



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, 2019**

**Release Date: November 21, 2019**

FINDINGS THIS AUDIT: 1	AGING SCHEDULE OF REPEATED FINDINGS			
	New	Repeat	Total	
<b>Category 1:</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>No Repeat Findings</b>
<b>Category 2:</b>	<b>1</b>	<b>0</b>	<b>1</b>	
<b>Category 3:</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>TOTAL</b>	<b>1</b>	<b>0</b>	<b>1</b>	
<b>FINDINGS LAST AUDIT: 1</b>				

**INTRODUCTION**

This digest covers the financial audit of the Self-Insurers Security Fund (Fund) as of and for the year ended June 30, 2019. The Fund is overseen by the Illinois Workers' Compensation Commission (Commission). A compliance examination of the entire Commission for the two years ended June 30, 2019, will be issued in a separate report at a later date.

**SYNOPSIS**

- **(19-01)** The initial financial statements of the Fund provided to the auditors by the Commission had an unreconciled error of \$80,291 on the face of the financial statements.

**EMPHASIS OF MATTERS**

- As discussed in Note 15 to the financial statements, the Fund had a total net position (deficit) of (\$5,588,065) as of June 30, 2019. 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 Board approval, future assessments will be used to meet the Fund's obligations in the future.
- As discussed in Note 2(M) to the financial statements, the Fund recorded unpaid claims of \$7,201,478 as of June 30, 2019, that were determined from an actuarial analysis performed by the Commission's actuary. As discussed in Note 14(B) to the financial statements, the actuary did not calculate an estimate for four types of speculative losses due to significant uncertainty in estimating these contingencies arising from the Fund's limited historical claim experience to date. Given these conditions, it is possible the Fund may experience additional losses than currently reserved for in Fund 940's unpaid claims liability at June 30, 2019.

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

{Expenditures and Activity Measures are summarized on next page.}

**ILLINOIS WORKERS' COMPENSATION COMMISSION**  
**SELF-INSURERS SECURITY FUND**  
**FINANCIAL AUDIT**  
**For the Year Ended June 30, 2019**

<b>STATEMENT OF NET POSITION (DEFICIT)</b>	<b>2019</b>	<b>2018</b>
<b>Assets and Deferred Outflows of Resources</b>		
Restricted Cash Equity in the State Treasury.....	\$ 18,389,786	\$ 18,970,931
Restricted Cash and Cash Equivalents.....	100	100
Restricted Assessments Receivable.....	-	940
Restricted Accrued Interest Receivable.....	33,900	30,760
Restricted Excess Insurance Receivable.....	111,352	89,117
Securities Lending Collateral Equity with the State Treasurer	4,970,000	7,690,000
Deferred Outflow of Resources - Pension and OPEB.....	234,351	359,659
Total Assets and Deferred Outflows of Resources.....	\$ 23,739,489	\$ 27,141,507
<b>Liabilities and Deferred Inflows of Resources</b>		
Accounts Payable.....	\$ 21,234	\$ 43,527
Obligations Under Securities Lending of the State Treasurer..	4,970,000	7,690,000
Security Deposits.....	657,189	750,952
Unearned Security Deposits.....	14,994,105	14,868,965
Unpaid Claims.....	7,201,478	6,526,363
Compensated Absences.....	23,125	20,193
Net Pension Liability.....	694,185	658,141
Net OPEB Liability.....	561,305	578,534
Deferred Inflow of Resources - Pension and OPEB.....	204,933	259,209
Total Liabilities and Deferred Inflows of Resources.....	\$ 29,327,554	\$ 31,395,884
<b>Net Position (Deficit)</b>		
Total Net Position (Deficit).....	\$ (5,588,065)	\$ (4,254,377)

<b>STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (DEFICIT)</b>	<b>2019</b>	<b>2018</b>
<b>Operating Revenues</b>		
Assessments.....	\$ -	\$ -
Security Deposits Drawn.....	74,994	(798,554)
Total Operating Revenues.....	\$ 74,994	\$ (798,554)
<b>Operating Expenses</b>		
Total Operating Expenses.....	\$ 1,526,495	\$ (537,684)
<b>Nonoperating Revenues</b>		
Interest Income.....	\$ 117,813	\$ 82,735
Total Nonoperating Revenues.....	\$ 117,813	\$ 82,735
Change in Net Position (Deficit).....	(1,333,688)	(178,135)
Net Position (Deficit), Beginning of Year.....	(4,254,377)	(4,076,242)
Net Position (Deficit), End of the Year.....	\$ (5,588,065)	\$ (4,254,377)

<b>COMMISSION CHAIR</b>
During Examination Period: Ms. Joann Fratianni (7/1/18 - 3/14/19); Mr. Michael Brennan (effective 3/15/19)
Currently: Mr. Michael Brennan

## **FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS**

### **UNRECONCILED ERROR IN THE DRAFT FINANCIAL STATEMENTS**

The initial financial statements of the Self-Insurers Security Fund (Fund) provided to the auditors by the Illinois Workers' Compensation Commission (Commission) had an unreconciled error of \$80,291 on the face of the financial statements.

**\$80,291 unreconciled difference in  
the draft financial statements**

**Errors identified in three accounts**

During testing, we noted the net position (deficit) reported on the Fund's Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position differed by \$80,291 in its draft financial statements. Commission management ultimately determined this unreconciled difference was due to errors within its pension, other post-employment benefits, and security deposits drawn accounts. The Commission corrected this error in the Fund's final financial statements. (Finding 1, page 50)

We recommended the Commission improve its internal financial statement review process to identify and correct unreconciled misstatements prior to submitting the financial statements for audit.

**Commission officials agree**

Commission officials agreed with the recommendation.

We will review the Commission's progress towards the implementation of our recommendation in our next financial audit.

### **EMPHASIS OF MATTERS**

The auditors had two significant, non-standard emphasis of matters within the Independent Auditor's Report (pages 4-6).

First, as discussed in Note 15 to the financial statements, the Fund had a total net position (deficit) of (\$5,588,065) as of June 30, 2019. 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 Board approval, future assessments will be used to meet the Fund's obligations in the future.

Second, as discussed in Note 2(M) to the financial statements, the Fund's recorded unpaid claims of \$7,201,478 as of June 30, 2019, were determined from an actuarial analysis performed by the Commission's actuary. As discussed in Note 14(B) to the financial statements, the actuary did not calculate

an estimate for four types of speculative losses due to significant uncertainty in estimating these contingencies arising from Fund 940's limited historical claim experience to date. Given these conditions, it is possible Fund 940 may experience additional losses than currently reserved for in Fund 940's unpaid claims liability at June 30, 2019.

**AUDITOR'S OPINION**

The auditors stated the financial statements of the Fund as of and for the year ended June 30, 2019, are fairly stated in all material respects.

This financial audit was conducted by E. C. Ortiz & Co., LLP.

**SIGNED ORIGINAL ON FILE**

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JANE CLARK  
Division Director

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

**SIGNED ORIGINAL ON FILE**

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FRANK J. MAUTINO  
Auditor General

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