



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND

Financial Audit
For the Year Ended June 30, 2021

Release Date: August 18, 2022

FINDINGS THIS AUDIT: 2	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	1	1	2020	21-01	21-02	
Category 2:	0	1	1				
Category 3:	0	0	0				
TOTAL	0	2	2				
FINDINGS LAST AUDIT: 2							

INTRODUCTION

This digest covers the financial audit of the Self-Insurers Security Fund as of and for the year ended June 30, 2021, and the findings arising from the financial audit reported pursuant to *Government Auditing Standards*. A separate digest covers the Commission's compliance examination for the two years ended June 30, 2021.

SYNOPSIS

- **(21-01)** The Commission did not ensure all events and transactions impacting the Self-Insurers Security Fund were appropriately recorded in its internal accounting records and presented fairly in its financial statements.

EMPHASIS OF MATTER

As discussed in Note 16 to the financial statements, the Self-Insurers Security Fund has a total net position (deficit) of (\$5,951,591) as of June 30, 2021. This deficit, which is presented on an accrual basis, is the excess of total liabilities and deferred inflows of resources over total assets and deferred outflows of resources. Management of the Commission stated that, subject to approval by the Self-Insurers Advisory Board (Board) established within the Commission, future assessments will be used to meet Fund 940's obligations in the future (Independent Auditor's Report on page 5 and Note 16 on page 46).

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| <p>Category 1: Findings that are material weaknesses in internal control and/or a qualification on compliance with State laws and regulations (material noncompliance).</p> <p>Category 2: Findings that are significant deficiencies in internal control and noncompliance with State laws and regulations.</p> <p>Category 3: Findings that have no internal control issues but are in noncompliance with State laws and regulations.</p> |
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**ILLINOIS WORKERS' COMPENSATION COMMISSION
 SELF-INSURERS SECURITY FUND
 FINANCIAL AUDIT
 For the Year Ended June 30, 2021**

STATEMENT OF NET POSITION (DEFICIT)	2021	2020
Assets and Deferred Outflows of Resources		
Restricted Cash Equity in the State Treasury.....	\$ 16,159,149	\$ 17,076,389
Restricted Cash and Cash on Hand.....	1,265	163
Restricted Accounts Receivable.....	-	3,186
Restricted Assessments Receivable.....	-	30,648
Restricted Accrued Interest Receivable.....	3,852	12,744
Restricted Excess Insurance Receivable.....	118,280	113,872
Securities Lending Collateral Equity with the State Treasurer	5,598,874	5,296,114
Prepaid Benefits with the Third-Party Administrator.....	247,903	105,435
Due from Other Funds.....	2,020,810	2,013,611
Deferred Outflow of Resources - Pension and OPEB.....	1,813,013	259,582
Total Assets and Deferred Outflows of Resources.....	<u>\$ 25,963,146</u>	<u>\$ 24,911,744</u>
Liabilities and Deferred Inflows of Resources		
Accounts Payable and Accrued Liabilities.....	\$ 18,572	\$ 19,228
Compensated Absences.....	34,894	30,362
Obligations Under Securities Lending of the State Treasurer..	5,598,874	5,296,114
Security Deposits.....	677,457	675,302
Unearned Security Deposits.....	17,527,499	17,606,443
Unpaid Claims.....	4,578,019	5,642,626
Net Pension Liability.....	1,987,515	667,881
Net OPEB Liability.....	1,255,165	563,370
Due to Other Funds.....	17,237	17,237
Deferred Inflow of Resources - Pension and OPEB.....	219,505	170,811
Total Liabilities and Deferred Inflows of Resources.....	<u>\$ 31,914,737</u>	<u>\$ 30,689,374</u>
Net Position (Deficit)		
Total Net Position (Deficit).....	\$ (5,951,591)	\$ (5,777,630)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (DEFICIT)	2021	2020
Operating Revenues		
Total Operating Revenues.....	\$ 1,031	\$ 1,239,970
Operating Expenses		
Total Operating Expenses.....	177,321	1,007,381
Nonoperating Revenues		
Total Nonoperating Revenues.....	2,329	12,588
Change in Net Position (Deficit).....	<u>(173,961)</u>	<u>245,177</u>
Net Position (Deficit), Beginning of Year.....	<u>(5,777,630)</u>	<u>(6,022,807)</u>
Net Position (Deficit), End of the Year.....	\$ (5,951,591)	\$ (5,777,630)

COMMISSION CHAIR
During Examination Period: Mr. Michael Brennan
Currently: Mr. Michael Brennan

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**ACCOUNTING AND FINANCIAL REPORTING
PROBLEMS**

The Illinois Workers' Compensation Commission (Commission) did not ensure all events and transactions impacting the Self-Insurers Security Fund (Fund 940) were appropriately recorded in its internal accounting records and presented fairly in its financial statements.

Draft financial statements had several errors and omissions

During initial testing, we noted amounts recorded within Fund 940's financial statements did not internally tie out among the various statements. These errors included:

- Fund 940's ending net position within its Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position did not agree by \$4,066.
- Fund 940's operating income(loss) within its Statement of Cash Flows and Statement of Revenues, Expenses, and Changes in Net Position did not agree by \$40,151.

After completing our testing to identify the causes of these problems, we determined the Commission made the following eight accounting and three classification errors:

Unrecorded contributions to the pension system

- The Commission did not record deferred outflows of contributions to the State Employees Retirement System of Illinois (SERS), totaling \$4,352, paid during the State's Lapse Period.

Duplicate entries

- The Commission made a duplicate entry for a refund from SERS of excess Fiscal Year 2019 contributions, totaling \$411.
- The Commission made a duplicate entry for a refund payable of an overpayment of an assessment by a self-insurer, totaling \$3,366.

Improper accounting for the settlement of a prior period refund

- The Commission did not properly account for the settlement of a prior period refund payable to an excess insurer during the current period, totaling \$4,396.

Unrecorded accounts receivable

- The Commission did not identify and record all of Fund 940's miscellaneous accounts receivable, totaling \$1,284.

Inaccurate supporting schedules allocating activity within Fund 940

- The Commission's supporting schedule for cash activity and interest allocations within each insolvent self-insurer's security deposits account, Fund 940's account, and excess insurance activity was not completely accurate. Also, the Commission did not consider whether events subsequent to June 30, 2021, which provided new

Subsequent events not considered

evidence about the Fund's estimated liabilities, were reflected in Fund 940's draft financial statements as of and for the year ended June 30, 2021. The net effect of these errors was an overstatement of four accounts, including total unpaid claims by \$784,224, total unearned security deposits by \$152, benefit claims expense by \$779,612, and excess insurance receivable by \$4,764.

Duplicate entry for the collection of an account receivable

- The Commission made a duplicate entry for the collection of a miscellaneous receivable, totaling \$2,057.
- The Commission did not record the settlement of \$59 due to the Rate Adjustment Fund from Fund 940 during Fiscal Year 2021.

Improper classifications of current and noncurrent liabilities

- The Commission did not properly classify current and noncurrent liabilities within Fund 940. We noted the following:
 - The current net other postemployment (OPEB) liability was overstated and the noncurrent net OPEB liability was understated by \$640,803.
 - Current unearned security deposits were understated, while noncurrent unearned security deposits were overstated, by \$6,829.
 - Current unpaid claims were understated, while noncurrent unpaid claims were overstated, by \$86,990.

We proposed, and the Commission posted, adjusting entries to correct these errors in Fund 940's final financial statements. (Finding 1, pages 50-52)

Auditor's Recommendation

We recommended the Commission continue its efforts to fully understand and appropriately record and report transactions and events impacting Fund 940. Further, we recommended the Commission ensure all transactions and events impacting Fund 940 are recorded and reported in strict adherence with the generally accepted accounting principles applicable to Fund 940. Additionally, the Commission should ensure an independent supervisory review by an individual with sufficient skills, knowledge, and experience to identify and correct errors is performed during the preparation of Fund 940's supporting schedules, journal entries, and financial statements. Finally, the Commission should monitor and consider whether events subsequent to the end of the fiscal year that occur before the dating of the auditor's report provide new evidence about estimates used to develop Fund 940's draft financial statements which should be adjusted for prior to the issuance of Fund 940's final financial statements.

Commission officials agree

Commission officials agreed with our recommendation.

OTHER FINDING

The remaining finding pertains to census data reconciliations. We will review the Commission's progress towards the implementation of our recommendation in our next financial audit.

AUDITOR'S OPINION

The auditors stated the financial statements of the Fund as of and for the year ended June 30, 2021, are fairly stated in all material respects.

This financial audit was conducted by Roth&Co.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

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

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

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