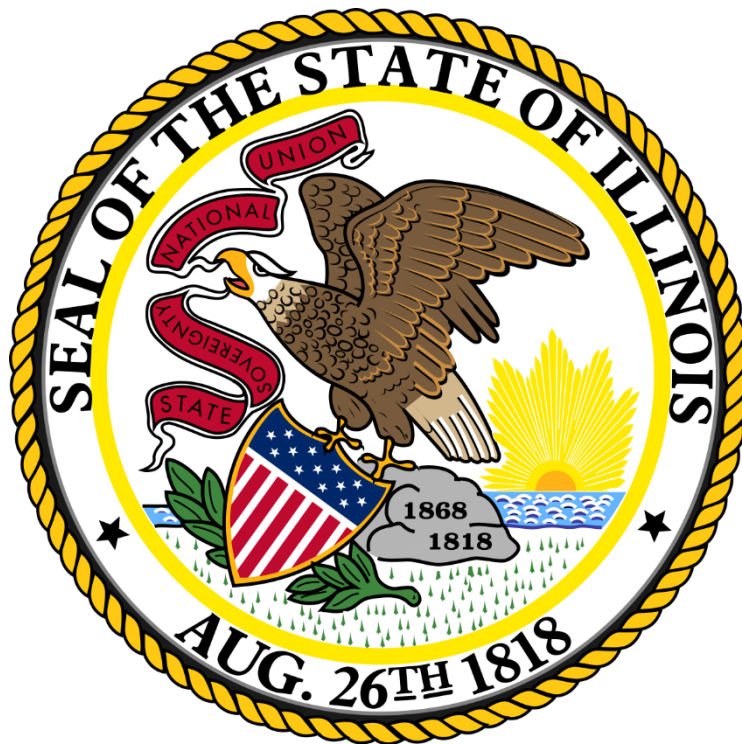


LEGISLATIVE AUDIT COMMISSION



Review of
Illinois Workers' Compensation Commission

622 Stratton Office Building
Springfield, Illinois 62706
217/782-7097

REVIEW #4545: IL Workers' Compensation Commission – FY20/21 Compliance

REVIEW: 4545
ILLINOIS WORKERS' COMPENSATION COMMISSION
TWO YEARS ENDED
JUNE 30, 2021

RECOMMENDATIONS – 23
PARTIALLY IMPLEMENTED – 9
UNDER STUDY - 7
IMPLEMENTED – 6
NOT ACCEPTED– 1

REPEATED RECOMMENDATIONS – 12

PRIOR AUDIT FINDINGS/RECOMMENDATIONS – 14

This review summarizes the auditors' report of the Illinois Workers' Compensation Commission for the two years ended June 30, 2021, filed with the Legislative Audit Commission on August 18, 2022. The auditors conducted a compliance examination in accordance with state law and Government Auditing Standards.

The Illinois Workers' Compensation Commission (IWCC or WCC) administers the Workers' Compensation Act and the Workers' Occupational Disease Act. The Self-Insurers' Advisory Board, established within the Commission, was created for the purpose of administering the Self-Insurers' Security Fund.

The mission of the IWCC 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.

The IWCC consists of ten members appointed by the Governor with the consent of the Senate. Of the ten members, three are representatives of employers and three are employees covered under the Act, and four are representative citizens not identified with either employers or employees. The Chairman is selected by the Governor from the group of persons not identified with employers or employees. The Chairman has general supervisory authority over all the Commission's personnel. Not more than six of the Commissioners shall come from the same political party.

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

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regularly constituted courts as legal evidence; its decisions are final unless an appeal is made to the Courts.

Chair Michael Brennan, CFO Paul Fichtner and General Counsel Ronald Rascia are the IWCC Officials during the audit.

Commission members include:

- Chair Mike Brennan;
- Maris Portela;
- Stephen Mathis;
- Carolyn Doherty;
- Thomas Tyrrell (Member Rep for Employees);
- Deborah Baker (Member Rep for Employees);
- Marc Parker (Member Rep for Employees);
- Kathryn Doerries (Employers);
- Deborah Simpson (Employers);
- Christopher Harris (Employers)

The IWCC's primary offices are located:

- 122 S. Michigan Ave FL 19 (formerly 69 West Washington, Suite 900) – Chicago;
- 401 Main Street, Suite 640 – Peoria;
- 400 South 9th St (formerly 4500 South 6th Frontage Road)– Springfield;
- Rockford; and
- Collinsville.

CompFile

CompFile is the IWCC's e-filing system for managing workers' compensation cases. The IWCC contracted with Microsoft to implement the CompFile system and kicked off the project in the summer of 2019.

CompFile includes the following features:

- Online accounts for attorneys;
- Electronic filing of applications and other litigation documents;
- Electronic submission of settlement contracts;
- Electronic delivery of notices and decisions;
- Secure, online access to case information and documents;

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- Some key benefits of CompFile include reduced usage of paper, real-time access to court filings and documents, immediate verification of successful filing, and electronic service of documents on counsel.

Appropriations and Expenditures

In FY23, the IWCC was appropriated \$30.1 million in OSF (Other State Funds)

According to the FY22 SERS Headcount, IWCC was between 126 -137 employees.

The IWCC has approp authority over the following funds:

- Second Injury Fund (Fund 431);
- Illinois Workers' Compensation Commission Operations Fund (Fund 534); and
- Rate Adjustment Fund (Fund 685).

Key Performance Indicators

Program Name	Measure Name	FY19 Actual	FY20 Actual	FY21 Actual	FY22 Estimated	FY23 Projected
Compliance with Anti-Discrimination Policies	State agencies in compliance with affirmative action guidelines	95%	95%	95%	95%	95%
Housing Discrimination Charge Investigation, Resolution and Enforcement	Average number of days to resolve housing cases	179	180	228	200	190
Non-Housing Discrimination Charge Investigation and Resolution	Average number of days to resolve non-housing cases	292	300	368	350	330
Training and Outreach on Human Rights Act	Participants satisfied in human rights training	98%	98%	94%	94%	94%

Source: FY23 GOMB Budget Book.

Accountants' Findings and Recommendations

Condensed below are the 23 findings and recommendations included in the audit report. Of these, 12 are repeated from the previous audit. The following recommendations are classified on the basis of information provided by the Illinois Workers' Compensation Commission, via electronic mail received August 18, 2022.

- 1. The auditors recommend IWCC continue its efforts to fully understand and appropriately record and report transactions and events impacting Fund 940. Further, the auditors recommend 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, IWCC 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, IWCC 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.**

FINDING: *(Accounting and Financial Reporting Problems) – First and last reported 2020*

IWCC 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.

During initial testing, auditors 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, auditors determined IWCC made the following eight accounting and three classification errors:

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

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- WCC did not properly account for the settlement of a prior period refund payable to an excess insurer during the current period, totaling \$4,396.
- WCC did not identify and record all of Fund 940's miscellaneous accounts receivable, totaling \$1,284.
- WCC'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, WCC did not consider whether events subsequent to June 30, 2021, which provided new 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.
- WCC made a duplicate entry for the collection of a miscellaneous receivable, totaling \$2,057. • WCC did not record the settlement of \$59 due to the Rate Adjustment Fund from Fund 940 during FY21.
- WCC did not properly classify current and noncurrent liabilities within Fund 940.

The auditors 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.

Auditors proposed, and WCC posted, adjusting entries to correct these errors in Fund 940's final financial statements.

IWCC officials indicated these problems were due to oversight.

COMMISSION RESPONSE:

IWCC agrees with the finding. Familiarity with the new accounting template has contributed to a reduction in issues compared to previous years. The Commission's fiscal staff will continue to work to reduce the remaining issues.

IWCC would like to note the financial statements have been corrected and now tie out based on correcting all accounting and classification errors listed in this finding.

UPDATED RESPONSE:

Implemented. Fiscal has received a new accounting template and has successfully worked toward implementation of the recommendations.

- 2. The auditors recommend IWCC work with SERS to develop an annual reconciliation process of its active members' census data from its underlying**

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records to a report of the census data submitted to each plan's actuary. After completing an initial full reconciliation, IWCC may limit the annual reconciliation to focus on the incremental changes to the census data file from the prior actuarial valuation, provided no risks are identified that incomplete or inaccurate reporting of census data may have occurred during prior periods.

FINDING: *(Inadequate Controls over Census Data) – First and last reported 2020*

IWCC did not have a reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits (OPEB) plans was complete and accurate for the Self-Insurers Security Fund (Fund).

Auditors noted WCC's employees within the Fund are members of both the State Employees' Retirement System of Illinois (SERS) for their pensions and the State Employees Group Insurance Program sponsored by the State of Illinois, CMS for their OPEB. In addition, auditors noted these plans have characteristics of different types of pensions and OPEB plans, including single employer plans and cost-sharing multiple-employer plans. Finally, the auditors noted CMS' actuaries use SERS' census data records to prepare the OPEB actuarial valuation.

During testing, auditors noted the following:

- 1) WCC had not performed an initial complete reconciliation of its census data recorded by SERS to its internal records to establish a base year of complete and accurate census data.
- 2) After establishing a base year, WCC had not developed a process to annually obtain from SERS the incremental changes recorded by SERS in their census data records and reconcile these changes back to the Commission's internal supporting records.

WCC officials indicated these exceptions were due to the lack of a Statewide reconciliation process before FY22.

Failure to reconcile active members' census data reported to and held by SERS to the Commission's records could result in each plan's actuary relying on incomplete or inaccurate census data in the calculation of the Fund's pension and OPEB balances, which may result in a misstatement of these amounts.

COMMISSION RESPONSE:

WCC agrees with the finding. The census reconciliation has been completed for Fiscal Year 2022 and, upon notification from SERS for additional reconciliations, WCC will prepare future reconciliations in a timely manner. However, we would like to note for the record that all of the agencies audited for this issue (12 primary government agencies and all nine universities) were issued this same finding.

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UPDATED RESPONSE:

Implemented.

- 3. The auditors recommend IWCC review the design and operation of its internal controls over receipt processing and implement corrective action to ensure receipts are promptly remitted to correct account within the State Treasury, books and records are maintained in strict compliance with the Act, all revenue sources have a receipt code, and the annual Report is complete and accurate.**

FINDING: *(Inadequate Controls over Receipts) – First reported 2017, last 2019*

IWCC lacked adequate internal control over its cash receipts and annual Agency Fee Imposition Report (Report).

During testing of 40 regular receipts and 18 refund receipts, auditors noted the following:

- Seven of 40 (18%) regular receipts tested, totaling \$309,282, and 1 of 18 (6%) refund receipts tested, totaling \$100, did not have the date when the receipt was received by WCC. As such, the auditors could not determine if the receipt was deposited timely by WCC.
- Two of 40 (5%) regular receipts tested, totaling \$19,606, and 1 of 18 (6%) refund receipts tested, totaling \$230, were deposited after WCC's 10-day extension to deposit its receipts, between one to three business days late.
- Four of 40 (10%) regular receipts tested, totaling \$241,894, were charged against a receipt code which did not reflect the purpose of the receipt. These receipts were erroneously reported as fines, penalties, or violations when the receipts were for the annual fee collected from self-insurers under the Workers' Compensation Act (820 ILCS 305/4d).
- One of 18 (6%) refund receipts tested, totaling \$600, was erroneously reported as fines, penalties, or violations when the receipt was a returned overpayment to a vendor.
- The corresponding Form C-64 for 2 of 40 (5%) receipts tested, totaling \$29,053, were submitted to the Comptroller's Office between 40 to 45 days after receiving the receipt's associated Treasurer's Draft from the Treasurer's Office.

During testing, auditors noted some of WCC's receipt types lacked a corresponding receipt source code within the State's Chart of Accounts. The auditors noted the following:

- WCC did not have a receipt source code for reimbursements from employers for benefits paid deposited into the Injured Workers' Benefit Fund collected pursuant to the Workers' Compensation Act (820 ILCS 305/4(d)).
- WCC did not have a receipt source code for penalties deposited into the Second Injury Fund and the Rate Adjustment Fund collected pursuant to the Workers' Compensation Act (820 ILCS 305/7(f)) (see Finding 2021-022 for more information on this penalty).

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- WCC did not have sufficient receipt codes to differentiate the various types of cash collections within the Self-Insurers Security Fund to facilitate the preparation of its cash flows statement in accordance with accounting principles generally accepted within the United States of America (U.S. GAAP).

During testing, auditors noted WCC's Report for both FY20 and FY21 had significant problems. Auditors noted the following:

FY20 Report

- WCC excluded June 2020 receipts from its total fees collected during the year within the Second Injury Fund and the Illinois Workers' Compensation Commission Operations Fund.
- WCC excluded receipts from July 2019 through May 2020 from its total fees collected during the year within the Rate Adjustment Fund.
- WCC did not consider the impact of in-transit deposits at the beginning and the end of the year within its reported fees within the Self-Insurers Security Fund, Self-Insurers Administration Fund, and Injured Workers' Benefit Fund.

FY21 Report

- Auditors noted unreconciled differences of \$2,210, \$25,796, and \$48,036 within the reported fees collected for the Second Injury Fund, Rate Adjustment Fund, and Illinois Workers' Compensation Commission Operations Fund.
- WCC did not consider the impact of in-transit deposits at the beginning and the end of the year within its reported fees within the Self-Insurers Security Fund, Self-Insurers Administration Fund, and Injured Workers' Benefit Fund.

Finally, this finding was first noted during WCC's compliance examination for the period ended June 30, 2017, over four years ago. As such, WCC management has been unsuccessful in implementing a corrective action plan to remedy these problems.

WCC's management team is responsible for implementing timely corrective action on all of the findings identified during a state compliance examination.

WCC officials indicated these exceptions were due to staff error and personnel inefficiencies caused by the COVID-19 pandemic.

COMMISSION RESPONSE:

WCC agrees with the finding. Personnel inefficiencies due to the COVID-19 pandemic contributed to this finding.

UPDATED RESPONSE:

Partially implemented. Lack of COVID related personnel inefficiencies will reduce this finding going forward.

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4. **The auditors recommend IWCC review the design and operation of its internal controls over accounts receivable to ensure it timely pursues and attempts to collect amounts due to IWCC, including by referring amounts due to IDROP and the Bureau. In addition, IWCC should implement controls to ensure its quarterly Form C-97 reports are complete and accurate.**

FINDING: *(Inadequate Controls over Accounts Receivable) – First and last reported 2019*

IWCC did not (1) sufficiently monitor and pursue collection on accounts receivable or (2) properly report its accounts receivable to the Comptroller's Office.

During testing of 40 accounts receivable and 16 tested recipients of benefits paid from the Rate Adjustment Fund and/or the Second Injury Fund, auditors noted the following:

- Sixteen of 40 (40%) delinquent accounts receivable tested, totaling \$139,915, were not actively monitored and pursued for collection, as follows:
 - Two (5%) tested accounts, totaling \$94,784, were deferred payment plans arising from settlement agreements for the Injured Workers' Benefit Fund between the debtor employer and WCC where the employers had not followed the payment plan. Auditors noted these employers had not made any payments during the examination period and WCC had not referred these receivables to either the IDROP system at the Comptroller's Office and Revenue's Debt Collection Bureau (Bureau).
 - Fourteen (35%) tested accounts, totaling \$45,131, were overpayments of benefits from the Rate Adjustment Fund and/or the Second Injury Fund. Auditors noted WCC had not referred these receivables to either the IDROP system at the Comptroller's Office or the Bureau. Further, WCC did not send timely second notices to 11 of these debtors, as the second notice was provided between 6 and 79 months after the first notice.
- Five of 16 (31%) recipients of benefits from the Rate Adjustment Fund and/or the Second Injury Fund tested had net overpayments, totaling \$10,260, outstanding when their eligibility was terminated. Auditors noted three of the five (19% of the total tested accounts) had outstanding balances and WCC had not sent out a second notice between 6 to 17 months after the date of the first notice.

WCC officials indicated the two employer accounts with deferred payment plans were not followed up on due to employee oversight. Further, officials wrote they do not believe the collection of benefit overpayments paid from the Rate Adjustment Fund and/or Second Injury Fund is good public policy because these persons are typically low income.

During testing of WCC's Quarterly Summary of Accounts Receivable (Form C-97) reports during the examination period, auditors noted the following:

- Eight of eight (100%) quarterly reports for the Self-Insurers Security Fund did not include all accounts receivable, including accounts receivables for assessments, excess insurance, and miscellaneous sources, in the reports. Additionally, it does not appear WCC makes use of all information available, such as reports filed by

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employers for assessments due to other WCC funds, to record and collect on assessments receivable.

- The Injured Workers' Benefit Fund's estimated uncollectible accounts balance was erroneously reported as \$1,442 thousand as opposed to \$1,876 thousand in WCC's Form C-97 report for the first quarter of FY20.
- The Rate Adjustment Fund has several discrepancies across several tested quarters within the Commission's Form C-97s, as noted below:
 - The amount reported as new accounts receivable and collections in the third quarter of FY20 had discrepancies of \$4 thousand and \$5 thousand, respectively, between the Form C-97 report and the Commission's records.
 - The amount reported as new accounts receivable and collections in the fourth quarter of FY20 had discrepancies of \$4 thousand and \$3 thousand, respectively, between the Form C-97 report and WCC's records.
 - The amount reported as new accounts receivable and collections in the first quarter of FY21 had discrepancies of \$37 thousand and \$34 thousand, respectively, between the Form C-97 report and WCC's records.

WCC officials indicated these exceptions were due to inefficiencies related to the COVID-19 pandemic, oversight, and other competing priorities.

COMMISSION RESPONSE:

WCC agrees with the finding. Personnel inefficiencies related to the COVID19 pandemic, oversight, and competing priorities contributed to this finding.

UPDATED RESPONSE:

Partially implemented. A dedicated hire scheduled to start within two months will address this issue.

- 5. The auditors recommend IWCC develop a written high-theft equipment policy. Then, WCC should survey its equipment to identify any obsolete items and transfer them to CMS. Next, WCC should review its remaining property items in use and ensure these items are properly (1) marked with an inventory number and (2) recorded on its property listing. Finally, WCC should process transactions with CMS to clean up its remaining property records so its property records only reflect inventory items in use. Thereafter, officials should monitor its property and the related listing to ensure events and transactions impacting its property are timely recorded.**

Further, auditors recommend WCC ensure property additions, including leasehold improvements and new software, are correctly recorded and all cannibalized equipment is approved for cannibalization by CMS prior to its destruction.

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Finally, the auditors recommend WCC ensure its equipment items with data storage capabilities which may process or store confidential data is protected from exposure with encryption.

FINDING: *(Inadequate Controls over Property) – First reported 2003, last 2019*

IWCC lacked adequate internal control over its equipment.

During the final months of FY21, WCC's Chicago office located in the James R. Thompson Center was relocated to the Richard J. Daley Center and George W. Dunne Cook County Office Building. Testing of equipment was performed on August 4, 2021 and August 5, 2021, more than a month after all of WCC's Chicago offices had completely moved into new locations.

During testing, auditors noted the following:

- During review of the annual inventory, auditors noted WCC officials were unable to locate four computers, with an original acquisition value of \$4,681. The auditors inquired with WCC officials, who indicated they did not believe these computers, including two computers assigned to an arbitrator and a commissioner who routinely handle medical records during litigation, would have had confidential information on the items. However, WCC could not prove these items did not have confidential information on their hard drives or that these computers had been protected with encryption technologies.
- During testing of 120 items, with an acquisition cost of \$279,662, either (1) found in use at WCC traced by auditors to WCC's records or (2) recorded on the Commission's records traced by us to the Commission's facilities, auditors noted the following:
 - Auditors could not locate four (3%) items tested, including two laptops, a time stamp machine, and a cellular phone, with an acquisition cost of \$4,042.
 - Two (2%) items tested, laptops with an acquisition cost of \$2,931, were found in a different location than the location listed in the records.
 - Auditors noted 31 (26%) items tested, including laptops, mailing equipment, monitors, printers, and fax machines, with an acquisition cost of \$33,957, were obsolete.
 - Nine (8%) items tested, including eight laptops and a desktop with an acquisition cost of \$3,674, were not reported by WCC to CMS on its report after completing the annual equipment inventory.
 - Nine (8%) items tested, including a laptop, printers, time stamp machines, and power converters, were found at WCC, but could not be traced to the WCC's property listing. In addition, five (4%) items tested, a time stamp machine, computer docks, and a phone, did not have an inventory tag or other marking of its inventory tag number; as such, auditors could not trace these items to WCC's property listing.
 - One (1%) item tested, a printer with an acquisition value of \$129, was incorrectly listed as a desktop on the Commission's property listing.

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- During voucher testing (see Finding 2021-020 for more information), 4 of 10 (40%) equipment vouchers, totaling \$4,033, for the acquisition of a printer, fan, books, label writer, and video conferencing system, were not recorded on the Commission's property listing. Further, the video conferencing system, with an acquisition cost of \$2,445, was not reported to CMS on WCC's annual report of all equipment items subject to theft and/or with an acquisition cost in excess of \$1,000.
- Twenty-two of 40 (55%) equipment acquisitions tested, including computers and a projector, were incorrectly recorded with an acquisition value of \$52,591 as opposed to \$44,881, resulting in an overstatement of \$7,710.
- WCC did not request approval from CMS prior to cannibalizing 5 of 40 (13%) deleted items tested, including printers, a monitor, and a recorder, with an acquisition value of \$6,873.
- WCC did not update its internal written high-theft equipment policy, but began using a new definition of high-theft equipment to only deem cell phones and computers as high-theft items during FY20. In addition, auditors noted several items – including cameras, global positioning devices, typewriters, check scanners, time stamp machines, projectors, printers, fax machines, and monitors with an acquisition value of less than \$1,000 – were still marked as high-theft on WCC's property listing as of June 30, 2021.
- WCC did not provide documentation delineating the total cost of the CompFile! project, including amounts paid for vendors, equipment, software licenses, and staff time of the Commission (see Finding 2021-007 for more information).
- WCC made tenant improvements and modifications to its space at the Richard J. Daley Center between October 2020 and mid-April 2021 without (1) capitalizing any of these leasehold improvements and (2) starting to recognize depreciation expense for these assets over the remaining 113.5 months of the lease between WCC and PBCC beginning in mid-April 2021 (for more information, see Finding 2021-010). During FY21, WCC processed vouchers for improvements and modifications to its space at the Daley Center, totaling \$459,744. Assuming this was the total cost of the project, auditors estimated WCC did not record approximately \$10,127 in depreciation expense during FY21 related to these assets.

Finally, this finding was first noted during WCC's compliance examination for the period ended June 30, 2003, over 18 years ago. As such, WCC management has been unsuccessful in implementing a corrective action plan to remedy these problems.

WCC's management team is responsible for implementing timely corrective action on all of the findings identified during a state compliance examination.

Commission officials indicated these exceptions were due to staff oversight, the recent move of its Chicago office from the James R. Thompson Center, and inefficiencies caused by the COVID-19 pandemic.

COMMISSION RESPONSE:

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WCC agrees with the finding. The logistically challenging move from the James R. Thompson Center to our current offices contributed to some of the errors and discovery of discrepancies as the auditors' testing of equipment was performed only a month after the Commission moved its offices. Also, personnel inefficiencies caused by the COVID-19 pandemic contributed to some of this finding.

UPDATED RESPONSE:

Partially implemented. A dedicated hire (same as in Finding 2021-004) scheduled to start within two months will address this issue.

- 6. The auditors recommend WCC develop and implement internal controls over its due diligence and project management of information systems projects. Specifically, WCC should:**
- **develop a project management framework to ensure the development meets WCC's requirements;**
 - **implement internal controls to ensure the project complies with the requirements of the contract and SoWs;**
 - **ensure all system testing complies with the development requirements;**
 - **update its Change Management Plan to document the correct development vendor and the actual change process followed;**
 - **conduct a review and approve of each release go-live;**
 - **conduct detailed reconciliations each time data is converted from a legacy system and maintain documentation of these reconciliations; and,**
 - **develop incident management procedures.**

FINDING: *(Failure to Establish Project Management Internal Controls) - New*

IWCC failed to establish internal controls to conduct due diligence or ensure project management controls over the CompFile! project.

In order to modernize the Case Management System, WCC executed two contracts for the development and oversight of CompFile!, totaling \$6,405,934. As of June 30, 2021, WCC had implemented three releases which consisted of registration, settlements, and case maintenance.

As part of testing, auditors requested documentation to determine if CompFile! had been developed to meet WCC's requirements and contractual requirements. During testing, auditors noted the following:

- A project management framework had not been implemented to ensure the development met WCC's requirements. Specifically, WCC had not developed:
 - a project charter documenting the project's scope, expenditures, feasibility study, risk analysis, and approval;
 - a governance plan documenting the roles, responsibilities, objectives, and strategies for implementing the project;

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- system security requirements; or,
 - a transition plan documenting the movement of CompFile's control from the development vendor to WCC.
- CompFile's master plan did not document the correct development vendor or the technology being utilized for the development.
- Contract management had not been implemented to ensure the project conformed with the Statements of Work (SoWs) requirements. Auditors noted:
 - the backlogs of requirements were not provided or were incomplete;
 - 4 of 23 (17%) deliverables were not reviewed and approved;
 - 5 of 23 (22%) deliverables were not provided or were incomplete; and,
 - 1 of 4 (25%) SoWs did not follow the documented change process.
- CompFile's system testing was inadequate and did not comply with development requirements, including:
 - all required functional, process, unit, and end-to-end testing scripts were not ran;
 - test scripts which failed did not have documentation of a resolution;
 - testing results were not reviewed and approved; and,
 - a process for reporting and rectifying defects had not been developed.
- The Change Management Plan documented the incorrect vendor and did not document the actual change process followed (see Finding 2021-013 for more information).
- Management's go-live review and approval to move for release #2 into production was not provided.
- Although data had been converted from WCC's legacy system during release #1 and release #2, documentation of reconciliations between the legacy system and CompFile! was not provided. Further, the reconciliation for release #3 was incomplete. Finally, WCC did not provide documentation demonstrating the converted data had been tested to ensure its accuracy.
- Incident management procedures had not been developed.
- WCC had not conducted a pre-implementation review prior to moving CompFile! into production.

WCC officials indicated these exceptions were due to oversight.

Failure to establish sufficient internal controls related to project management resulted in the Commission not obtaining all required contractual deliverables and did not ensure the project met WCC's needs.

COMMISSION RESPONSE:

WCC partially agrees with the finding. While fully accepting the recommendations, WCC notes sufficient internal controls existed on the CompFile! project. WCC complied with the requirements of the SoWs for the CompFile! project and obtained, reviewed, and accepted all required deliverables to ensure the project met WCC's needs. As a multi-release project, certain deliverables were considered living documents that were updated throughout the project. Any changes to these deliverables after formal acceptance were done at WCC's request or to refine assumptions made during solution modeling. Finally,

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WCC helped guarantee the success of the CompFile! project through rigorous testing and a comprehensive review of each release prior to its deployment into production.

ACCOUNTANT'S COMMENT:

Auditors are unsure how WCC can state there were sufficient internal controls over the CompFile! project when a project management framework had not been implemented, deliverables had not been provided or were incomplete, and deliverables had not been reviewed. Further, if WCC had completed rigorous testing and a comprehensive review of each release, then why was documentation not provided to us to demonstrate this rigorous testing and the comprehensive reviews?

UPDATED RESPONSE:

Under-study. WCC plans to have monthly status meetings and will use the same format of change of scope, monetary change and go-live testing that was extensively documented by our vendors as a good checklist and validation program for projects of this magnitude. WCC will also require the consent of all relevant vendors and testers before the launch of a system and the affirmative vote by each participant will be noted in addition to implementing a system of documenting incident issues through the project support unit.

- 7. The auditors recommend WCC implement controls to ensure expenditures are made in accordance with contractual requirements. In addition, WCC should develop a detailed project budget and work with its vendors to obtain refunds of all overpayments erroneously paid by WCC. Finally, WCC should identify all of its costs incurred during the application development period of CompFile! and record this intangible asset on its property listing.**

FINDING: *(Lack of Fiscal Controls over the CompFile! Project) - New*

IWCC lacked controls to ensure fiscal requirements were controlled and documented over the CompFile! project.

In order to modernize WCC's case management system, two contracts for the development and oversight of the CompFile! project were executed by WCC, totaling \$6,405,934.

As part of testing, auditors requested WCC provide documentation related to the budget, contracts, and expenditures for the CompFile! project. During testing, auditors noted:

- WCC provided us 6 invoices, totaling \$4,687,518, for development services. Auditors noted the contract for the development vendor, Premier Support Services and Fees section, required four payments in order to prepay services; however, the invoices' description of services did not document sufficient detail to determine if the vendor was paid in accordance with the requirements.
- WCC provided us with 23 invoices, totaling \$2,313,135, for oversight services. Auditors noted:

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- WCC overpaid the oversight vendor \$202.
- The invoices did not provide sufficient detail to determine if the oversight vendor was paid in accordance with the contract's requirements, as the contract's Milestones and Deliverables section required payments based upon completion of specific milestones.

Further, WCC did not provide documentation delineating the total cost of the CompFile! project, including amounts paid for vendors, equipment, software licenses, and staff time of the Commission.

Commission officials indicated these exceptions were due to oversight.

COMMISSION RESPONSE:

WCC agrees with the finding. We will obtain a \$202 credit (originally paid due to rounding error) on a future invoice from vendor. Additionally, WCC has improved the necessary language on invoices to assure sufficient detail will be provided and we are working to identify costs incurred on the CompFile! project and record the CompFile! project on the Commission's property listing.

UPDATED RESPONSE:

Partially implemented. The \$202 credit issue has been completed. Going forward, the legal department or the Chairman's office will oversee the review of invoicing for sufficient detail to warrant approval payment on projects of this nature. The project payments will be sufficiently identified and the budget and overpayment issues will be dealt with by a joint action of the Fiscal and Legal departments in conjunction with robust review of cost submissions by the vendors.

8. The auditors recommend WCC create and maintain documentation demonstrating user access to its various systems is appropriate.

FINDING: *(Inadequate Information Technology Access Controls) - New*

IWCC had not implemented adequate controls over access to its applications.

In order to meet its mission, WCC utilizes various applications to maintain and process workers' compensation cases.

Auditors requested documentation from WCC for 17 users to determine if access to its Case Management System was appropriate. As WCC could not provide us with this documentation, auditors were unable to conduct testing to determine if the user's access was appropriate.

WCC officials indicated they were unclear on their responsibilities and these requirements.

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Failure to implement adequate access controls could result in unauthorized access and the disclosure of confidential information.

COMMISSION RESPONSE:

WCC agrees with the finding and has started working on drafting an access controls policy to ensure users have appropriate access to WCC's systems.

UPDATED RESPONSE:

Partially-Implemented. WCC has created a security matrix to manage and track user access to its case management system. WCC has also started working on drafting an access controls policy to ensure users have appropriate access to WCC's systems.

9. **The auditors recommend WCC strengthen its controls in identifying and documenting all service providers utilized. Further, auditors recommend WCC obtain SOC reports or conduct independent internal control reviews, at least, annually. In addition, auditors recommend WCC:**
- **monitor and document the operation of the Complementary User Entity Controls (CUECs) related to WCC's operations;**
 - **either obtain and review SOC reports for subservice organizations or perform alternative procedures to satisfy itself that the existence of the subservice organization would not impact its internal control environment;**
 - **document its review of the SOC reports and review all significant issues with subservice organizations to ascertain if a corrective action plan exists and when it will be implemented, any impact to WCC, and any compensating controls; and,**
 - **ensure contracts contain requirements for an independent review.**

FINDING: *(Inadequate Controls over Service Providers) - New*

IWCC had not implemented adequate internal control over its service providers.

During testing, auditors requested officials to provide the population of service providers utilized by WCC during the examination period to determine if they had reviewed each service provider's internal controls. WCC officials were unable to provide us with the population of service providers. Further, auditors identified two service providers, one providing hosting services and another providing Software as a Service (SaaS).

Due to these conditions, auditors were unable to conclude WCC's population records were sufficiently precise and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AT-C § 205.36) to test the Commission's service providers.

Even given the population limitations noted above which hindered the ability to conclude whether selected samples were representative of the population as a whole, auditors performed the testing over the two service providers auditors identified.

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Testing noted WCC had not obtained a System and Organization Control (SOC) report or conducted an independent internal control review for the two the service providers. In addition, auditors noted the contracts for the service providers did not contain a requirement for an independent review to be completed.

WCC officials indicated they were unaware of the need to obtain and review SOC reports.

Without having obtained and reviewed a SOC report or another form of independent internal controls review, WCC lacks assurance the service providers' internal controls are adequate.

COMMISSION RESPONSE:

WCC agrees with the finding. WCC accepts the recommendation to identify and document all service providers utilized and review SOC reports for these service providers or perform alternative procedures to confirm the adequacy of their internal controls.

UPDATED RESPONSE:

Under-Study. Will identify and document all service providers utilized by WCC and review SOC reports for these service providers or perform alternative procedures to confirm the adequacy of their internal controls. Will also collaborate with DoIT to develop a process to review the SOC reports for service providers and review its contract boiler plate to ensure language is included to require SOC reports or independent review of internal controls.

10. The auditors recommend WCC implement controls to:

- 1) ensure future lease agreements include either meaningful state involvement in establishing rent rates or contractual limitations on the maximum due under the contract to help protect the state's interests;**
- 2) leasehold building improvements are properly capitalized and depreciated;**
- 3) ensure information necessary to support the amount of rent due is obtained, used to recalculate and substantiate the amount of rent paid, and retained in adherence with the State Records Act;**
- 4) real property leases are either procured through the RFI process or submitted to the Chief Procurement Officer for the Chief Procurement Officer's determination the RFI process is not in the best interests of the State when the lessor is another governmental unit;**
- 5) Form C-23s filed with the Comptroller's Office are complete and accurate, with amendments to previously filed Form C-23s submitted when WCC enters into an amendment to a preexisting contractual agreement or when the facts and circumstances of the amount due under the contract change; and,**
- 6) confirmations submitted to other parties are complete, accurate, and reflect all currently known facts and circumstances.**

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FINDING: *(Failure to Exercise Appropriate Controls over Leases) - New*

IWCC lacked adequate internal control over its leases, resulting in leases which did not fully protect the State's interests, unrecorded leasehold assets and depreciation, a procurement process which may not have been in the best interests of the state, an inability to determine the amount of cash due to a lessor, an indeterminate amount of rent expense recognized for a lease, and the improper confirmation of future lease commitments to the Comptroller's Office.

During testing, auditors noted the following:

- WCC entered into two lease agreements which did not fully protect the state's interests. Auditors noted:
 - WCC entered into a 10-year real property lease for 1.008% of the useable square feet of the Richard J. Daley Center (Daley Center) with the Public Building Commission of Chicago (PBCC), effective October 1, 2020. Under the terms of this completely variable lease, the PBCC will adopt an (1) annual operating budget and (2) annual capital budget around October of each year and the annual rent due from the Commission for this space over the period from that October through the next September will be 1.008% of the total budgeted amounts, regardless of whether the PBCC actually spends its full budget amount, without any limitation on the amount of the amount of these budgets set completely by the PBCC.
 - WCC entered into a 10-year real property lease for 3.27% of the useable space of the George W. Dunne Building (Dunne Building) from Cook County, effective December 1, 2020. The payment terms of this lease include an annual fixed component and a completely variable component. The variable amount has no limit and represents 3.27% of the Dunne Building's capital, operating, and maintenance costs incurred or paid by Cook County to operate and maintain the Dunne Building and its adjacent plaza, which may then be increased at Cook County's discretion in any year when the occupancy rate of the Dunne Building falls below 95%.
- WCC made tenant improvements and modifications to its space at the Daley Center between October 2020 and mid-April 2021 without (1) capitalizing any of these leasehold improvements and (2) starting to recognize depreciation expense for these assets over the remaining 113.5 months of the lease between the Commission and PBCC beginning in mid-April 2021 (for more information, see Finding 2021-005). During FY21, WCC processed vouchers for improvements and modifications to its space at the Daley Center, totaling \$459,744. Assuming this was the total cost of the project, auditors estimated WCC did not record approximately \$10,127 in depreciation expense during FY21 related to these assets.

WCC officials indicated they were unaware of the requirement to capitalize leasehold building improvements.

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- WCC did not receive the adopted operating and capital budgets of the PBCC for the Daley Center for Calendar Year 2020 and Calendar Year 2021 until after auditors requested this information to recalculate the amount due to the PBCC.

The agreement between the Commission and the PBCC (§ 4) states, “The [PBCC] will provide the [Commission] with a copy of the approved Budgets within 14 days following approval by the Board of Commissioners, typically at its annual meeting in October of each year.”

WCC officials indicated this problem was due to oversight.

- Auditors were unable to determine or recalculate the amount of rent due to the PBCC for its lease at the Daley Center. During FY21, WCC paid \$177,408 in rent to the PBCC. Auditors recalculated the total amount due during FY21 was \$171,272, which consisted of rent from October 2020 through December 2020 of \$57,492 and rent from January 2021 through June 2021 was \$113,780. As such, the unreconciled difference was \$6,136.
- WCC did not seek nor receive approval from the Chief Procurement Officer to forego the request for information (RFI) procurement process for its Daley Center and Dunne Building leases.

WCC officials indicated they believed this was not necessary because CMS had given WCC the power to negotiate its own real property leases.

- WCC did not ensure its Contract-Obligation Document (Form C-23) for its Daley Center and Dunne Building leases filed with the Comptroller's Office were complete and accurate. Auditors noted the following:
 - WCC's reported activity charged against its obligation at the Comptroller's Office for its Daley Center lease does not make sense. Auditors noted the Comptroller's records show WCC charged \$466,876 in expenditures against its maximum contractual obligation during FY21 of \$540,000. However, this \$466,876 balance did not agree with the rent payments of \$177,408, leasehold improvements paid for by WCC of \$459,744, or the combination of the rent and leasehold improvements paid of \$637,152 during FY21.
 - WCC's initial Form C-23s filed for both its Daley Center and Dunne Building leases did not reflect a fair and reasonable estimate for the amount due as of the date the Commission prepared each Form C-23.
 - While WCC entered into an agreement to not pay rent for its Dunne Building lease until the rent commencement date on July 1, 2021, WCC did not file an amended Form C-23 reflecting the change associated with this agreement.

WCC officials indicated these exceptions were due to oversight.

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- As part of preparing the State's Annual Comprehensive Financial Report (ACFR), the Comptroller's Office pulled the total future year lease commitments beyond June 2021 for real property leases from the Commission's Form C-23s filed with the Comptroller's Office, which are included within the state's total balance of future year lease commitments reported in the State's ACFR. Due to the valuation estimation problems noted above, WCC staff should have known the future year lease commitment valuations for its Daley Center and Dunne Building leases picked up by the Comptroller and reported to WCC for confirmation did not accurately reflect the future cash flows associated these leases as of June 30, 2021. Auditors noted WCC staff incorrectly confirmed the current balance of outstanding future year lease commitments with no changes to the Comptroller on July 14, 2021.

WCC officials indicated this exception was due to staff error.

COMMISSION RESPONSE:

WCC disagrees with this finding. Please note the following:

- 1) Per an official at CMS, these lease agreements are actually intergovernmental agreements (IGAs) for space sharing and fall under the Intergovernmental Cooperation Act (5 ILCS 220). As such, these leases were exempt from the Illinois Procurement Code, so approval by the Chief Procurement Officer was not necessary.
- 2) WCC does not pay rent – just the proration of the operating expense. Operating costs cannot be fixed in leases, as they are changeable costs and the tenant pays a portion of the actual cost as deemed appropriate. This is an industry standard and how leases and IGAs are procured and negotiated. For the Dunne Building, WCC pays 35% below market rate and this IGA is definitely in the best interest of the State.
- 3) The inadvertent omission of capitalized leaseholder improvements was corrected in FY22.
- 4) The PBCC's staff was slow to respond to our request for its annual budget and auditors will communicate more appropriately with them going forward.
- 5) In regards to the issue of WCC staff incorrectly confirming the current balance of outstanding future year lease commitments with no changes made to the Comptroller, auditors note that this will no longer be an issue going forward as these leases will now be reported under the Governmental Accounting Standards Board's new lease standards.

ACCOUNTANT'S COMMENT:

Regarding the portion of WCC's response noted as #1 and #2 on the preceding page, the Illinois Procurement Code (30 ILCS 500/1-10(b)(1)) states:

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This Code shall not apply to contracts between the state and its political subdivisions or other governments, or between state governmental bodies, **except as specifically provided in this Code.**” (emphasis added)

As paraphrased in the finding and in full below, the Illinois Procurement Code (30 ILCS 500/40-15(c)) states:

Leases with other governmental units may be negotiated without using the request for information process when deemed by the chief procurement officer to be in the best interest of the State. (emphasis added)

As such, in our opinion, the portion of the Code cited within this finding is applicable to the Commission's leases at the Daley Center and Dunne Building with the PBCC and Cook County, respectively. In the event WCC officials continue to disagree, they should seek a formal written opinion from the Attorney General on the matter.

Further, with regards to whether the lease is in the best interests of the State, it is the duty of the Chief Procurement Officer to make this determination, not WCC. Also, as the Commission's leases have significant variable components for **both capital and operating expenditures** that will only become known over the next nine years, it is not possible to say with certainty if the state will either realize cost savings or incur excessive costs over the life of the lease agreement.

Finally, regarding the portion of WCC's response noted as #5 on the preceding page, at least for WCC's Daley Center lease, the Governmental Accounting Standards Board's new lease guidance will not apply as the rent payment does not contain any fixed amounts, a variable payment which depends on an external index or rate, or a fixed in substance variable payment. In this case, WCC's future obligations will need to be considered by the Comptroller's Office when preparing the commitments footnote disclosure within the State's ACFR.

UPDATED RESPONSE:

Not Accepted. This finding is largely the result of insufficient guidance from CMS Property Division resulting in procedural nuances of lease requirements for audit purposes. Note the CMS Property Division also disagrees with this finding.

11. **The auditors recommend WCC implement controls to:**
 - 1) **demonstrate the completeness and accuracy of its population of wireless devices;**
 - 2) **documentation supporting the need for a new wireless device is prepared prior to getting a new device;**
 - 3) **track each device's usage to ensure each device is on an appropriate plan; and,**
 - 4) **promptly collect and deactivate any unused devices.**

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FINDING: *(Failure to Exercise Appropriate Controls over Leases) - New*

IWCC did not exercise adequate internal control over telecommunication devices.

During testing, auditors requested WCC to provide us with the population of wireless devices (including cell phones and mobile hotspots) issued, outstanding, and canceled during FYs20 and 21. Ultimately, WCC could not provide FY20 population.

Due to this condition, auditors were unable to conclude WCC's population records were sufficiently precise and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AT-C § 205.36) to test the WCC's telecommunication devices.

Even given the population limitations noted above which hindered our ability to conclude whether selected samples were representative of the population as a whole, auditors performed the testing of issued and canceled wireless communication devices and noted the following:

- WCC lacked documentation to support four of four (100%) wireless devices issued tested were necessary, proper, and approved.
- WCC could not demonstrate four of four (100%) wireless devices assigned to separated employees tested were timely returned to WCC after their separation.
- One of four (25%) deactivated wireless devices tested was deactivated untimely by WCC 34 days after the employee separated WCC.

WCC officials indicated these problems were due to insufficient staff resources and procedural deficiencies within the information technology section, including many retired or separated staff, incomplete knowledge transfers, the relocation of the Chicago office, and the COVID-19 pandemic.

COMMISSION RESPONSE:

WCC agrees with the finding and has since updated its device inventory system as well as the onboarding and offboarding process to ensure all WCC equipment is issued and returned, with documentation of the event created and retained.

UPDATED RESPONSE:

Partially-Implemented. WCC has since updated its device inventory system as well as the onboarding and offboarding process to ensure all WCC equipment is issued and returned, with documentation of the event created and retained.

12. The auditors recommend WCC to work with DoIT to obtain a detailed understanding of WCC's responsibilities related to cybersecurity controls.

Additionally, auditors recommend WCC:

- **develop a formal, comprehensive, adequate, and communicated security program to manage and monitor the regulatory, legal, environmental, and operational requirements;**

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- **require employees and contractors to acknowledge receipt of WCC's policies;**
- **develop a project management framework to ensure new applications are adequately developed and implemented in accordance with management's expectations;**
- **develop a risk management methodology, conduct a comprehensive risk assessment, and implement risk reducing internal controls;**
- **develop policies and procedures for reviewing and monitoring security implementation and violations;**
- **develop a cybersecurity plan; and,**
- **develop a data classification methodology and classify WCC's data to identify and implement controls to ensure adequate protection of this information.**

FINDING: *(Weaknesses in Cybersecurity Programs and Practices) – First and last reported 2019*

IWCC had not implemented adequate internal controls related to cybersecurity programs, practices, and control of confidential information.

WCC is responsible for resolving disputes between employees and employers regarding work-related injuries and illnesses. As a result, WCC collects many varieties of personal and confidential information, including, but not limited to, names, addresses, social security numbers, and health information.

The Illinois State Auditing Act (30 ILCS 5/3-2.4) requires the Auditor General to review State agencies and their cybersecurity programs and practices. During examination of WCC's cybersecurity program, practices, and control of confidential information, auditors noted WCC had not:

- developed a formal, comprehensive, adequate, and communicated security program (including policies, procedures, and processes as well as clearly defined responsibilities over the security of computer programs and data) to manage and monitor the regulatory, legal, environmental and operational requirements;
- required employees or contractors to acknowledge receipt of WCC's policies;
- developed a project management framework to ensure new applications were adequately developed and implemented in accordance with management's expectations;
- developed a risk management methodology, conducted a comprehensive risk assessment, or implemented risk reducing controls;
- developed policies for the reporting of security or suspected security violations;
- developed a cybersecurity plan; or,
- developed a data classification methodology and classified its data.

In addition, auditors noted 19 of 167 (11%) employees did not complete cybersecurity training and WCC's contractors were not required to complete cybersecurity training.

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WCC officials indicated they disagreed with this finding, noting they believe the DoIT was responsible for cybersecurity programs and practices.

Inadequate cybersecurity programs and practices could result in unidentified risks and vulnerabilities, which could ultimately lead to WCC's confidential and personal information being susceptible to cyber-attacks and unauthorized disclosure.

COMMISSION RESPONSE:

WCC agrees with the finding and has started working with DoIT to develop the programs, practices, and policies being recommended.

UPDATED RESPONSE:

Under-Study. The commission has started working with DoIT to develop the programs, practices, and policies being recommended.

- 13. The auditors recommend WCC ensure its change management process is documented and followed for all of its systems, including initial requests, dates, and approvals.**

FINDING: *(Change Control Weaknesses) – First reported 2015, last 2019*

IWCC had weaknesses in its change management controls.

WCC has several computer applications which were critical for providing and overseeing a no-fault system of benefits to workers who experience job-related injuries or diseases.

During testing, auditors noted WCC's Change Management Plan for its CompFile! project documented the incorrect vendor and did not document the actual change process followed. Further, auditors noted the Case Management System, and the Self-Insurance Approach System did not have any documented service requests during the examination period; therefore, auditors were unable to test WCC's change management procedures over these systems.

Finally, this finding was first noted during the compliance examination for the period ended June 30, 2015, **over six years ago**. As such, WCC management has been unsuccessful in implementing a corrective action plan to remedy these problems.

WCC's management team is responsible for implementing timely corrective action on all of the findings identified during a state compliance examination.

WCC officials indicated a lack of resources resulted in these problems.

COMMISSION RESPONSE:

WCC agrees with the finding and will work to develop an internal change management process which addresses the recommendation of this finding.

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UPDATED RESPONSE:

Under-Study. WCC will work to develop an internal change management process which addresses the recommendation of this finding.

- 14. WCC should develop and approve a disaster recovery plan for each application and ensure each plan documents roles and responsibilities, recovery objectives, recovery time frame objectives, and testing requirements. Further, WCC should ensure its plans are up-to-date and tested, at least, annually.**

FINDING: *(Weaknesses in Disaster Contingency Planning) - New*

IWCC had not adequately developed and tested its disaster recovery plans.

In order to provide a no-fault system of benefits to employees who have experienced job-related injuries and illnesses, WCC utilized several applications, including CompFile! the Case Management System, and the Self-Insurance Approach System, which all reside on infrastructure provided to WCC by DoIT.

During testing, auditors requested WCC to provide its disaster recovery plan for each application. However, WCC was unable to provide any disaster recovery plan for its applications, except for CompFile!

During review of the disaster recovery plan for CompFile! auditors noted significant parts were not documented, including roles and responsibilities, recovery objectives, recovery time frame objectives, and testing requirements. Further, auditors noted WCC officials had not approved CompFile's disaster recovery plan. Finally, WCC had not conducted recovery testing during the examination period.

WCC officials indicated a lack of resources delayed their progress in developing and testing disaster recovery plans.

COMMISSION RESPONSE:

WCC agrees with the finding and has started working on drafting a disaster recovery plan for its critical applications.

UPDATED RESPONSE:

Under-Study. WCC has started working on drafting a disaster recovery plan for its critical applications.

- 15. The auditors recommend WCC enter into a detailed agreement with DoIT to ensure prescribed requirements and available security mechanisms are documented in order to protect the security, processing integrity, availability, and confidentiality of the Commission's systems and data.**

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FINDING: *(Lack of a Detailed Agreement Regarding Security Requirements) - New*

IWCC had not entered into detailed agreements with DoIT.

WCC utilized DoIT's infrastructure to maintain its applications and data. During testing, auditors noted WCC and DoIT did not enter into an agreement detailing the roles and responsibilities of each party to ensure prescribed requirements and available security mechanisms were in place to protect the security, processing integrity, availability, and confidentiality of WCC's systems and data.

During testing, auditors noted an intergovernmental agreement between WCC and DoIT was not entered into during the examination period to address security, processing, integrity, and availability of WCC's systems and data.

WCC has the ultimate responsibility to ensure its critical and confidential systems and data are adequately secured. As such, this responsibility is not limited because some information technology functions were transferred to DoIT.

WCC's officials indicated its negotiations with DoIT remain ongoing.

COMMISSION RESPONSE:

WCC agrees with the finding.

UPDATED RESPONSE:

Under-Study. Although WCC has not entered into a formal IGA with DoIT, all infrastructure, systems, assets, and security of applications are being managed and maintained by DoIT. Further, WCC adheres to all updates and maintenance of systems as required by DoIT.

16. The auditors recommend WCC provide each of its employees a timely evaluation of their performance.

FINDING: *(Inadequate Control over Performance Evaluations) – First reported 2017, last 2019*

IWCC lacked adequate control over evaluating employee performance.

During testing of 19 employees who required 31 different performance evaluations during the examination period, auditors noted 25 (81%) had deficiencies, including:

- 7 (23%) performance evaluations were not completed;
- 1 (3%) performance evaluation was not signed; and,
- 17 (57%) performance evaluations were conducted between 11 and 437 days late.

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Further, this finding was first noted during WCC's compliance examination for the period ended June 30, 2017, over four years ago. As such, WCC management has been unsuccessful in implementing a corrective action plan to remedy these problems.

WCC's management team is responsible for implementing timely corrective action on all of the findings identified during a state compliance examination.

WCC officials indicated these exceptions were due to other competing priorities.

COMMISSION RESPONSE:

The WCC agrees with the finding.

UPDATED RESPONSE:

Implemented. WCC now has a dedicated a staff member to ensure these evaluations are completed in a timely manner.

17. The auditors recommend WCC implement controls to ensure:

- 1) an annual report of WCC's acts and doings during the prior fiscal year is prepared and submitted to the Governor 10 days before the start of the General Assembly's next session;**
- 2) reports to the General Assembly are submitted to the Center at the Library;**
- 3) publications are deposited with the library; and,**
- 4) the person(s) responsible for the distribution of WCC's publications to the Government Documents Section of the Library is disclosed in strict adherence with the applicable provisions of the Illinois Administrative Code.**

FINDING: *(Noncompliance with Report and Publication Requirements) - New*

IWCC did not comply with various requirements governing its reports and publications.

During testing, auditors noted the following:

- WCC did not prepare and deliver a report of its acts and doings and submit the report to the Governor at least 10 days prior to the General Assembly convening in the following calendar year covering FYs19 and 20.
- WCC did not provide any reports to the State Government Report Distribution Center (Center) at the Illinois State Library (Library) during the examination period.
- WCC did not provide and deposit with the library sufficient copies of publications, including electronic publications, during the examination period.
- WCC did not identify the person(s) responsible for the distribution of publications to the Government Documents Section of the Library.

WCC officials indicated they were not aware of these requirements.

COMMISSION RESPONSE:

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WCC agrees with the finding.

UPDATED RESPONSE:

Partially Implemented. WCC has all reports filed for the past two years. All reports from 1917-2020 are currently being filed individually per State Library requirements. Completion within 60 days.

- 18. The auditors recommend WCC implement internal controls to ensure its annual report is accurate and filed timely with the Governor and Secretary of State. Also, WCC should file a corrected Report for FY17 thru FY20 with the Governor and Secretary of State within 30 days after the release of this compliance report as required by the Illinois State Auditing Act (30 ILCS 5/3-2.2(b)).**

FINDING: *(Inadequate Controls over the Annual Agency Workforce Reporting) – First reported 2017, last 2019*

IWCC lacked adequate internal control over its annual Agency Workforce Report (Report).

During testing, auditors noted the following:

FY19 Report (filed in FY20)

- The Report had unreconciled discrepancies between the reported number of workers broken out by 8 categories defined by race and gender.
- The Report was submitted to the Governor and the Secretary of State 5 and 7 days late, respectively.

FY20 Report (filed in FY21)

- The Report had unreconciled discrepancies between the reported number of workers broken out by 9 categories defined by race and gender.
- The Report overstated by one person the number of minorities working as professionals.

FY17 FY Reports

- During our examination of the two years ended June 30, 2019, auditors noted problems with WCC's Report for both FYs17 and 18 as described in Finding 2019-009. As such, auditors recommended WCC file a corrected Report for these years with the Governor and Secretary of State within 30 days after the Commission's *Compliance Examination* report was released by the Auditor General. During this examination, auditors noted WCC did not file a corrected Report with the Governor and Secretary of State for either fiscal year.

Further, this finding was first noted during the Commission's compliance examination for the period ended June 30, 2017, over four years ago. As such, WCC management has been unsuccessful in implementing a corrective action plan to remedy these problems.

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WCC's management team is responsible for implementing timely corrective action on all of the findings identified during a state compliance examination.

WCC officials indicated these problems were due to insufficient resources devoted to workforce reporting.

COMMISSION RESPONSE:

The Commission agrees with the finding.

UPDATED RESPONSE:

Implemented. WCC has dedicated a member of the management team to check the submission, accuracy and ensure it is sent to the Secretary of State and the Governor's office.

19. The auditors recommend WCC prepare complete and accurate reconciliations of its internal records to the Comptroller's records within 60 days of the end of each month. Further, WCC should have a qualified supervisor review each reconciliation to ensure it is complete and accurate.

FINDING: *(Inadequate Controls over Monthly Reconciliations) – First and last reported 2019*

IWCC failed to complete its monthly reconciliations to the Comptroller's records by identifying and reconciling all discrepancies.

During testing of 17 of the 168 (10%) monthly reconciliations between WCC's records and the Comptroller's records for the Second Injury Fund (Fund 431), the Illinois Workers' Compensation Commission Operations Fund (Fund 534), and Rate Adjustment Fund (Fund 685) during the examination period, auditors noted the following:

Monthly Appropriation Status Report (SB01)

- WCC's reconciliation of Fund 431 and Fund 685 was incorrect, with variances of \$1,538 and \$25,173, respectively, during FY20.
- The FY21 reconciliation of Fund 431 had an unreconciled difference of \$1,408.

Monthly Revenue Status Report (SB04)

- The balance within WCC's cash receipts journal did not agree with the reported balance of the Commission's cash receipts journal on its reconciliations of Fund 431, Fund 534, and Fund 685 during FY20, with variances of \$6,923, \$8,303, and \$23,992, respectively. Similarly, this occurred during FY21 for Fund 685, with a total variance of \$8,781.
- One reported reconciling item, totaling \$6,900, in FY20 did not trace to the WCC's underlying records. Similarly, a reconciling transfer of \$2 million did not agree with WCC's support in FY21.

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- WCC's reconciliations of Fund 431, Fund 534, and Fund 685 during FY21 were incomplete, with unreconciled amounts of \$2,210, \$2,160, and \$25,796, respectively.
- FY20's ending balance of in-transit receipts did not agree with FY21 beginning balance of in-transit receipts on the Commission's Fund 431, Fund 534, and Fund 685 reconciliations, with differences of \$2,123, \$6,900, and \$24,674, respectively.

Monthly Cash Report (SB05)

- The balance within WCC's cash receipts journal did not agree with the reported balance of WCC's cash receipts journal on its reconciliations of Fund 534 and Fund 685 during FY20, with variances of \$2,058 and \$48,924, respectively, during FY20. Similarly, this occurred during FY21 with Fund 431, Fund 534, and Fund 685, with differences of \$3,186, \$57,106, and \$14,998, respectively.
- WCC's reconciliation of Fund 534 was not completed for FY20, with an unreconciled variance of \$8,640. In addition, WCC's FY21 reconciliations of Fund 534 and Fund 685 had unreconciled variances of \$7,943 and \$4,138, respectively.
- The reported expenditures taken from the SB01 report was incorrect for Fund 431 and Fund 685, with a difference of \$1,436 and \$7,452, respectively, during FY20. Similarly, this error occurred in Fund 431, Fund 534, and Fund 685 with FY21 variances of \$1,775, \$2,896, and \$14,904, respectively.
- WCC did not consider FY19's Lapse Period activity during its FY20 reconciliations of Fund 431 and Fund 685, totaling \$1,537 and \$4,484, respectively. Additionally, WCC did not consider FY20's Lapse Period activity during its FY21 reconciliations of Fund 685, totaling \$4,539.

WCC officials indicated these issues were due to inefficiencies brought by working remotely during the COVID-19 pandemic.

COMMISSION RESPONSE:

WCC agrees with the finding. Personnel inefficiencies related to the COVID19 pandemic contributed to this finding.

UPDATED RESPONSE:

Partially implemented. Lack of COVID related personnel inefficiencies will reduce this finding going forward.

20. **The auditors recommend WCC implement internal controls to ensure: 1) its vouchers are timely reviewed and approved, 2) expenditures are coded with an appropriate detail object code; 3) the receipt date of all invoices is recorded; 4) procurement documents are retained; 5) equipment items are recorded on WCC's property list; and, 6) interest due is paid to vendors.**

FINDING: *(Inadequate Controls over Voucher Processing) – First reported 2013, last 2019*

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IWCC did not have sufficient internal control over its voucher processing functions.

During testing of 185 non-payroll, non-awards and grants vouchers, auditors noted:

- WCC approved 35 of 185 (19%) vouchers tested, totaling \$366,368, for payment by WCC between 1 and 85 days late.
- WCC did not record the date when the related invoice for one of 185 (1%) vouchers tested, totaling \$2,097, was received by WCC. As a result, auditors were unable to determine the timeliness of WCC's approval of the voucher for payment.
- For 2 of 185 (1%) vouchers tested, totaling \$12,424, WCC did not have any documentation of its procurement process.
- For 1 of 185 (1%) vouchers tested, totaling \$2,918, WCC did not remit interest due, totaling \$29, to the vendor.
- Six of 40 (15%) travel vouchers tested, totaling \$1,617, were not signed by the immediate supervisor of the traveler.
- Four of 10 (40%) equipment vouchers, totaling \$4,033, for the acquisition of a printer, fan, books, label writer, and video conferencing system, were not recorded on in WCC's property listing. Further, the video conferencing system, with an acquisition cost of \$2,445, was not reported to CMS on WCC's annual report of all equipment items subject to theft and/or with an acquisition cost in excess of \$1,000.

In addition, during the examination period, auditors noted WCC charged \$1,416 and \$285,514 in expenditures within the Rate Adjustment Fund and Self-Insurers Security Fund, respectively, against detail object codes for injured State employees, not injured workers generally.

Finally, this finding was first noted during WCC's compliance examination for the period ended June 30, 2013, over **eight years ago**. As such, WCC management has been unsuccessful in implementing a corrective action plan to remedy these problems.

WCC's management team is responsible for implementing timely corrective action on all of the findings identified during a state compliance examination.

WCC officials indicated inefficiencies brought about by the COVID-19 pandemic and move of their Chicago office contributed to these problems.

COMMISSION RESPONSE:

WCC agrees with the finding. Personnel inefficiencies related to the COVID19 pandemic contributed to this finding.

UPDATED RESPONSE:

Partially implemented. Lack of COVID related personnel inefficiencies will reduce this finding going forward.

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- 21. The auditors recommend WCC and the Board work with the Attorney General to seek a judgment in circuit court against those self-insurers with past due assessments, or seek a legislative remedy.**

FINDING: *(Failure to Seek a Judgment in Circuit Court) – First and last reported 2019*

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

During testing, auditors noted the following:

- WCC has not sought a judgment in circuit court against a self-insurer who owed \$228 dating back to FY09.
- WCC had one assessment during the examination period on October 11, 2019, which required self-insurers to calculate and remit their amount due no later than November 12, 2019. Auditors noted 87 self-insurers owing \$238,294 of the \$1,235,914 (19%) assessment wrote a check to pay their balance due after the deadline on November 12, 2019. The last check which was written to pay this assessment was on March 10, 2021, 484 days after the deadline.

WCC officials indicated this error was due to the Attorney General not pursuing small dollar claims.

Failure to seek judgment against noncompliant self-insurers delays the receipt of cash resources and resulted in foregone interest income available to the Self-Insurers Security Fund, hinders accountability for entities that have received the privilege to self-insure their workers' compensation liabilities as intended by the General Assembly, and represents noncompliance with state law.

COMMISSION RESPONSE:

WCC agrees with this finding. During the examination period, WCC received past due amounts from four of the five noncompliant self-insurers. WCC contacted the Attorney General regarding the remaining amount of \$228 to seek a judgement in circuit court for collection.

UPDATED RESPONSE:

Under-study. WCC legal staff will investigate alternative collection remedies short of Circuit Court litigation for the collection of these matters that resolve themselves to a great degree but after the due date that triggers Court litigation. WCC will also coordinate with the States Attorney office and WCC legal department a report of problematic collection/payment issues.

- 22. The auditors recommend WCC implement and maintain a control environment to enforce penalties for those parties who willfully and knowingly either delay or fail to pay their assessments to the Rate Adjustment Fund and the Second Injury Fund in accordance with the Act.**

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FINDING: *(Failure to Design and Implement Controls over Penalties and Fines) - New*

IWCC has neither designed nor implemented internal controls to enforce penalties imposed by Workers' Compensation Act (Act).

The Act (820 ILCS 305/7) established the Rate Adjustment Fund to make cost-of-living adjustment payments to injured workers with a final decision awarding permanent total disability or death benefits. To pay these benefits, the Act requires WCC assess all self-insured employers and insurers to pay up to 1.25% of its workers' compensation payments, less hospital, surgical, and rehabilitation payments, for first six months and the second six months of the year. Similarly, the Act (820 ILCS 305/7 and 820 ILCS 305/8) established the Second Injury Fund to pay the differential between the complete loss of a second member (a hand, a foot, a leg, or an eye) and a permanent total disability for workers which had already suffered the loss of a member. To pay these benefits, the Act requires WCC assess all self-insured employers and insurers to pay up to 0.125% of its workers' compensation payments, less hospital, surgical, and rehabilitation payments, for first six months and the second six months of the year. WCC mails all registered self-insured employers and insurers notice of the preceding period's assessment in February and August, along with a form to calculate the amount due. Each self-insured employer and insurer must submit their full payment, along with the form, to the Commission no later than March 15 and September 15.

In the event WCC, after notice and a hearing, finds an employer willfully and knowingly either (1) failed to pay the proper amounts due to either the Rate Adjustment Fund or the Second Injury Fund or (2) did not make their payment within the time period prescribed by law, the employer must pay an additional 20% of the amount due or \$2,500, whichever is greater, as a penalty under the Act (820 ILCS 305/7). Further, the Act (820 ILCS 305/7) authorizes WCC, for good cause shown, to waive the penalty.

During testing of WCC's receipt codes, auditors noted WCC did not have a receipt source code within the State's Chart of Accounts for these penalties collected by WCC (see Finding 2021-003 for additional information). In following up on this matter with WCC officials, they indicated WCC did not need a code for this type of receipt as the Commission never imposes this penalty.

In following up on this matter with WCC's legal staff, they indicated the Act's penalty was designed as a deterrent and that the lack of penalties imposed was evidence of the success of WCC's efforts to collect amounts due by making responsible parties aware of their obligations to pay their assessments. In response, auditors inquired if WCC had policies and procedures for its staff to identify and refer potential cases where a penalty may be appropriate, to which WCC's legal staff stated they did not believe any guidance outside of the statute was necessary.

In following up on whether responsible parties were timely paying their obligations due to WCC, auditors were unable to review complete and accurate accounts receivable information for the Rate Adjustment Fund and the Second Injury Fund, which would

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include the age and amount of past due accounts receivable to validate management's assertion, due to the conditions noted in Finding 2021-004. However, the review of the WCC's cash receipts records indicates the following cash collections on very old receivables occurred during the examination period:

		Cash Collected During:	
		<u>Fiscal Year 2020</u>	<u>Fiscal Year 2021</u>
Original Assessment's Fiscal Year	2010	\$ -	\$ -
	2011	-	-
	2012	-	-
	2013	-	-
	2014	-	-
	2015	134	-
	2016	-	2,166
	2017	5,868	4,431
	2018	62,298	4,680
	2019		<u>175,700</u>
		\$ 68,300	\$ 187,975

COMMISSION RESPONSE:

WCC disagrees with this finding. The wording of the statute (820 ILCS 305/7) is “willfully and knowingly” failing to pay assessments. In choosing this language, the General Assembly deliberately created a very high bar to meet before penalties should or even could be assessed. Additionally, WCC must make “a finding . . . after reasonable notice and hearing.” WCC would need compelling evidence (1) an employer was aware it needed to pay an assessment for the Rate Adjustment Fund and the Second Injury Fund, (2) the employer was aware of the “proper amounts” it needed to pay, and (3) the employer chose not to pay those amounts. Despite its aggressive management and supervision of the assessment process, the Commission has not encountered a situation where it had evidenced an employer was aware of the assessment amount and that employer refused to pay.

ACCOUNTANT'S COMMENT:

WCC's poor internal controls over accounts receivable hinder its ability to (1) identify all self-insured employers and insurers, (2) determine if they owe assessments or have been responsive to the Commission's communications, and (3) collect assessments due. As such, it is difficult to see how WCC exercised “aggressive management and supervision of the assessment process” and conclude knowledgeable employers are always paying their assessments when due. In addition, while we do not disagree “willfully and knowingly” is a high bar, WCC still does not even have a process to determine if the cash receipts they collected on assessments from up to 11 years ago warranted the imposition of a penalty under the Act under this high bar, let alone a process to identify and potentially assess penalties for as of yet unpaid assessments.

As of now, WCC will accept extremely tardy payments without questioning whether the party should receive a penalty, which does not encourage the timely collection of cash to

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fund benefits paid to injured employees from the Rate Adjustment Fund and the Second Injury Fund and may increase the rates paid by all employers to accommodate the Rate Adjustment Fund and the Second Injury Fund not receiving timely cash payments from tardy employers. Such a process neither protects the injured workers or responsible employers.

UPDATED RESPONSE:

Implemented via new policy and procedure for enforcement.

23. The auditors recommend WCC implement controls to ensure its new employees take sexual harassment and discrimination prevention training within 30 days of commencing employment at WCC.

FINDING: *(Inadequate Control over New Employee Training) – New*

IWCC did not ensure its new employees completed sexual harassment and discrimination training sessions required by the State Officials and Employees Ethics Act (Act).

During testing, auditors noted four of four (100%) tested employees did not complete sexual harassment and discrimination prevention training in accordance with the Act. Two of the employees completed their initial sexual harassment and discrimination prevention training 30 and 306 days late, while the other two employees never completed their initial sexual harassment and discrimination prevention training.

WCC officials indicated they were unaware its new employees needed to attend sexual harassment and discrimination prevention training within 30 days after beginning employment.

COMMISSION RESPONSE:

WCC agrees with the finding. WCC's human resources team, in conjunction with the research and education team, have implemented systems to ensure new employees are entered into the One Net training system. These employees will then receive directions on how to complete this training on their first day of employment at the Commission.

UPDATED RESPONSE:

Implemented. With the hiring of a full time Research and Education Manager, the IWCC has confidence this issue has been remedied.

Emergency Purchases

IWCC did not have any emergency purchases in FY21.

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Headquarters Designations

The State Finance Act requires all state agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each state agency is required to file reports of all its officers and employees for whom official headquarters have been designated at any location other than that at which official duties require them to spend the largest part of their working time.

As of June 21, 2021, the Department had 10 employees assigned to locations other than official headquarters.