly increased. Conversely, if the Workers' Compensation Commission directly informed the CMS Bureau of Risk Management when a case is filed, the potential of not being informed would be significantly lower.

As part of our audit, we attempted to identify the number of State employees in the Commission's data. Because the Commission and CMS' information system for workers' compensation are not linked and do not interface with each other, we matched cases and claims using social security numbers of the State employees. We encountered several problems in trying to match records between the two systems.

Further, because the same employee can have multiple claims and the Commission uses a Workers' Compensation Commission case

number while CMS uses a Claim Form Number for each individual claim, there is no guarantee that when the social security number matches that the numbers are for the same injury case and claim. Therefore, each record would have to be reviewed manually to determine if it were an exact match. If the Commission were to provide CMS with access to its workers' compensation information systems it would allow CMS to more easily identify cases that have been filed with the Commission and would assist in record keeping and identifying trends in workers' compensation claims filed by State employees.

Status:
Partially Implemented

The Commission updated the Application for Adjustment of Claim to include a checkbox for State employees in May 2012. In addition, the Settlement form was also updated to include a section to identify State employees in May 2012.

The Commission began providing Internet access by the public to allow for searches by name in the case management system. This was announced on the IWCC website in May 2012. The Commission notified the Director of CMS of this access by memo on May 7, 2012.

Although the Commission began producing monthly lists of new State employee Applications for Adjustment of Claim in May 2012, these reports have not been shared with CMS. CMS was notified by letter on July 3, 2012 that the Commission had created a program to extract new Applications for State employees by month and could share this information with CMS. However, according to Commission officials, CMS never responded to the letter.

According to CMS officials there was a serious attempt to make this system work. However, the IWCC system did not recognize a State employee unless there was a perfect data match; therefore, it was of very limited usefulness. According to CMS officials, attempts to make it work were abandoned when it became clear that the administration of workers compensation program would be outsourced to a third party and the State's claim data would no longer reside on a State system.

Recommendation No.:	**16 - TIMELINESS OF AWARD DECISIONS**
Recommendation:	***The Commission should include trial dates and decision dates in its workers' compensation system in order to track award decisions to ensure that they are filed in a timely manner.***

Synopsis of Management Audit Finding:

An award decision is required to be written for each case for which a trial is held. The award decision is then signed by the Arbitrator and sent to the Commission's Chicago Office. All 41 award files we reviewed contained an award decision. According to Commission officials trial dates are tracked based on self-reporting by the Arbitrators, but independently of the mainframe. However, because the Commission does not track the trial date in its primary information system, it cannot ensure that Arbitrators are submitting decisions in a timely manner. The Commission's internal policy requires certain Arbitrator decisions to be filed within 60 days of the trial. For 19(b) (expedited) awards, however, the Commission's rules require the Arbitrator's decision is to be filed with the Commission within 25 days after proofs are closed (50 Ill. Adm. Code 7020.80 b)(3)(B)).

We reviewed award decisions to determine the trial date and the date that the Arbitrator's decision was filed. For the award files reviewed that did not involve an expedited hearing, the time from the trial to the date the decision was filed ranged from 13 to 83 days. The decisions in five cases were filed more than 60 days after the trial. Our sample of 41 award decisions included nine 19(b) (expedited) cases. For the 19(b) cases, the decision was filed between 7 to 66 days after the trial date. Of these nine cases, 7 decisions were filed more than 25 days after the trial date. Three of these 7 decisions were filed more than 60 days after the trial date.

If the Commission does not monitor award decisions, especially for the 19(b) expedited cases, it cannot ensure that decisions are being filed within the required time frames. Further, employees will not begin receiving benefits until the decisions are filed. According to the Commission, trial dates are tracked based on self-reporting of closed proofs by the Arbitrators. This self-reported information is entered into a Closed Proof Application to produce aging of cases reports by Arbitrator for the Chairman.

Status:
Not Implemented

According to Commission officials, the Commission tracks decision dates for awards and settlements in its mainframe in the "document date" field. However, trial dates are still not included in the Commission's system.

Recommendation No.:	**17 - AWARD GUIDELINES**
Recommendation:	***The Commission should develop written guidelines to ensure consistency of Arbitrator awards for certain types of injuries. These guidelines should also discuss how prior awards and settlements for the same injury type should be taken into account in determining percentage loss for injuries.***

Synopsis of Management Audit Finding:

The Commission does not have guidelines for Arbitrators regarding awards. We reviewed awards and found that many are inconsistent for the same type of injury to the same body part. These inconsistencies involved the percent loss of use as well as the manner of determining loss. For instance, for Carpal Tunnel Syndrome claims, the amount awarded for cases we reviewed ranged from as little as 5 percent to as much as a life award. Repetitive motion injury awards varied with some Arbitrators awarding the same percentage loss amount for either hand while others awarded more for loss of the dominant hand.

In some cases we reviewed, employees continue to be compensated for the same injury and body part multiple times. In other cases the award was based on the body part, while in other cases it was based on "Man as a Whole." It is not clear when the body part should be used or the "Man as a Whole" basis.

Public Act 97-018 established criteria for Carpal Tunnel Syndrome awards. The Act states if the accidental injury involves Carpal Tunnel Syndrome due to repetitive or cumulative trauma, the permanent partial disability shall not exceed 15 percent loss of use of the hand, except for cause shown by clear and convincing evidence and in which case the award shall not exceed 30 percent loss of use of the hand. Some states such as New York have established guidelines regarding the amount of compensation for other types of injuries as well. Such guidelines provide a range of loss of use to encourage consistency in awards.

To improve the consistency of awards, the Commission should establish guidelines regarding the percent of loss or disability for certain injuries. These guidelines should also include guidance regarding compensation for the same injury type on multiple occasions and how previous settlements and awards should be taken into account in determining loss of use for compensation.

Status:
Not Implemented

The Commission has not developed written guidelines for arbitrator awards. The Commission only partially agrees with this recommendation. The current "guidelines" that are used by Arbitrators are the Workers' Compensation Act, the Commission's Administrative Rules, and case law from both the Commission and the courts of the State of Illinois.

The Commission believes that the most effective way to ensure consistent application of the law is through providing educational and training opportunities for Arbitrators. The Commission has increased the frequency of training seminars for both Arbitrators and Commissioners from annual to semi-annual and increased the number of hours for both sessions. These seminars include training on ethics, substantive workers' compensation law, and also recent appellate cases interpreting the provisions of the Workers' Compensation Act.

According to the Commission, any guidelines that affect the private rights of parties outside of the Commission must be promulgated through the rulemaking process set forth in the Illinois Administrative Procedure Act 5 ILCS 100/1-70.

Recommendation No.:	**18 - CONFLICT OF INTEREST POLICIES**
Recommendation:	***The Commission should revise and clarify its conflict of interest policies to incorporate provisions from the Judicial Code of Conduct and set forth a formal process for recusal of Arbitrators and Commissioners in cases in which their impartiality may be questioned.***

Synopsis of Management Audit Finding:

The *Rules Governing Practice Before the Illinois Workers' Compensation Commission* contains policies specific to complaints against Arbitrators and Commissioners and their disqualification from hearing certain cases (50 Ill. Adm. Code 7030.30). The rules for disqualification of Commissioners and Arbitrators include situations in which he or she is a party to the proceedings (50 Ill. Adm. Code 7030.30 (b)(6)(A)).

Disqualification of Commissioners and Arbitrators

Arbitrators and Commissioners are prohibited from hearing cases in which they have any interest in the case, financial or otherwise.

According to information provided by the Commission regarding Arbitrators recusals, Arbitrators recused themselves in 153 cases in FY09 and 153 cases in FY10 or about .25 percent of all cases. One Arbitrator accounted for 98 of the recusals in FY09 and 99 of the recusals in FY10.

Arbitrators and Commissioners complete the same training and disclosure forms as are required of most other State employees, including annual ethics training by the Office of the Executive Inspector General and Statement of Economic Interest forms filed with the Secretary of State.

Commissioner and Arbitrator Independence Issues

Commissioners must devote full time to their duties and may not practice law nor hold an office or position of profit under any federal, state or municipal government, or any other political subdivision. Each Arbitrator must also devote full time to his or her duties and cannot engage in the practice of law or hold any other office or position of profit under the United States or this State or any municipal corporation or political subdivision of this State (820 ILCS 305/13 and 14).

We reviewed the Statements of Economic Interest filed with the Secretary of State by Arbitrators and Commissioners and identified the following relationships:

- Income in excess of $1,200 from law firms owned by the individual;
- Income in excess of $5,000 from legal services from general practice and criminal defense;
- Income in excess of $1,200 from a county government;
- Serving as Director of a bank that had income in excess of $1,200 from the State of Illinois; and
- Serving as President or Director in a corporation.

There are various explanations for these disclosures, according to Commission officials. For example, legal fees disclosures reflect prior fees earned and accrued but not yet paid for work in the period prior to appointment as an Arbitrator. Regarding the statement with income from a county government, this involved a pension benefit for prior employment.

In our review of personnel files and workers' compensation claims files, we also identified several other relationships involving Arbitrators. One Arbitrator's spouse is a high ranking public employee union official in the State. This Arbitrator was a Commissioner but resigned in 2004 because of ethics legislation that was passed. The ex-Commissioner was hired back the same year as an Arbitrator and has arbitrated workers' compensation cases involving State employees who may have been members of the union represented by the spouse. According to Commission officials, this individual's status as an Arbitrator has been challenged several times in circuit court and the courts have upheld her appointment. By analyzing data provided by the Commission, we were able to identify at least 100 cases involving State employees that were arbitrated by this individual. According to Commission officials, the Arbitrator is aware of the potential conflict. The Arbitrator has advised that it is difficult to discern whether someone before her is a dues paying member or an employee of a unit entitled to representation by the union. When the matter has arisen regarding a claimant and the union, the Arbitrator advises the respondent counsel (Assistant Attorney General) and asks whether they object to her proceeding. Thus far no objections have been noted. If objection is raised, the Arbitrator will recuse herself.

For another Arbitrator, we found that the Arbitrator was hearing cases in which the injured employee was represented by an attorney that he

had previously been a partner with in a law practice. According to the Arbitrator's personnel file, he had been a partner for over 7 years in the firm and left in August 2002. By analyzing data for the period 2007-2010 provided by the Commission, we were able to identify 448 total cases in which the Arbitrator heard a case represented by his past law practice partner. Some of these cases involved State employees. However, this is allowable under the Commission's current rules which require disqualification if the Arbitrator was, within the preceding two years, associated in the practice of law with any law firm or attorney currently representing any party in the controversy.

We also sampled one case in which an Arbitrator heard testimony from a doctor who had also performed surgery on the Arbitrator for his own workers' compensation claim/case. Payment of medical claims is an integral component of most workers' compensation claim decisions.

Another situation that poses a possible conflict of interest for Arbitrators is one in which the Arbitrator has a workers' compensation case pending with CMS. Six different arbitrators filed cases with CMS during the four-year period that we reviewed. If these Arbitrators are hearing cases involving State employees, this creates a possible conflict because the respondent in these cases is CMS which is represented by the Attorney General's Office, the same entities that are adjudicating the Arbitrator's claim and with which the Arbitrator may be negotiating a settlement of his or her claim. Data provided by the Commission shows that these Arbitrators heard cases involving State employees during the audit period.

New Code of Judicial Conduct Requirements

Public Act 97-018, effective June 11, 2011, requires Arbitrators and Commissioners to follow the Canons of the Code of Judicial Conduct as adopted by the Supreme Court of Illinois for hearing and non-hearing conduct. The Act also allows the Commission to set additional rules and standards for Arbitrators so long as they are not less stringent than the rules and standards established by the Code of Judicial Conduct.

Status:
Implemented

The Commission revised its rules effective December 4, 2012 to indicate that Arbitrators and Commissioners are governed by the Canons of the Judicial Code of Conduct pursuant to Section 1.1 of the Workers' Compensation Act effective June 28, 2011. A recusal process was also established, effective December 4, 2012, in the Administrative Code, 50 Ill. Adm. Code 7030.30(b).

Recommendation No.:	**19 - WORKERS' COMPENSATION REVIEW BOARD**
Recommendation:	***The Commission should ensure that the Workers' Compensation Commission Review Board meets quarterly and within 15 days of receipt of a complaint against an Arbitrator or Commissioner.***

Synopsis of Management Audit Finding:

The *Rules Governing Practice Before the Workers' Compensation Commission* set policies to address complaints against Arbitrators and Commissioners. The Workers' Compensation Review Board receives written complaints against Arbitrators or Commissioners.

The Review Board is required to conduct investigations of the complaints listed above. A regular meeting is required to be scheduled to be held at least once per calendar year quarter according to the Commission's rules. Additional meetings can be held pursuant to the call of the Chairman or at the request of three or more members. The Board is also required to call a meeting within 15 days of any complaints received (50 Ill. Adm. Code 7500.10(C)(1). **The Board did not meet for 3 ½ years (February 11, 2008-September 9, 2011).**

In August 2011, we reviewed complaints sent to the Commission for the period 2007-2010. We found at least six complaints against arbitrators alleging fraud, unethical practices, and favoritism. We also found at least one complaint regarding a Commissioner. In addition, on February 15, 2011, the Commission placed two Arbitrators on administrative leave while they were being investigated. Both of these Arbitrators were the subject of complaints that we reviewed.

The Commission was not compiling and summarizing reports received regarding complaints. According to Commission officials, beginning in 2011, an employee of the Commission began preparing complaint summary reports. After not meeting for 3 ½ years, the Board met in September 2011 following an on-site review of complaints by the auditors. The minutes for the September 2011 meeting stated that there had been no formal complaints filed with the Commission based on allegations of improper communication. The Board also agreed that it should meet at least quarterly in the meeting minutes.

By not holding regular meetings and not meeting within 15 days of receipt of a complaint against an Arbitrator or Commissioner, the Commission Review Board did not fulfill its statutory duty to investigate allegations of misconduct, favoritism, or conflicts of interest involving Arbitrators.

Status:
Partially Implemented

The Administrative Code was revised, effective December 4, 2012, so the Review Board is no longer required to meet within 15 days of receiving a complaint against an Arbitrator or Commissioner. Instead a complaint will be considered at the next regularly scheduled quarterly Review Board meeting per 50 Ill. Adm. Code 7500.30(b). Although the Review Board met three times during FY2013 (July 31, 2012, October 24, 2012, and January 23, 2013), the quarterly meeting for April 2013 was cancelled and was not rescheduled. Therefore, the Board did not meet quarterly during FY13 as is required by the Commission's rules.

Recommendation No.:	**21 - FRAUD REFERRAL POLICIES**
Recommendation:	***The Commission and the Attorney General should establish specific policies and procedures regarding referrals for fraud investigations.***

Synopsis of Management Audit Finding:

The Workers' Compensation Commission does not have specific procedures to identify fraud and does not conduct statistical reviews or analyses to identify fraud or trends. The Commission can, however, refer individual cases to the DOI Fraud Unit. According to a Commission official, the Workers' Compensation Commission monitors complaints and allegations, and all fraud allegations are referred to the DOI Fraud Unit for follow-up. However, there is no formal policy that addresses fraud or what to do if a fraudulent workers' compensation claim is suspected or identified. According to Commission officials, for the period 2007-2010 no cases were referred to the DOI Fraud Unit.

Status:
Implemented

The Commission's General Counsel issued a memorandum on June 18, 2012 to all Arbitrators and Commissioners which explained the procedure for reporting suspected fraud, as discussed during the April 2012 training. The memo stated that it shall serve as an interim policy statement until a formal employee manual update. In addition, William Blumenthal, head of the Illinois Department of Insurance Fraud Unit, provided a training program on fraud during the Commission's April 2013 training.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
FINANCIAL AUDIT
SELF-INSURERS' SECURITY FUND
For the Year Ended June 30, 2013
And
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2013

FINANCIAL STATEMENT REPORT SUMMARY

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

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

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

INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland
Auditor General
State of Illinois

Report on the Financial Statements

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, 2013, and the notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2013, and the changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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, 2013, the changes in financial position, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Management has omitted management's discussion and analysis and budgetary comparison information for the Self Insurers' Security Fund that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated January 28, 2014 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 its 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* in considering the State of Illinois Workers' Compensation Commission's internal control over financial reporting of the Self-Insurers' Security Fund and its compliance.

Restricted Use of this Auditor's Report

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

E. C. Ortiz & Co, LLP
Chicago, Illinois
January 28, 2014

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SELF-INSURERS' SECURITY NONSHARED - PROPRIETARY FUND
STATEMENT OF NET POSITION
June 30, 2013

ASSETS		
Current Assets		
Cash in State Treasury	$	22,160,255
Cash in Bank and on Hand		28,688
Accrued Interest Receivable		7,487
Excess Insurance Receivable		139,334
Securities Lending Collateral		15,561,000
Total Current Assets		37,896,764
Total Assets	$	37,896,764
LIABILITIES		
Current Liabilities		
Accounts Payable	$	15,423
Due to Other Funds		1,165
Obligations Under Securities		15,561,000
Unearned Security Deposit		2,242,559
Liabilities for Unpaid Claims		1,663,434
Total Current Liabilities		19,483,581
Noncurrent Liabilities		
Liabilities for Unpaid Claims		5,881,710
Total Noncurrent Liabilities		5,881,710
Total Liabilities		25,365,291
NET POSITION		
Restricted Net Position		12,531,473
Total Liabilities and Net Position	$	37,896,764

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SELF-INSURERS' SECURITY NONSHARED - PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended June 30, 2013

OPERATING REVENUES		
Assessments	$	1,403,213
Excess Insurance Recoveries		214,117
Total Operating Revenues		1,617,330
OPERATING EXPENSES		
Personal Services		56,482
Employee Retirement		21,456
Social Security Contribution		4,321
Group Insurance		196
Contractual Services		17,863
Commodities		231
Deposit Refunds		672,958
Benefit Payments		760,739
Total Operating Expenses		1,534,246
Operating Income		83,084
NONOPERATING REVENUES		
Interest Income		92,122
Total Nonoperating Revenues		92,122
Change in Net Position		175,206
NET POSITION, BEGINNING OF YEAR		12,356,267
NET POSITION, END OF YEAR	$	12,531,473

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SELF-INSURERS' SECURITY NONSHARED - PROPRIETARY FUND
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Assessments, Excess Insurance Recoveries and Security Deposits	$ 1,857,709
Security Deposits Refunded and Interest of Deposits Held	(11,654,987)
Security Deposits Collected	200,000
Payments to Suppliers - Net	(79,567)
Payments to Employees and Other Personal Services	(82,455)
Deposit Refunds Paid	(672,958)
Benefit Payments	(660,410)
Net Cash Used in Operating Activities	(11,092,668)
CASH FLOWS FROM INVESTING ACTIVITY	
Interest and Dividends on Investments	95,465
Net Cash Provided by Investing Activity	95,465
Net Decrease in Cash in State Treasury, Cash in Bank , on Hand and In-transit	(10,997,203)
Cash in State Treasury, Cash in Bank and on Hand, Beginning of Year	33,186,146
Cash in State Treasury, Cash in Bank and on Hand, End of Year	$ 22,188,943
Reconciliation of Operating Income to Net Cash Used in Operating Activities:	
Operating Income	$ 83,084
Adjustments to Reconcile Operating Income to Cash Flows from Operating Activities	
Changes in Assets and Liabilities:	
Deferred Security Deposit	(11,454,987)
Excess Insurance Receivable	240,379
Accounts Payable	(62,638)
Due to Other Funds	1,165
Liabilities for Unpaid Claims	100,329
Net Cash Used in Operating Activities	$ (11,092,668)

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SELF-INSURERS' SECURITY NONSHARED - PROPRIETARY FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

(1) Description of Funds

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

The Self-Insurers' Security Fund (940), (the "Fund"), was established by the Workers' Compensation Act (820 ILCS 305/4a-5). The Fund provides compensation to employees of insolvent self-insured employers for any type of injury or occupational disease and all claims for related administrative fees, operating costs of the Board, attorney fees and other costs reasonably incurred by the Board. The Commission may upon the direction of the Board from time to time assess each of the private self-insurers a pro rata share of the funding reasonably necessary to carry out its activities.

(2) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

i) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

ii) Fiscal dependency on the primary government.

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

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

The financial statements present only the Self-Insurer's Security nonshared proprietary fund administered by the Self-Insurers' Advisory Board established within the Commission and do not purport to, and do not, present fairly the financial position of the Commission as of June 30, 2013, and changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

B. Basis of Presentation

In government, the basic accounting and reporting entity is a fund. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. A statement of net assets; statement of revenues, expenses and changes in net assets; and statement of cash flows has been presented for the Self-Insurers' Security nonshared proprietary fund administered by the Self Insurers' Advisory Board established within the Commission.

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

C. Basis of Accounting

The Self-Insurers' Security nonshared proprietary fund is reported using the economic resources measurement focus and the accrual basis of accounting.

Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Self Insurers' Advisory Board gives (or receives) value without directly receiving (or giving) equal value in exchange are not applicable. On an accrual basis, revenues from assessments, reimbursements from excess insurance, and security deposits are recognized in the fiscal year in which the underlying exchange transaction occurs. Resources received before the exchange has occurred are reported as deferred revenues.

The accounting policies and financial reporting practices of the Self-Insurers' Security Fund conform to generally accepted accounting principles, as promulgated in pronouncements of the Governmental Accounting Standards 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 in bank and on hand and cash in transit.

E. Net Position

Equity is displayed in one component as follow:

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

F. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) Deposits

The State Treasurer is the custodian of the State's deposit and investment maintained in the State Treasury. As of June 30, 2013, deposits in the custody of the State Treasurer was $22,160,255 of which $2,242,559 is restricted for the payment of deferred security deposits which consist of letters of credit drawn upon and held by the Commission as a security for the payment of the private self-insurers' obligations incurred under the Workers' Compensation Act, cash in bank and on hand was $28,688.

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

(4) Excess Insurance Receivable

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

(5) Securities Lending Transaction

Securities Lending Transactions: The State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank AG to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement. During fiscal years 2013 and 2012, Deutsche Bank AG lent U.S. Treasury and U.S. agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregated market value of the

loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%. The State Treasurer did not impose any restrictions during fiscal year 2013 on the amount of the loans available or the eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. Deutsche Bank AG is obligated to indemnify the State Treasurer if the Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. Moreover, there were no losses during fiscal year 2013 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal year 2013, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending cash collateral received that were invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2013 were $6,763,623,576 and $6,742,892,101 respectively.

(6) Deferred Security Deposit

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

(7) Liability for Unpaid Claims

The liability for unpaid claims is established based on estimates of ultimate cost of claims that have been reported but not settled, including the effects of inflation and other societal factors. The following represents changes in aggregate liabilities during the year ended June 30, 2013.

Liability for unpaid claims, beginning of year	$ 7,444,815
Total provision for events of the current fiscal year and any change in the provision for events of prior fiscal years	1,486,524
Payments of claims	(1,386,195)
Liability for unpaid claims, end of year	$ 7,545,144

(8) Pension

Substantially all of the Fund's full-time employees who are not eligible for participation in another State-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system in which State employee participates, except for those covered by State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal years 2013 and 2012 are included in State of Illinois' CAFR for the years ended June 30, 2013 and 2012, respectively. The SERS also issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255 or by calling (217) 785-7202. The State of Illinois CAFR may be obtained in writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams St., Springfield, Illinois 62704-1871 or by calling (217) 782-2053.

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

The Commission pays employer retirement contributions in the Fund based upon an actuarially determined percentage of their payrolls. For fiscal year 2013, the employer contribution rate was 37.987%. The Commission's contribution to SERS was $21,456 for the year ended June 30, 2013.

(8) Post Employment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Central Management

Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants maybe required to contribute towards health, dental and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60 at which time the benefit becomes $5,000.

Public Act 97-0695, effective July 1, 2012, alters the contributions to be paid by the State, annuitants, survivors, and retired employees under the State Employees Group Insurance Act. This Act requires the Director of Central Management Services, on an annual basis, determine the amount that the State should contribute. The remainder of the cost of coverage shall be the responsibility of the annuitant, survivor, or retired employee. These costs will be assessed beginning July 1, 2013.

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

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Central Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing to the Department of Central Management Services, 715 Stratton Building, 401 South Spring Street, Springfield, Illinois, 62606-4100.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

SUMMARY

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

- Fiscal Schedules and Analysis:

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

- Analysis of Operations:

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

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states the accountants have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the June 30, 2013 and June 30, 2012 in Schedules 1 through 14. However, the accountants do not express an opinion on the supplementary information. The accountant's report also states that they have not applied procedures to the Analysis of Operations Section, and accordingly, they do not express an opinion or provide any assurance on it.

Schedule 1

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Appropriations for Fiscal Year 2013
Fourteen Months Ended August 31, 2013

PUBLIC ACT 97-0731	Appropriations (Net After Transfers)	Expenditures through 6/30/13	Lapse Period Expenditures 7/1/13 - 08/31/13	Total Expenditures	Balances Lapsed
APPROPRIATED FUNDS					
Illinois Workers' Compensation Commission Operations Fund - 534					
Personal Services	$ 12,343,800	$ 10,849,993	$ 930,550	$ 11,780,543	$ 563,257
State Contributions to Employee Retirement	4,689,400	4,094,378	353,839	4,448,217	241,183
State Contribution to Social Security	946,600	795,836	69,943	865,779	80,821
Group Insurance	3,735,000	3,037,449	149,374	3,186,823	548,177
Contractual Services	1,943,500	1,310,264	359,554	1,669,818	273,682
Travel	407,000	308,708	52,293	361,001	45,999
Commodities	83,000	48,575	31,893	80,468	2,532
Printing	37,000	34,702	54	34,756	2,244
Equipment	190,000	10,467	52,100	62,567	127,433
Telecommunications	190,000	124,754	24,126	148,880	41,120
Printing and Distribution of Workers' Compensation Handbooks of Rights and Obligations of Employers	62,500	1,400	-	1,400	61,100
Implementation and Operation of an Accident Reporting System	144,300	54,678	2,278	56,956	87,344
Establishment, Administration and Operations of the Insurance Compliance Division	1,226,700	1,038,859	58,035	1,096,894	129,806
Establishment of the Medical Fee Schedule	130,000	26,467	160	26,627	103,373
Total Illinois Workers' Compensation Commission Operations Fund - 534	26,128,800	21,736,530	2,084,199	23,820,729	2,308,071
TOTAL APPROPRIATED FUNDS	$ 26,128,800	$ 21,736,530	$ 2,084,199	$ 23,820,729	$ 2,308,071

Schedule 1

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Appropriations for Fiscal Year 2013
Fourteen Months Ended August 31, 2013

PUBLIC ACT 97-0731	Appropriations (Net After Transfers)	Expenditures through 6/30/13	Lapse Period Expenditures 7/1/13 - 08/31/13	Total Expenditures	Balances Lapsed
NON-APPROPRIATED FUNDS					
Injured Workers Benefit Fund - 179					
Social Assistance		$ 1,079,231	$ 215,624	$ 1,294,855	
Total Injured Workers Benefit Fund - 179		$ 1,079,231	$ 215,624	$ 1,294,855	
Self-Insurers' Administration Fund - 274					
General and Administrative		$ 373,047	$ 17,523	$ 390,570	
Total Self-Insurers' Administration Fund - 274		$ 373,047	$ 17,523	$ 390,570	
Second Injury Fund - 431					
Social Assistance		$ 1,114,694	$ -	$ 1,114,694	
Total Second Injury Fund - 431		$ 1,114,694	$ -	$ 1,114,694	
Illinois Workers' Compensation Commission Operations Fund - 534					
Refunds, Not Elsewhere Classified		$ 9,209	$ -	$ 9,209	
Total Illinois Workers' Compensation Commission Operations Fund - 534		$ 9,209	$ -	$ 9,209	
Rate Adjustment Fund - 685					
Social Assistance		$ 11,204,145	$ 19,685	$ 11,223,830	
Total Rate Adjustment Fund - 685		$ 11,204,145	$ 19,685	$ 11,223,830	

Schedule 1

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Appropriations for Fiscal Year 2013
Fourteen Months Ended August 31, 2013

PUBLIC ACT 97-0731	Appropriations (Net After Transfers)	Expenditures through 6/30/13	Lapse Period Expenditures 7/1/13 - 08/31/13	Total Expenditures	Balances Lapsed
Self-Insurers' Security Fund - 940					
Social Assistance		$ 1,328,467	$ 12,102	$ 1,340,569	
General and Administrative		12,420,785	4,486	12,425,271	
Total Self-Insurers' Security Fund - 940		$ 13,749,252	$ 16,588	$ 13,765,840	
TOTAL NON-APPROPRIATED FUNDS		$ 27,529,578	$ 269,420	$ 27,798,998	
TOTAL ALL FUNDS	$ 26,128,800	$ 49,266,108	$ 2,353,619	$ 51,619,727	$ 2,308,071

Notes : The above information was taken from the State Comptroller's records which have been reconciled to the records of the Commission.
Expenditure amounts are vouchers approved for payment by the Commission and submitted to the State Comptroller for payment to the vendor.

Schedule 2

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Appropriations for Fiscal Year 2012
Eighteen Months Ended December 31, 2012

PUBLIC ACT 97-0064	Appropriations (Net After Transfers)	Expenditures through 6/30/12	Lapse Period Expenditures 7/1/12 - 12/31/12	Total Expenditures	Balances Lapsed
APPROPRIATED FUNDS					
Illinois Workers' Compensation Commission Operations Fund - 534					
Personal Services	$ 12,420,000	$ 11,104,182	$ 487,474	$ 11,591,656	$ 828,344
State Contributions to Employee Retirement	4,246,500	3,740,886	166,995	3,907,881	338,619
State Contributions to Social Security	885,200	807,025	36,033	843,058	42,142
Group Insurance	2,685,000	2,511,694	112,273	2,623,967	61,033
Contractual Services	1,876,400	1,381,528	346,869	1,728,397	148,003
Travel	337,000	288,404	40,413	328,817	8,183
Commodities	85,000	69,778	4,203	73,981	11,019
Printing	37,000	29,767	4,117	33,884	3,116
Equipment	75,000	16,531	19,650	36,181	38,819
Telecommunications	190,000	122,388	24,767	147,155	42,845
Printing and Distribution of Workers' Compensation Handbooks of Rights and Obligations of Employers	90,000	8,459	-	8,459	81,541
Implementation and Operation of an Accident Reporting System	245,000	133,188	8,509	141,697	103,303
Establishment and Administration and Operations of the Insurance Compliance Division	1,300,000	768,022	46,974	814,996	485,004
Establishment of the Medical Fee Schedule	260,000	86,437	55,701	142,138	117,862
Total Illinois Workers' Compensation Commission Operations Fund - 534	24,732,100	21,068,289	1,353,978	22,422,267	2,309,833
TOTAL APPROPRIATED FUNDS	$ 24,732,100	$ 21,068,289	$ 1,353,978	$ 22,422,267	$ 2,309,833

Schedule 2

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Appropriations for Fiscal Year 2012
Eighteen Months Ended December 31, 2012

PUBLIC ACT 97-0064	Appropriations (Net After Transfers)	Expenditures through 6/30/12	Lapse Period Expenditures 7/1/12 - 12/31/12	Total Expenditures	Balances Lapsed
NON-APPROPRIATED FUNDS					
Injured Workers Benefit Fund - 179					
Social Assistance		$ 173,749	$ 1,037,978	$ 1,211,727	
Total Injured Workers Benefit Fund - 179		$ 173,749	$ 1,037,978	$ 1,211,727	
Self-Insurers' Administration Fund - 274					
General and Administrative		$ 353,668	$ 20,177	$ 373,845	
Total Self-Insurers' Administration Fund - 274		$ 353,668	$ 20,177	$ 373,845	
Second Injury Fund - 431					
Social Assistance		$ 1,282,546	$ -	$ 1,282,546	
Total Second Injury Fund - 431		$ 1,282,546	$ -	$ 1,282,546	
Rate Adjustment Fund - 685					
Social Assistance		$ 10,699,644	$ (1,650)	$ 10,697,994	
General and Administrative		307	-	307	
Total Rate Adjustment Fund - 685		$ 10,699,951	$ (1,650)	$ 10,698,301	

Schedule 2

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Appropriations for Fiscal Year 2012
Eighteen Months Ended December 31, 2012

PUBLIC ACT 97-0064	Appropriations (Net After Transfers)	Expenditures through 6/30/12	Lapse Period Expenditures 7/1/12 - 12/31/12	Total Expenditures	Balances Lapsed
Self-Insurers' Security Fund - 940					
Social Assistance		$ 2,237,372	$ 75,009	$ 2,312,381	
General and Administrative		295,219	3,052	298,271	
Total Self-Insurers' Security Fund - 940		$ 2,532,591	$ 78,061	$ 2,610,652	
TOTAL NON-APPROPRIATED FUNDS		$ 15,042,505	$ 1,134,566	$ 16,177,071	
TOTAL ALL FUNDS	$ 24,732,100	$ 36,110,794	$ 2,488,544	$ 38,599,338	$ 2,309,833

Notes: The above information was taken from the State Comptroller's records which have been reconciled to the records of the Commission.
Expenditure amounts are vouchers approved for payment by the Commission and submitted to the State Comptroller for payment to the vendor.

Schedule 3

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
For the Fiscal Years Ended June 30, 2013, 2012 and 2011

	Fiscal Years		
	2013	2012	2011*
	PA 097-0731	PA 097-0064	PA 96-0956
APPROPRIATED FUNDS			
General Revenue Fund - 001			
Appropriations (Net After Transfers)	$ -	$ -	$ 822,600
Expenditures			
Social Assistance	$ -	$ -	$ 822,600
Total Expenditures	$ -	$ -	$ 822,600
Lapsed Balances	$ -	$ -	$ -
Illinois Workers' Compensation Commission Operations Fund - 534			
Appropriations (Net After Transfers)	$ 26,128,800	$ 24,732,100	$ 24,286,700
Expenditures			
Personal Services	$ 11,780,543	$ 11,591,656	$ 11,196,957
State Contributions to Employee Retirement	4,448,217	3,907,881	3,123,832
State Contributions to Social Security	865,779	843,058	818,327
Group Insurance	3,186,823	2,623,967	2,439,188
Contractual Services	1,669,818	1,728,397	1,757,049
Travel	361,001	328,817	219,225
Commodities	80,468	73,981	48,408
Printing	34,756	33,884	36,366
Equipment	62,567	36,181	47,617
Telecommunications	148,880	147,155	158,917
Printing and Distribution of Workers' Compensation Handbooks of Rights and Obligations of Employers	1,400	8,459	3,302
Implementation and Operation of an Accident Reporting System	56,956	141,697	113,564
Establishment and Administration and Operations of the Insurance Compliance Division	1,096,894	814,996	698,996
Establishment of the Medical Fee Schedule	26,627	142,138	23,812
Total Expenditures	$ 23,820,729	$ 22,422,267	$ 20,685,560
Lapsed Balances	$ 2,308,071	$ 2,309,833	$ 3,601,140
TOTAL APPROPRIATED FUNDS			
Appropriations (Net After Transfers)	$ 26,128,800	$ 24,732,100	$ 25,109,300
Total Expenditures	23,820,729	22,422,267	21,508,160
Lapsed Balances	$ 2,308,071	$ 2,309,833	$ 3,601,140
NON-APPROPRIATED FUNDS			
Injured Workers' Benefit Fund - 179			
Expenditures			
Social Assistance	$ 1,294,855	$ 1,211,727	$ 1,693,950
Total Expenditures	$ 1,294,855	$ 1,211,727	$ 1,693,950

Schedule 3

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
For the Fiscal Years Ended June 30, 2013, 2012 and 2011

	Fiscal Years		
	2013 PA 097-0731	2012 PA 097-0064	2011* PA 96-0956
Self-Insurers' Administration Fund - 274			
Expenditures			
General and Administrative	$ 390,570	$ 373,845	$ 446,696
Total Expenditures	$ 390,570	$ 373,845	$ 446,696
Second Injury Fund - 431			
Expenditures			
Social Assistance	$ 1,114,694	$ 1,282,546	$ 1,248,712
Total Expenditures	$ 1,114,694	$ 1,282,546	$ 1,248,712
Illinois Workers' Compensation Fund - 534			
Expenditures			
Refunds, Not Elsewhere Classified	$ 9,209	$ -	$ -
Total Expenditures	$ 9,209	$ -	$ -
Rate Adjustment Fund - 685			
Expenditures			
Social Assistance	$ 11,223,830	$ 10,697,994	$ 11,187,097
General and Administrative	-	307	-
Total Expenditures	$ 11,223,830	$ 10,698,301	$ 11,187,097
Self-Insurers' Security Fund - 940			
Expenditures			
Social Assistance	$ 1,340,569	$ 2,312,381	$ 1,774,226
General and Administrative	12,425,271	298,271	301,569
Total Expenditures	$ 13,765,840	$ 2,610,652	$ 2,075,795
GRAND TOTAL APPROPRIATIONS ALL FUNDS	$ 26,128,800	$ 24,732,100	$ 25,109,300
GRAND TOTAL EXPENDITURES ALL FUNDS	$ 51,619,727	$ 38,599,338	$ 38,160,410
SALARIES PAID FROM THE COMPTROLLERS EXECUTIVE SUMMARY APPROPRIATION:			
Chairman of the Workers' Compensation Commission	$ 124,746	$ 125,232	$ 119,474
Commissioners (Members: Nine in 2013, 2012 and 2011)	1,013,769	1,077,491	994,239
	$ 1,138,515	$ 1,202,723	$ 1,113,713

* The Fiscal Year 2011 expenditures and lapsed balances do no reflect interest payments approved and submitted after August.

Schedule 4

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

	Fiscal Years Ended June 30,		
	2013	2012	2011
Transcript Deposit Fund - 1168			
Cash Balance, July 1	$ 55,858	$ 48,636	$ 47,998
Receipts	15,185	16,160	12,433
Disbursements	(4,859)	(8,938)	(11,795)
Cash Balance, June 30	$ 66,184	$ 55,858	$ 48,636

Schedule 5

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SCHEDULE OF CHANGES IN STATE PROPERTY
For the Two Years Ended June 30, 2013

	Office Furniture and Equipment	EDP Equipment	Equipment not Classified Elsewhere	Total
Balance July 1, 2011	$ 1,120,127	$ 1,435,748	$ 146,300	$ 2,702,175
Additions	3,193	20,283	13,042	36,518
Deletions	(1,052)	-	-	(1,052)
Net transfers and adjustments	(2,431)	23,967	(2,938)	18,598
Balance June 30, 2012	1,119,837	1,479,998	156,404	2,756,239
Additions	25,441	36,768	697	62,906
Deletions	-	-	-	-
Net transfers and adjustments	2,431	13,294	2,938	18,663
Balance June 30, 2013	$ 1,147,709	$ 1,530,060	$ 160,039	$ 2,837,808

The above schedule has been derived from the property reports submitted to the Office of the Comptroller. However, we were not able to reconcile to the property records due to certain errors noted in the Commission's property records. (see Finding Code 2013-005)

Schedule 6

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
COMPARATIVE SCHEDULE OF CASH RECEIPTS
For the Fiscal Years Ended June 30, 2013, 2012 and 2011

	Fiscal Years		
	2013	2012	2011
GENERAL REVENUE FUND - 001			
Miscellaneous Collections	$ -	$ 3,822	$ 7,023
Total Receipts	$ -	$ 3,822	$ 7,023
INJURED WORKERS' BENEFIT FUND - 179			
Fines, Penalties or Violations	$ 1,165,500	$ 1,007,354	$ 1,060,671
Prior Year Warrant Voids	1,009,274	-	-
Prior Year Refund	7,307	-	-
Total Receipts	$ 2,182,081	$ 1,007,354	$ 1,060,671
SELF-INSURERS' ADMINISTRATION FUND - 274			
Licenses, Fees or Registrations	$ 1,059,458	$ 346,500	$ 356,500
Total Receipts	$ 1,059,458	$ 346,500	$ 356,500
SECOND INJURY FUND - 431			
Statutory Assessments	$ 1,847,337	$ 1,022,330	$ 1,543,241
Total Receipts	$ 1,847,337	$ 1,022,330	$ 1,543,241
OPERATIONS FUND - 534			
Statutory Assessments	$ 2,377,016	$ 1,252,509	$ 3,607,122
Total Receipts	$ 2,377,016	$ 1,252,509	$ 3,607,122

Schedule 6

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
COMPARATIVE SCHEDULE OF CASH RECEIPTS
For the Fiscal Years Ended June 30, 2013, 2012 and 2011

	Fiscal Years		
	2013	2012	2011
RATE ADJUSTMENT FUND - 685			
Statutory Assessments	$ 14,135,369	$ 35,183	$ 10,001,181
Total Receipts	$ 14,135,369	$ 35,183	$ 10,001,181
SELF-INSURERS' SECURITY FUND - 940			
Securities Collected, Assessments and Reimbursements	$ 2,738,750	$ 2,820,257	$ 3,624,254
Total Receipts	$ 2,738,750	$ 2,820,257	$ 3,624,254

Schedule 7

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
RECONCILIATION SCHEDULE OF CASH RECEIPTS TO DEPOSITS REMITTED TO THE STATE COMPTROLLER
For the Fiscal Years Ended June 30, 2013, 2012 and 2011

	Fiscal Years		
	2013	2012	2011
GENERAL REVENUE FUND - 001			
Receipts per Commission Records	$ -	$ 3,822	$ 7,023
Add: Receipts in Transit, Beginning of Year	-	-	-
Less: Receipts in Transit, End of Year	-	-	-
Total Deposits Remitted to Comptroller	$ -	$ 3,822	$ 7,023
INJURED WORKERS' BENEFIT FUND - 179			
Receipts per Commission Records	$ 2,182,081	$ 1,007,354	$ 1,060,671
Add: Receipts in Transit, Beginning of Year	32,844	22,466	60,115
Less: Receipts in Transit, End of Year	69,247	32,844	22,466
Total Deposits Remitted to Comptroller	$ 2,145,678	$ 996,976	$ 1,098,320
SELF-INSURERS' ADMINISTRATION FUND - 274			
Receipts per Commission Records	$ 1,059,458	$ 346,500	$ 356,500
Add: Receipts in Transit, Beginning of Year	11,025	8,000	9,000
Less: Receipts in Transit, End of Year	6,000	11,025	8,000
Total Deposits Remitted to Comptroller	$ 1,064,483	$ 343,475	$ 357,500
SECOND INJURY FUND - 431			
Receipts per Commission Records	$ 1,847,337	$ 1,022,330	$ 1,543,241
Add: Receipts in Transit, Beginning of Year	286	-	222
Less: Receipts in Transit, End of Year	14,322	286	-
Total Deposits Remitted to Comptroller	$ 1,833,301	$ 1,022,044	$ 1,543,463

Schedule 7

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
RECONCILIATION SCHEDULE OF CASH RECEIPTS TO DEPOSITS REMITTED TO THE STATE COMPTROLLER
For the Fiscal Years Ended June 30, 2013, 2012 and 2011

	Fiscal Years		
	2013	2012	2011
OPERATIONS FUND - 534			
Receipts per Commission Records	$ 2,377,016	$ 1,252,509	$ 3,607,122
Add: Receipts in Transit, Beginning of Year	-	794,291	2,136
Less: Receipts in Transit, End of Year	366	-	794,291
Total Deposits Remitted to Comptroller	$ 2,376,650	$ 2,046,800	$ 2,814,967
RATE ADJUSTMENT FUND - 685			
Receipts per Commission Records	$ 14,135,369	$ 35,183	$ 10,001,181
Add: Receipts in Transit, Beginning of Year	7,635	3,541	3,221
Less: Receipts in Transit, End of Year	188	7,635	3,541
Total Deposits Remitted to Comptroller	$ 14,142,816	$ 31,089	$ 10,000,861
SELF-INSURERS' SECURITY FUND - 940			
Receipts per Commission Records	$ 2,738,750	$ 2,820,257	$ 3,624,254
Add: Receipts in Transit, Beginning of Year	233,556	36,487	21,677
Less: Receipts in Transit, End of Year	28,588	233,556	36,487
Total Deposits Remitted to Comptroller	$ 2,943,718	$ 2,623,188	$ 3,609,444

Schedule 8

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

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

General Revenue Fund – 001

Expenditures in the General Revenue Fund (GRF) were $822,600 in Fiscal Year 2011 compared to $0 in Fiscal Year 2012. These expenditures concerned payments to injured workers of uninsured employers that normally would have been paid from the Injured Workers' Benefit Fund (IWBF). In Fiscal Year 2011, the State Treasurer borrowed funds from the IWBF and later returned them to the GRF which required the Commission to make IWBF payments. No such transactions occurred in Fiscal Years 2012 and 2013.

Illinois Workers' Compensation Commission Operations Fund - 534

Expenditures for State contributions to employee retirements increased by $784,049 (25%) in Fiscal Year 2012 due to an increase in calculated contribution rate from 27.988% in Fiscal Year 2011 to 35.313% in Fiscal Year 2012.

Expenditures for group insurance increased by $562,856 (21%) in Fiscal Year 2013 due to an increase in group insurance rates. The budget rate for group insurance costs per person increased from $14,500 per person in Fiscal Year 2012 to $23,000 per person in Fiscal Year 2013.

Expenditures for travel increased by $109,592 (50%) in Fiscal Year 2012 due to the increase in travel cost because of rotation of three arbitrators in each agency hearing site outside of Cook County, with no Arbitrator serving longer than 2 years at a hearing site as mandated by House Bill 1698. As a result of the rotation requirements, the Commission consolidated several of its hearing sites into six zones increasing the arbitrators and court reporters' travel expenses.

Expenditures for commodities increased by $25,573 (53%) in Fiscal Year 2012 due to one-time purchase of case file folders and envelopes, and printer inks for individual employee's assigned printers prior to the transition to network printers in Fiscal Year 2013.

Expenditures for equipment decreased by $11,436 (24%) in Fiscal Year 2012 due to lesser computers and laptops purchased during the fiscal year as a result of the Commission's plan to upgrade its computer hardware in Fiscal Year 2013. In Fiscal Year 2013, equipment expenditures increased by $26,386 (73%) due to purchase of several desktops and laptops to upgrade the Commission's information technology hardware.

Expenditures for printing and distribution of Workers' Compensation Handbooks of Rights and Obligations of Employers increased by $5,157 (156%) in Fiscal Year 2012 due to the printing and distribution of 6,000 copies of Workers' Compensation handbook (handbook) to

include changes in Workers' Compensation Act. In Fiscal Year 2013, printing and distribution expenditures decreased by $7,059 (83%) because the Commission did not print anymore hand books in anticipation of Public Act 98-30 that took effect on June 28, 2013 which directs the Commission to post its informational handbook on its website and removes the mandate of sending a copy of the handbook to each injured worker who is the subject of an accident report.

Expenditures for implementation and operation of an accident reporting system increased by $28,133 (25%) in Fiscal Year 2012. The salaries and wages charged to this expenditure line item were lower in Fiscal Year 2011 than in Fiscal Year 2012 due to leave of absences of employees in Fiscal Year 2011. In Fiscal Year 2013, expenditures for the implementation and operation of accident reporting system have decreased by $84,741 (60%) due to a decrease in salaries and wages charged against this expenditure line item.

Expenditures for establishment and administration and operations of the Insurance Compliance division have increased by $281,898 (35%) in Fiscal Year 2013. The Commission, upon consultation with the Office of the Comptroller, has charged group insurance costs for Insurance Compliance employees to this expenditure line item where all other program costs for the Insurance Compliance division are charged including payroll, retirement and social security. In Fiscal Year 2012, the group insurance costs for Insurance Compliance employees were charged against Group Insurance line item.

Expenditures for establishment of the Medical Fee Schedule increased by $118,326 (497%) in Fiscal Year 2012 due to payment to consultants in setting the rates and changes in the medical fee schedule mandated by House Bill 1698. In Fiscal Year 2013, the expenditures decreased by $115,511 (81%) due to the decrease in fees paid to consultants as a result of a reduction in the scope of work performed in Fiscal Year 2013 as compared to Fiscal Year 2012.

Injured Workers' Benefit Fund - 179

Expenditures for social assistance decreased by $482,223 (28%) in Fiscal Year 2012 due to lesser payment of claims for injured workers of uninsured employers. The payment of benefit claims varies depending on the number of eligible claims received and the amount of money in the fund in each fiscal year.

Illinois Workers' Compensation Fund – 534

Expenditures for refunds increased by $9,209 (100%) in Fiscal Year 2013 due to a refund to an employer for an overpaid assessment.

Schedule 8

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

Self-Insurers' Security Fund - 940

Expenditures for social assistance increased by $538,155 (30%) in Fiscal Year 2012 due to several lump sum payments settled in the current year as compared to Fiscal Year 2011. In Fiscal Year 2013, expenditures for social assistance decreased by $971,812 (42%) due to decline in settlements claims as the Fund continue to settle outstanding claims of bankrupt self-insured companies.

Expenditures for general and administrative increased by $12,127,000 (4,066%) in Fiscal Year 2013 due to the return of the security deposits to a self-insured company after the self-insured company replaced the security deposit with a new escrow account.

Schedule 9

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

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

General Revenue Fund - 001

Miscellaneous cash receipts decreased by $3,201 (46%) in Fiscal Year 2012 due to lesser deposits from the Transcript Deposit Fund for a portion of the $35 fee collected from a party who appeals for review of the Commission's decision. In Fiscal Year 2013, the miscellaneous cash receipts decreased by $3,822 (100%) because the Commission retained the $35 receipts in the Transcript Deposit Fund instead of depositing portion of the fee collected to the General Revenue Fund.

Injured Workers' Benefit Fund - 179

Cash receipts from the Injured Workers' Benefit Fund increased by $1,174,727 (117%) in Fiscal Year 2013 due to the cancellation of vouchers for estimated benefit payments erroneously processed during the lapse period of Fiscal Year 2012 and recorded as receipts in Fiscal Year 2013 – prior year voided warrants. The vouchers for estimated benefit payments processed during the lapsed period in Fiscal Year 2012 were cancelled after the final amounts of awards were subsequently determined by the Commission. New warrants were issued to claimants in Fiscal Year 2013. See related discussion in the significant lapse period expenditures of the Injured Workers' Benefit Fund.

Self-Insurers' Administration Fund – 274

Cash receipts from licenses, fees or registrations increased by $712,958 (206%) in Fiscal Year 2013 due to a transfer of funds from Self-Insurers' Security Fund authorized and approved by the Self-Insurers' Advisory Board to cover operating budget shortfall and potential capital expenditures in the Self-Insurers' Administration Fund.

Second Injury Fund – 431

Cash receipts from statutory assessments decreased by $520,911 (34%) in Fiscal Year 2012 due to lower assessment made in Fiscal Year 2012 as compared to Fiscal Year 2011. In Fiscal Year 2013, cash receipts from statutory assessments increased by $825,007 (81%) due to the Commission issuing one assessment at full rate and one assessment at half-rate.

Schedule 9

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

Illinois Workers' Compensation Commission Operations Fund - 534

Cash receipts from assessments decreased by $2,354,613 (65%) in Fiscal Year 2012. Assessments due in Fiscal Year 2012 were mailed to self- insured companies before the end of Fiscal Year 2011. As a result, some assessments were received in Fiscal Year 2011 instead of Fiscal Year 2012. In Fiscal Year 2013, cash receipts from assessments increased by $1,124,507 (90%) due to assessments issued and fully collected during Fiscal Year 2013.

Rate Adjustment Fund – 685

Cash receipts from statutory assessments decreased by $9,965,998 (100%) in Fiscal Year 2012. The Commission did not charge assessments to employers in Fiscal Year 2012 as the fund had more than $16,000,000 fund balance as of the beginning of the Fiscal Year 2012. In Fiscal Year 2013, cash receipts from statutory assessments increased by $14,100,186 (40,077%) since the Commission issued two assessments during the fiscal year, one at half-rate and one at full rate.

Self-Insurers' Security Fund - 940

Cash receipts from securities collected, assessments and reimbursements decreased by $803,997 (22%) in Fiscal Year 2012 due to lower assessment rate. The Commission assessed self-insured employers at a rate of 0.35% in Fiscal Year 2012 from an assessment rate of 0.50% in Fiscal Year 2011.

Schedule 10

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

The Illinois Workers' Compensation Commission's explanation for significant lapse period spending of 20% or more as presented in the Schedule of Appropriations, Expenditures, and Lapsed Balances for Fiscal Years 2013 and 2012 is detailed below.

Fiscal Year 2013

Illinois Workers' Compensation Commission Operations Fund - 534

Lapse period spending on contractual services was $359,554 (22%) of total expenditures. The State of Illinois Department of Central Management Services (DCMS) bill the Commission towards the end of the fiscal year for services rendered during the fiscal year such as facilities management. Payments for these services were made during the lapse period.

Lapse period spending on commodities was $31,893 (40%) of total expenditures. The Commission ordered materials and supplies used for the reorganization of the central file room near the end of the fiscal year. These were received and paid during the lapse period.

Lapse period spending on equipment was $52,100 (83%) of total expenditures. Several equipment items were ordered towards the end of the year. These were received and paid during the lapse period.

Fiscal Year 2012

Illinois Workers' Compensation Commission Operations Fund - 534

Lapse period spending on contractual services was $346,869 (20%) of total expenditures. DCMS billed the Commission towards the end of the fiscal year for services rendered during the fiscal year such as facilities management. Payments for these services were made during the lapse period.

Lapse period spending on equipment was $19,650 (54%) of total expenditures. Several equipment items were ordered towards the end of the fiscal year. These were received and paid during the lapse period.

Lapse period spending on establishment of medical fee schedule was $55,701 (39%) of total expenditures. The Commission paid the contract for medical fee schedule internet web service and maintenance for the last quarter of Fiscal Year 2012 totaling $49,581 during the lapse period.

Schedule 10

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

Injured Workers' Benefit Fund – 179

Lapse period spending on social assistance was $1,037,978 (86%) of total expenditures. The estimated benefit payments for Fiscal Year 2013 were processed in July and August and erroneously charged during the lapse period of Fiscal Year 2012 resulting in significant lapse period expenditures in Fiscal Year 2012. The vouchers were subsequently voided by the Office of the Comptroller and reported as receipts – prior year warrants voided in Fiscal Year 2013. See related discussion in the significant receipts of the Injured Workers' Benefit Fund.

Schedule 11

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

A comparative schedule of significant variations in balance sheet accounts that differed from the previous year by 20 percent or more is shown below. The Illinois Workers' Compensation Commissions' management provided the following explanations for the significant variations in balance sheet accounts.

Self Insurers' Security Fund – 940

	FISCAL YEAR ENDED JUNE 30		INCREASE (DECREASE)	
	2013	2012	AMOUNT	%
Cash in State Treasury	$22,160,255	$32,952,490	$(10,892,235)	(33%)
Cash in Bank and on Hand	28,688	233,656	(204,968)	(88%)
Accrued Interest Receivable	7,487	10,830	(3,343)	(31%)
Excess Insurance Receivable	139,334	379,713	(240,379)	(63%)
Accounts Payable	15,423	78,061	(62,638)	(80%)
Unearned Security Deposit	2,242,559	13,697,546	(11,454,987)	(84%)

Cash in State Treasury

The decrease in cash in State Treasury was due to the return of security deposit to self-insured company after the company replaced the security deposit with new escrow accounts. See related discussion on the decrease of Unearned Security Deposit account.

Cash in Bank and on Hand

The decrease in cash in bank and on hand is due to timing of transfer (i.e. "cash in transit") and variation in collections.

Accrued interest receivable

The decrease in accrued interest receivable was due to a decrease in interest income as a result of the decrease in the cash balance during the year. In Fiscal Year 2013, the Commission refunded security deposits of self insured companies totaling $11,654,987.

Excess insurance receivables

The decrease in excess insurance receivables was due timing of collection. The Commission was able to collect some of its receivables during the current year.

Schedule 11

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

Accounts payable

The decrease in accounts payable was due to the timing of payments to supplier and claimants.

Unearned Security Deposit

The decrease in unearned security deposit was due to the return of security deposit of a self-insured company. See related discussion on the decrease of Cash in State Treasury account.

Schedule 12

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

The Workers' Compensation Act (820 ILCS 305/7(f)) provides for the rate of assessments to be charged to employers for the Rate Adjustment Fund (RAF). Assessment rates vary depending on the fund balance as of February and August of each year. The balance of the fund as of June 2011 has exceeded the statutory amount for a moratorium on employer contributions; the Commission did not assess the employers during fiscal year 2012 However, during fiscal year 2013, the Commission sent out an assessment at full rate and one assessment at half rate. Presented below are RAF balances for the fiscal years ended June 30, 2013, 2012 and 2011 respectively:

	2013	2012	2011
Beginning Fund Balance	$5,711,765	$16,720,795	$5,711,356
Revenues			
Statutory Assessments	14,279,460	18,620	10,008,211
Other Revenue	-	-	13,184,231
Interest Income	30,197	49,590	98,029
Expenses			
Social Assistance	(11,506,206)	(11,077,240)	(10,607,218)
Interest Expense	-	-	(1,673,814)
Ending Fund Balance	$8,515,216	$5,711,765	$16,720,795

The Commission is required to provide a cost of living adjustment (COLA) based on the State's computed average weekly wage, 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.

Fiscal Year 2011 other revenue of $13,184,231 represents transfer from the settlement fund to pay the outstanding loan to the General Revenue Fund. The settlement fund was created as a result of the settlement of a lawsuit between the Chamber of Commerce and the Illinois Workers' Compensation Commission.

Schedule 13

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
ANALYSIS OF ACCOUNTS RECEIVABLE (Not Examined)
For the Two Years Ended June 30, 2013

Aging of Accounts Receivable, per Commission's records, were as follows:

	Injured Workers Benefit Fund	Second Injury Fund	Rate Adjustment Fund	Self-Insurers Security Fund	TOTAL
As of June 30, 2013					
Current	$ 833,259	$ -	$ 149,598	$ 139,334	$ 1,122,191
1-30 days	26,544	-	-	-	26,544
31-90 days	38,755	-	-	-	38,755
91-180 days	52,898	-	-	-	52,898
181 days - 1 year	177,076	-	-	-	177,076
Over 1 year	2,760,525	595	13,875	-	2,774,995
Accounts Receivable Gross Balance	3,889,057	595	163,473	139,334	4,192,459
Less: Estimated Uncollectibles	2,937,601	595	13,875	-	2,952,071
Accounts Receivable Net Balance	$ 951,456	$ -	$ 149,598	$ 139,334	$ 1,240,388
As of June 30, 2012					
Current	$ 553,628	$ -	$ -	$ -	$ 553,628
1-30 days	30,179	-	-	-	30,179
31-90 days	53,541	-	-	61,543	115,084
91-180 days	24,062	-	-	219,246	243,308
181 days - 1 year	2,683,433	-	-	13,405	2,696,838
Over 1 year	135,974	714	15,554	85,519	237,761
Accounts Receivable Gross Balance	3,480,817	714	15,554	379,713	3,876,798
Less: Estimated Uncollectibles	2,819,407	-	-	-	2,819,407
Accounts Receivable Net Balance	$ 661,410	$ 714	$ 15,554	$ 379,713	$ 1,057,391

Schedule 14

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
STATUS OF LITIGATION (Not Examined)

Hagan v. Quinn, et al., 11-3213, U.S. District Court, Central District of Illinois.

The plaintiffs are former group of arbitrators who filed lawsuit challenging the constitutionality of the legislative enactment of House Bill 1698. The plaintiffs sought an injunction barring their dismissal pending litigation but that motion was denied. Recently, the court has granted leave to the plaintiff's counsel pursuant to a motion filed to withdraw as counsel for the plaintiff. The order was entered on August 30, 2013. The plaintiffs filed a motion to reconsider in an attempt to keep their counsel on the case. That motion was initially denied but the court recently allowed the motion to move forward and required the plaintiff's counsel to respond by November 6, 2013. The matter is set for hearing November 18, 2013.

John T. Dibble v. Quinn et al. 13-632 U.S. District Court, Southern District of Illinois

This is an action by a former arbitrator also challenging House Bill 1698. Plaintiff also alleges that press releases about the reform damaged his reputation and career. The case is recently filed and all served. Commission defendants have appeared and filed a Motion to Dismiss. The Plaintiff filed his Response to the motion. The motion is currently in outstanding discovery and no date has been set for hearing.

Michelon (Ron's Staffing) v. IWCC 13CH 15075 Circuit Court Cook County.

This is a new Declaration of Judgment action filed in an attempt to stop the administrative process as it relates to insurance compliance. The Commission's Insurance Compliance division has been investigating an attempted hybrid workers' compensation insurance policy promoted by insurance companies which purport to allow the insured to self pay up to a certain deductible. The amended complaint has not been filed to date. The underlying administrative hearing has been continued to a future date. The case is on circuit court judge's progress call. Motions are pending.

Griffin v. Rollex Corp, Illinois Insurance Guaranty Fund, IWCC et al. 13-L- 50181

This is a multiple claim lawsuit which primarily deals with the employer company. The complaint contains 18 counts and the Commission is only named in one, to the extent that the Commission administers the underlying compensation claim. There is no update from the Attorney General on this Declaratory of Judgement action filed by an injured worker who does not want the Guaranty Fund (Self-Insurers' Security Fund) to control his case because the Fund would not be responsible for penalties and additional attorney fees. The Attorney General filed a Motion to Dismiss on August 28, 2013. No briefing schedule has been set. Case has a status date of November 21, 2013.

Schedule 14

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
STATUS OF LITIGATION (Not Examined)

Akemann v. Quinn et al. 12-MR 846 Sangamon County Court.

This is an action by a former arbitrator. This arbitrator is also a plaintiff in the above referenced Hagan case. This arbitrator was in fact reappointed in October of 2011 pursuant to House Bill 1698. The case challenges the process whereby the Commission reappointed him before the end of his term and then the Commission reconvened and rescinded the vote to reappoint the plaintiff as arbitrator upon a change in the law. The amendment to the Act (House Bill 1698) occurred prior to the expiration of his term. Sangamon County circuit court judge dismissed the complaint on September 26, 2013. The order is a final order. An appeal has been filed and is currently pending in the 4th district of the appellate court.

Ambulatory Surgical v. Carvel and Hilton Worldwide, 12- L-004138 Circuit Court of Cook County.

This matter involves an attempted joinder of the Illinois Worker's Compensation Commission into a fee dispute between medical provider and employer. The defendant was granted leave to file a counter-claim or cross complaint. Case is set for trial March 24, 2014.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
AGENCY FUNCTIONS AND PLANNING PROGRAM (Not Examined)

FUNCTIONS

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

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

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

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

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

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
AGENCY FUNCTIONS AND PLANNING PROGRAM (Not Examined)

PLANNING PROGRAM

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

- Enhance timeliness and quality of case resolutions and other services;
- Investigate, identify, and enforce insurance compliance;
- Improve technology to enhance customer access to and usefulness of Workers' Compensation Commission data; and
- Monitor and investigate the incidence of employer noncompliance with Workers' Compensation insurance requirements.

The priority of each Commission's department is to streamline processes with the support of Information Technology department.

AMENDMENT TO THE ILLINOIS WORKERS' COMPENSATION ACT

Public Act 97-18 – Effective June 28, 2011

Operation of the Commission
Public Act 97-18 makes several changes to the way Arbitrators are appointed to their terms. First, Public Act 97-18 terminates the terms of all serving Arbitrators as of the end of the business day on July 1, 2011. Current Arbitrators continue to serve until they or their successors are appointed. This legislation specified that the Arbitrators were to be appointed by the Governor, subject to advice and consent of the Senate. These appointments are staggered between one, two, and three year terms. Subsequent terms are set at three years. Going forward, the Commission was required to appoint or reappoint Arbitrators.

The qualifications and training requirements for Arbitrators have also changed. All new Arbitrators not currently serving on the effective date of the Act must be licensed to practice law in Illinois and must keep that status current throughout their term of service. The current substantive training requirements for Arbitrators and Commissioners are expanded to include training on the following topics: professional and ethical standards, detection of fraud, evidence-based medical treatment and Coal Workers' Pneumoconiosis. Arbitrators and Commissioners are to receive at least 20 hours of training every two years while in office.

Arbitrator assignments are specifically mandated by Public Act 97-18. At least three Arbitrators must be assigned to each hearing site and cases must be randomly assigned to them. Arbitrators may not serve more than two years of any three-year term in any single county, other than in Cook.

All claims of current or former employees of the Commission are to be adjudicated by Certified Independent Arbitrators not employed by the Commission. The Certified Independent Arbitrators are selected by the Chairman from a list generated by the Commission Review Board. Decisions of the Certified Independent Arbitrator shall become a decision of the Commission, but are subject to judicial review in circuit court.

Finally, the terms of members of the Workers' Compensation Advisory Board serving on June 28, 2011 were terminated immediately and the Governor was required to make new appointments within 30 days.

Indemnity Awards
Public Act 97-18 also makes several changes to the substantive body of workers' compensation law, including several of the benefits that may be awarded to an injured employee. For accidents on or after September 1, 2011, wage differential awards are effective only until the Petitioner reaches the age of 67 or 5 years after the date of the award becomes final, whichever occurs later. For Temporary Partial Disability (TPD) benefits, the amount of this award are determined by using the "gross" rather than "net" amount of income earned from the light duty position.

Public Act 97-18 sets a cap on repetitive Carpal Tunnel Syndrome awards to 15% of the loss of the use of a hand unless the Petitioner proves greater disability by clear and convincing evidence, at which time the award is capped at 30% loss of the use of the hand.

The final change to indemnity benefits set forth in the Public Act 97-18 is the method by which the Commission determines Permanent Partial Disability (PPD) for accidents occurring on or after September 1, 2011. These changes to Section 8.1b of the Act provide that a physician submitting an impairment report shall use the most recent version of the American Medical Association's "Guides to the Evaluation of Permanent Impairment." In determining a PPD award, the Commission is required to consider the following factors: the impairment report, the occupation of the Petitioner, the age of the Petitioner, the future earning capacity of the Petitioner, and evidence of disability corroborated in the treating medical records. The relevance and weight of factors in addition to the impairment report are required to be included in all decisions relating to PPD.

Preferred Provider Programs
Public Act 97-18 establishes a new concept for the provision of medical care referred to as Preferred Provider Programs (PPP). The PPPs will contain a network of medical providers for the treatment of work-related injuries. The PPP must be approved by the Department of Insurance, which is also charged with promulgating rules in relation to PPPs. The PPP only applies to cases in which the PPP was already approved and in place at the time of the injury. The employee must be notified of the PPP on a form promulgated by the Commission.

Employees have two choices of treating providers from within the employer's PPP network. If the Commission finds that the second choice of physician within the network has provided inadequate or improper treatment, the employee may choose a physician from outside the network at the employer's expense. Employees may opt out of the PPP in writing at any time, but such action forfeits one of their two choices of physicians. If an employee chooses nonemergency treatment prior to the report of an injury, that constitutes a choice of physician.

Alcohol and Drugs and Workplace Accidents
Public Act 97-18 amends Section 11 of the Act to provide that for accidents on or after September 1, 2011, an injured employee will not be entitled to compensation if the employee's intoxication was the proximate cause of his injury or if the employee's level of intoxication was sufficient to constitute a departure from employment. If at the time of the workplace injury, there is greater than .08% of alcohol in the employee's blood or breath or if there is any evidence of impairment due to the unlawful or unauthorized use of drugs, the employee must prove that the alcohol or drugs did not cause the workplace accident. In addition, the bill creates another rebuttable presumption if the employee refuses to submit to alcohol or drug testing. An employee may rebut the presumption by proving intoxication was not the proximate or sole cause of the injury by a preponderance of admissible evidence.

Medical Fee Schedule
The Commission's Medical Fee Schedule sets forth the maximum reimbursement rates for medical services provided in accordance with the Act. These rates control unless there is a contractual rate or if the provider's actual charge is less than the amount set forth in the Fee Schedule.

Public Act 97-18 reduces all reimbursements in the Medical Fee Schedule by 30% for all treatment performed on or after September 1, 2011, and reduces the current 76% percent of charge default to 53.2%. Effective January 1, 2012, the current 29 geozips, which divide reimbursement boundaries, are reduced to 14 hospital zones and 4 non-hospital zones. These zones are based on the boundaries of specified counties set forth in Public Act 97-18.

Other changes include a specific reimbursement rate for medical implants at 25% over invoice price plus actual and customary shipping, minus any rebates. Effective June 28, 2011, prescriptions filled and dispensed outside of a licensed pharmacy are to be reimbursed at a Fee Schedule that shall not exceed Average Wholesale Price (AWP) plus a dispensing fee of $4.18. AWP or its equivalent as registered by the National Drug Code shall be set forth for that drug on that date as published in Medispan. Dental services are also to be added to the Medical Fee Schedule.

Utilization Review
Utilization Review (UR) is a process by which employers can question the necessity or frequency of medical services for injured employees. Public Act 97-18 requires providers to submit to reasonable written UR requests and to make reasonable efforts to submit timely and complete reports to support a request for certification of requested treatment. If such reasonable efforts are not made, the charges may not be compensable or collectable. Written notices of certification and non-certification of requested treatment, including evidence-based guidelines, shall be furnished to the provider and employee. An employer or its agent can only deny requested medical treatment because that the treatment is excessive or unnecessary based on a valid UR report.

If an employer or its agent refuses to pay for services based on a UR report, the Petitioner has the burden of establishing that variance with the guidelines are warranted in the particular situation. Physicians performing UR now must be available for deposition in this state either in person or through telephonic communication. The cost of such depositions shall be borne by the employer/insurer.

Employee Leasing Companies
Public Act 97-18 requires all Employee Leasing Companies provide the Commission with names of all clients that are named under their workers' compensation insurance and copies of the certificates of insurance naming such clients.

Workers' Compensation Citation
Under Public Act 97-18, the Commission's Insurance Compliance Unit may issue citations between $500 and $2,500 against employers who are in noncompliance with the requirement to maintain workers' compensation insurance. The employer must pay the fine and provide proof of insurance within 10 days after issuance of the citation.

Public Act 97-719 – Effective June 29, 2012

Part of this legislation amended the Act to provide that Arbitrators at the Commission are to be appointed by the Governor with the advice and consent of the Senate. Previously, after the initial round of appointments mandated by Public Act 97-18 (summarized above), the Commission was required to either reappoint or appoint new Arbitrators.

Public Act 98-30 – Effective June 28, 2013

This legislation made four changes to the Workers' Compensation Act. The bill directs the Commission to post its informational handbook on its website and removes the mandate that the Commission send a copy of the handbook to each injured worker who is the subject of an accident report.

The bill eliminates the $35 fee paid by parties who appeal decisions from the Commission to the Circuit Court. Instead, parties who wish to appeal a Commission decision issued the

effective date of the legislation must file with the Commission a Notice of Intent to File for Review in Circuit Court. The remaining monies in the Transcript Deposit Fund are required to be transferred by the Secretary of the Commission to the Injured Workers' Benefit Fund within 60 days after effective date.

The bill requires the Commission to furnish language interpreters for petitioners who do not speak English, do not have an attorney, do not have their own interpreter, and are signing settlement contracts.

Finally, the bill provides that all persons appointed to be Arbitrators must demonstrate their knowledge and experience with the Workers' Compensation Act in writing. It also eliminates erroneous references to the Personnel Code. Pursuant to Public Act 97-719, all Arbitrators are appointed by the Governor with the advice and consent of the Senate.

RULEMAKING AFFECTING THE OPERATIONS OF THE COMMISSION

Updates to the Medical Fee Schedule Rule – 50 Ill. Adm. Code 7110.90 – Effective November 5, 2012

Public Act 97-18 made several changes to Section 8.2 of the Workers' Compensation Act, which sets forth the basis for the Medical Fee Schedule. The Medical Fee Schedule is composed of the reimbursement rate for medical services provided for a compensable workplace injury. The updated rule implements the changes of Public Act 97-18, which included a 30% reduction to the Medical Fee Schedule effective September 1, 2011; a new reimbursement provision for medical implants as 25% above the net manufacturer's invoice price less rebates, plus actual and reasonable customary shipping prices; and a new provision for the reimbursement of out-of-state medical services.

The updated rule also includes accredited Ambulatory Surgical Treatment Facilities (ASTF's) in the Medical Fee Schedule and specifies the organizations providing accreditation. The rule also makes a change to the outlier formula trigger within the Hospital Inpatient: Standard and Trauma and the Hospital Outpatient Surgical Facility fee schedules that reflect the 30% fee schedule reduction effective September 1, 2011.

Implementing Price Controls for Physician Dispensed Drugs – 50 Ill. Adm. Code 7110.90 – Effective November 20, 2012

This rule change implements Section 8.2(a-3) of the Workers' Compensation Act by specifying that when a prescription dispensed outside of a licensed pharmacy is repackaged, the Average Wholesale Price used to determine the maximum reimbursement shall be the Average Wholesale Price for the underlying drug product, as identified by its National Drug Code (NDC) from the original labeler.

Pursuant Section 8.2(a-3) of the Act, only prescriptions dispensed outside of a licensed pharmacy are subject to a fee schedule. The fee schedule sets the maximum reimbursement levels for these prescriptions. For prescriptions dispensed outside of a licensed pharmacy, Section 8.2(a-3) provides that the fee schedule shall not exceed the Average Wholesale Price, plus a dispensing fee of $4.18. Average Wholesale Price is determined by the NDC set forth in Medispan.

The rule change addresses a practice known as "repackaging" which means that the prescription will be purchased and then repackaged in different quantities. It is then given a new NDC number with a higher Average Wholesale Price. Thus, the "repackaging" avoids the original NDC from the original labeler. "Repackaged" drugs are typically dispensed by physicians in their offices.

Update the Commission Review Board Rule – 50 Ill. Adm. Code 7500 – Effective December 4, 2012

This rule change addresses a finding in the audit directed pursuant to House Resolution 131 of the 97th General Assembly. Specifically, the audit stated that the Commission Review Board has failed to comply with Section 7500.10 of the Commission's rules, which requires the Commission Review Board to call a meeting within fifteen days of receipt of any complaint against an Arbitrator or Commissioner.

In its response to the audit, the Commission pointed to the logistical challenge of both posting and holding a meeting for every complaint received by the Commission, as many of the communications received by the Commission Review Board do not constitute complaints as defined in the rule. Thus, the updated rule creates a process where the General Counsel of the Commission evaluates all communications received and determines whether the communication is a complaint within the meaning of the rule. Any complaints will then be considered by the Board during its next regularly scheduled meeting. Other changes updated in this rule include the correction of outdated statutory references, typographical errors, and clarification of confusing and redundant language.

Procedures for Drug and Alcohol Testing – 50 Ill. Adm. Codes 9140 – Effective November 5, 2012

These new rules implement Public Act 97-18. Public Act 97-18 amended Section 11 of the Workers' Compensation Act to provide that an employee will not receive workers' compensation benefits if the employee's intoxication is the proximate cause of the employee's accidental injury or at the time the employee incurred the accidental injury, the employee was so intoxicated that the intoxication constituted a departure from the employment.

Public Act 97-18 also requires that any testing for drugs and alcohol be performed in accordance with rules to be adopted by the Commission. Section 11 mandates that these

rules follow several specific guidelines, including compliance with regulations promulgated by the United States Department of Transportation; that samples are collected and tested in a manner reasonably calculated to ensure sample reliability and to provide erroneous identification of test result, and that split testing procedures are utilized.

The new rules set forth the process for the collection of blood, urine, breath, and saliva. These rules include requirements for documentation, transportation, and disposal of samples collected, as well as associated records. The rules also set forth the qualifications for those collecting samples.

Update to the Bases for Disqualification of Arbitrator and Commissioners – 50 Ill. Adm. Code 7030.30 – Effective December 4, 2012

This updated rule also addresses an audit finding in the audit directed pursuant to House Resolution 131. Specifically, the audit found that the current version of Section 7030.30 conflicts with the changes of Public Act 97-18. Public Act 97-18 provided that the Canons of Judicial Conduct as adopted by the Illinois Supreme Court apply to the hearing and non-hearing conduct of the Arbitrators and Commissioner. Thus, the updated rule changes Section 7030.30 to align the bases for disqualification and also the remittal of a disqualification by and Arbitrator or Commissioner with the provisions of Canon 3 of the Canons of Judicial Conduct.

In addition, the updated rule creates a formalized process for the filing of a Petition for Substitution of an Arbitrator or Commissioner. There is one published Appellate Court opinion that calls on the Commission to promulgate such a rule, Preston v. Industrial Commission, 332 Ill. App. 3d 708 (3rd Dist. 2002). In that case, a Commissioner who was subject to a petition to disqualify sat on the panel that ruled on the Petition. While the majority found no error in the hearing process, the Court recommended that the Commission promulgate a rule to address the procedural handling of petitions to disqualify Commissioners.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
AGENCY FUNCTIONS AND PLANNING PROGRAM (Not Examined)

CHAIRMAN AND COMMISSIONERS

The Commission's Chairman and Commissioners during the two year period ended June 30, 2013 are as follows:

<table>
<tr><th colspan="4">CHAIRMAN</th></tr>
<tr><td colspan="4">Michael Latz, Chairman (3/22/13 to Current)
Mitch Weisz, Chairman (3/22/10 to 3/21/13)</td></tr>
<tr><td colspan="4">COMMISSIONERS
(During the Examination Period)</td></tr>
<tr><td rowspan="2">Employee representatives:</td><td rowspan="2">Thomas Tyrell</td><td rowspan="2">David Gore</td><td>Molly Mason (through 10/16/11)</td></tr>
<tr><td>Charles DeVriendt (from 10/17/11)</td></tr>
<tr><td rowspan="3">Public representatives:</td><td rowspan="3">Daniel Donohoo</td><td>James DeMunno (through 10/16/11)</td><td>Yolaine Dauphin (through 3/21/13)</td></tr>
<tr><td>Michael Latz (10/17/11 – 3/21/13)</td><td rowspan="2">Michael Brennan (from 8/26/13)</td></tr>
<tr><td>Vacant (since 3/22/13)</td></tr>
<tr><td rowspan="2">Employer representatives:</td><td rowspan="2">Kevin Lamborn</td><td rowspan="2">Mario Basurto</td><td>Nancy Lindsay (through 11/6/11)</td></tr>
<tr><td>Ruth White (from 11/17/11)</td></tr>
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STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
AVERAGE NUMBER OF EMPLOYEES (Not Examined)

	For Fiscal Years Ended June 30		
	2013	2012	2011
Administrative – General	83	86	88
Arbitrators	28	29	31
Court Reporters	23	24	27
Electronic Data Processing	8	9	9
Accident Reporting	-	1	1
Insurance Compliance	8	7	7
Administrative Exempt	3	3	3
Self-Insurers' Administration Fund	3	3	4
Self-Insurers' Security Fund	1	1	1
Total Average Employees	157	163	171
Commissioners, including the Chairman	9	10	10

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

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SERVICE EFFORTS AND ACCOMPLISHMENTS (Not Examined)
For the Two Years Ended June 30, 2013

ANALYSIS OF WORKERS' COMPENSATION CASES

	Fiscal Years Ended June 30,		
CASE LOAD VOLUME	2013*	2012	2011
Summary			
Cases Pending at Beginning of Year	94,418	93,906	92,495
New Cases Filed During the Year	43,224	46,689	50,381
Cases Reinstated During the Year	2,100	2,119	2,166
Total Cases to be Processed	139,742	142,714	145,042
Deduct Cases Closed During Year	(45,750)	(48,296)	(51,136)
CASES PENDING AT YEAR END	93,992	94,418	93,906
ANALYSIS OF CASES FILED			
Application for Arbitration	37,173	40,596	42,883
Original Applications for Approval of Settlement Contracts	6,051	6,093	7,498
TOTAL NEW CASES FILED	43,224	46,689	50,381
ANALYSIS OF CASES CLOSED			
By Arbitrators and Commissioners			
Dismissed at Review	150	175	117
Dismissed by Applicants at Arbitration	500	587	569
Dismissed for Want of Prosecution at Arbitration	4,300	4,422	4,930
By Decisions of Arbitrators and Commissioners	2,400	2,178	2,196
By Approval of Settlement Contracts and Lump Sum Settlements	38,400	40,934	43,324
TOTAL CASES CLOSED	45,750	48,296	51,136

* Estimated as of June 30.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SERVICE EFFORTS AND ACCOMPLISHMENTS (Not Examined)
For the Two Years Ended June 30, 2013

ANALYSIS OF WORKERS' COMPENSATION CASES

ANALYSIS OF CASES	Fiscal Years Ended June 30, 2013*	2012	2011
Cases Pending at Beginning of Year	67.57%	65.80%	63.77%
New Cases Filed During the Year	30.93%	32.72%	34.74%
Cases Reinstated During the Year	1.50%	1.48%	1.49%
Total Cases to be Processed	100.00%	100.00%	100.00%

	2013-2012 Increase/(Decrease)		2012-2011 Increase/(Decrease)	
	No. of Cases	%	No. of Cases	%
Total Cases to be Processed	(2,972)	-2.08%	(2,328)	-1.61%
Deduct Cases Closed During the Year	2,546	-5.27%	2,840	-5.55%
Cases Pending at Year End	(426)	-0.45%	512	0.55%

* Estimated as of June 30.