

# LEGISLATIVE AUDIT COMMISSION



Review of  
Workers' Compensation Commission  
Two Years Ended June 30, 2009

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**REVIEW: 4339**  
**WORKERS' COMPENSATION COMMISSION**  
**TWO YEARS ENDED JUNE 30, 2009**

**FINDINGS/RECOMMENDATIONS - 10**

**IMPLEMENTED - 1**

**ACCEPTED- 9**

**REPEATED RECOMMENDATIONS - 6**

**PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 7**

This review summarizes an audit of the Illinois Workers' Compensation Commission for the two years ended June 30, 2009, filed with the Legislative Audit Commission March 30, 2010. The auditors performed a financial audit and compliance examination in accordance with *Government Auditing Standards* and State law. The auditors stated that the financial statements were fairly presented.

The Illinois Workers' Compensation Commission 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 Commission is to resolve disputes that arise between injured workers and their employers regarding workers' compensation, and to assure financial protection to injured workers and their dependents at reasonable costs to employers. The Commission consists of ten members appointed by the Governor with the consent of the Senate. Of the ten members, three are representatives of employers 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. 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 regularly constituted courts as legal evidence; its decisions are final unless an appeal is made to the Courts.

Mr. Dennis R. Ruth was the Chairman of the Commission during the first 15 months of the audit period. Mr. Ruth became Chairman on February 22, 2003, and he resigned on October 2, 2008. Thereafter, Jerry Jutila served for one month, and then from November 7, 2008, Amy Masters served as Acting Chairman for the balance of the audit period. The new Chairman, Mitch Weisz, began serving as Acting Chairman on March 22, 2010. He was confirmed by the Senate on May 17, 2010. He was not previously employed by the Commission.

The total number of employees appears on the following page.

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	<b>FY09</b>	<b>FY08</b>	<b>FY07</b>
Administrative – General	83	83	85
Arbitrators	32	33	33
Court Reporters	28	28	28
Electronic Data Processing	9	10	10
Peoria Office	1	1	1
Metro East Office	1	1	1
Accident Reporting	2	2	2
Insurance Compliance	5	4	4
Administrative Exempt	2	2	2
Third Commission Panel	6	6	7
Self-Insurers' Administration Fund	5	5	4
Self-Insurers' Security Fund	2	2	2
<b>TOTAL</b>	<b>176</b>	<b>177</b>	<b>179</b>
Commissioners	9	9	9

The Commissioners are paid from the Comptroller's State Officers' Salaries appropriation. In FY09, Commissioners were paid about \$119,840, and the chairman earned \$120,486.

Appendix A summarizes caseload activity of the Commission, along with an analysis of cases closed during FY09, FY08 and FY07. The number of cases pending at year-end has decreased from 102,345 as of June 30, 2007 to approximately 100,785 as of June 30, 2009.

### **Expenditures From Appropriations**

Appendix B provides a summary of appropriations and expenditures for FY07 through FY09. The General Assembly appropriated a total of \$22,459,800 to the Commission for FY09. Total expenditures from appropriated funds in FY09 were \$19,094,820 compared to \$18,658,494 in FY08, which represents an increase of \$436,326, or 2.3%. The increase was primarily due to an increase in State contributions to employee retirement which rose from about 16.5% in FY08 to 21% in FY09. Lapse period spending was almost \$1.2 million or 6.3%.

In FY09 expenditures for Injured Workers' Benefit Fund increased by more than \$400,000 primarily due to payments of claims for injured workers of uninsured employers. The Injured Workers' Benefit Fund was created in FY06, but started to payout benefit claims in FY08. Also in FY09, spending decreased in the Self-Insurers' Security Fund by \$2.1 million due to a decline in settlement claims of employees of bankrupt self-insured companies.

### **Cash Receipts**

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Appendix C summarizes the total deposits remitted to the Comptroller by the Commission which totaled \$27,746,771 in FY09. The vast majority of receipts are in two funds, the Rate Adjustment Fund and the Self Insurers' Security Fund.

The Rate Adjustment Fund increased to \$19,258,158 and is financed through assessments on self-insured employers and insurance carriers based on their past payments of disability compensation. The Fund provides annual adjustments to compensation payments awarded for death benefits and permanent total disability.

### **Property and Equipment**

Appendix D summarizes the property and equipment for which the Commission was accountable for during the period under review. The balance was \$2,358,196 as of July 1, 2007, and \$2,584,863 on June 30, 2009, an increase of \$226,667, or 9.6%. The primary cause of the increase was due to the purchase of EDP equipment.

### **Locally Held and Nonappropriated Funds**

The following is a summary of the Commission's locally held and nonappropriated funds.

#### Transcript Deposit Fund

This Fund provides for the reimbursement of costs incurred by the Commission to process transcripts of case proceedings.

#### Rate Adjustment Fund

The Rate Adjustment Fund provides annual adjustments to compensation payments awarded for death benefits and permanent total disability. The Fund is financed by assessments of insurance carriers and self-insured employers on their past payments of disability compensation. The Fund has had to borrow money in order to meet its obligations. The total fund deficit at June 30, 2009 was \$6,039,745, which was a substantial improvement over the deficit in FY08 (\$9,929,119) and the deficit in FY07 (\$15,008,240).

#### Second Injury Fund

The Second Injury Fund provides compensation payments to employees who incurred the loss of or the permanent and complete loss or use of one member (hand, arm, leg, or eye) and then suffered the loss of or the permanent and complete loss or use of another member. The fund is financed through assessments on self-insured employers and insurance carriers based on their past payment of disability compensation.

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### Self-Insurers' Security Fund

The Self-Insurers' Security Fund provides compensation to employees of insolvent self-insured employers for any type of injury or occupational disease and all claims for related administrative fees, operating costs of the Board, attorney fees and other costs reasonably incurred by the Board. The Commission may, upon the direction of the Self-Insurers' Advisory Board, from time to time assess each of the private self-insurers a pro rata share of the funding reasonably necessary to carry out its activities.

### Workers' Compensation Benefit Trust Fund

This Fund receives and records escrow deposits and surety bonds posted by self-insured employers. The monies are to be used to pay workers' compensation benefits to employees of self-insured employers who filed for bankruptcy prior to the creation of the Self-Insurers' Security Fund.

### Self-Insurers' Administration Fund

The Self-Insurers' Administration Fund provides funds for the salaries and benefits of the Self-Insurers' Advisory Board employees and the operating costs of the Board. The Fund is financed by non-refundable application fees in the amount of \$500 received from each private self-insurer applying for self-insurance or renewal of self-insurance privilege.

### Operations Fund

This funding of this Fund was change in FY06 and provides for the operation of the Commission. Employers pay a 1.01% surcharge on Workers Compensation Insurance premiums while self-insured employers pay an assessment of 0.0075% of payroll.

### Injured Workers' Benefit Fund

The Fund was created in FY06, and started to pay out benefit claims in FY08 for injured workers of uninsured employers. The Fund is financed through penalty assessments on employers for violation of the Workers' Compensation Act.

## **Accountants' Findings and Recommendations**

Condensed below are the ten findings and recommendations presented in the audit report. Six recommendations were repeated from previous audits. The following recommendations are classified on the basis of updated responses provided by email on May 26, 2010 by Kate Melford, Confidential Assistant/Labor Relations Manager, Illinois Workers' Compensation Commission.

### **Accepted or Implemented**

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- 1. Review management policies, procedures, and internal controls over financial reporting and provide adequate oversight to ensure the accuracy of information, completeness of recorded transactions, and appropriate application of accounting policies in accordance with Generally Accepted Accounting Principles (GAAP).**

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

- IWCC-SISF did not recognize revenues in the proper accounting period. As such, the receivables and operating revenues for FY09 were understated by \$264,341. In addition, the improper revenue recognition resulted in a restatement of beginning net assets of \$284,128.
- IWCC-SISF did not record the prior fiscal year auditors' adjustment of \$1,075,260 to properly disclose the balance of the Liabilities for Unpaid Claims at June 30, 2008.
- IWCC-SISF did not properly record the reversal of the prior fiscal year balance of compensated absences of \$28,000.
- IWCC-SISF did not properly classify current and noncurrent liabilities for unpaid claims at June 30, 2009. The entire account balance of \$8,431,839 was presented as current liabilities whereas \$6,141,459 of that amount should have been classified as non-current liabilities.
- Liabilities for unpaid claims were understated by \$379,540 at June 30, 2009.

A review of other funds maintained by the Commission also revealed that revenues were not recognized in the proper accounting period. Receivables were not recorded at the end of the year for GAAP reporting purposes.

Commission officials stated the above issues occurred because employees did not have adequate training and education to implement proper accounting procedures.

**Response:** The Commission has implemented the appropriate Accounting Standards Board Rules in regards to Measurements Focus and Basis of Accounting. We note that we have been using a consistent methodology over several years and implementing the changes affect the fund balances for the current year but do not change the cash flow or actual amount of funds in the accounts over a multi-year period. The Commission has corrected the ledgers and GAAP Reports for this fund in FY09 and will continue to implement the new accounting rules.

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Additionally, the Commission has hired professional staff with a CPA license which should contribute to better financial statements. Finally, accounting staff will be sent to accounting/auditing/budgeting classes which should also help ensure familiarity and compliance with current account rules.

**Updated Response:** Implemented. The fiscal office has revised its ledgers to reflect all requirements in GASB 10.

### **2. Strengthen internal controls and procedures over the Rate Adjustment Fund (RAF) program to ensure proper payments are made timely to eligible recipients and assessments and other RAF income are diligently pursued, including penalties and benefits erroneously paid to recipients. (Repeated-2007)**

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

In the FY06-FY07 report, auditors noted the Commission discovered payment discrepancy problems and conducted a review of all its RAF cases, their histories and payments to identify potential cases that may have been eligible for payments. As a result, the Commission, together with the Office of the Comptroller, estimated a potential liability for back claims ranging from \$18 to \$22 million.

In FY09, the Commission hired a RAF Program Manager to help develop and improve policies and procedures and design an integrated database for the RAF. The Program Manager had developed several procedures, however, the procedures have not been formally approved, internal controls have not been implemented, and the procedures are often not followed. During testing, the policies and procedures were still at the inception stage and had not been implemented. At the end of FY09, the Commission estimated a contingent liability of \$22 million and had recorded \$3.6 million of liability for unpaid back claims.

During the current review of RAF processes and procedures, auditors noted the following internal control deficiencies:

- The RAF database was not timely updated for self-insured entities and insurance companies.
- The Commission did not have formal procedures to track RAF cases appealed beyond the Commission (Circuit, Appellate, or Supreme Courts).

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- The Commission lacked internal controls for terminating RAF benefit payments. A testing of 25 recipients whose eligibility to receive RAF benefit payments had ended showed that one continued to receive benefit payments for three months after they should have been terminated, resulting in an overpayment of \$1,887. Also, benefit payments totaling \$7,390 were erroneously made to the survivors of a fatally injured worker.
- The Commission used incorrect data for benefit payments. During testing of benefit payments, one of 25 new cases tested used \$511 per week instead of the revised amount of \$534 per week. Other problems included an incorrect amount posted to the docket system; cases not consistently coded as RAF in the docket system; one case with an erroneous start date; and five cases with no evidence of review to ensure accuracy of data input into the database.
- Penalties for nonpayment of assessments were not sought from insurance companies.

Commission officials stated the issues identified were due to inadequate RAF policies and procedures in prior years. New procedures were put in place to address these issues.

**Updated Response:** Accepted and partially implemented. The Commission continues to pursue development of an integrated database and is currently addressing significant underlying IT issues related thereto. Additionally, the Commission continues to institute and reinforce best practices with respect to administration of the RAF. These efforts include identification of additional cases for termination, more timely termination of settled cases, further development of a policy and procedures manual and development of suggested rules changes which will be pursued with JCAR. As we refine our administrative processes and further develop procedures, the controls and workflow for the integrated database will become evident.

### **3. Establish formal policies and procedures to provide guidelines for negotiation and settlement for uninsured employers. Also, provide adequate oversight so that both manual and electronic case files are properly maintained.**

**Findings:** The Commission did not have adequate controls to ensure that settlements for noncompliance with insurance requirements in accordance with the Workers' Compensation Act are properly documented and monitored.

The Commission investigates employers for noncompliance with the requirement to maintain insurance in accordance with the law. Employers found noncompliant are penalized \$500 per day for noncompliance or a minimum of \$10,000 if an order is issued by the Commission. The Commission determines the amount of penalty and settles with uninsured

**Accepted or Implemented – continued**

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employers. The settlement amount is determined by the Commission Investigators based on factors such as financial capability and cooperation from uninsured employers.

During testing, auditors noted the Commission did not have formal policies and procedures to define the proper determination of settlement amount charged to noncompliant employers. The Commission Investigators determine the maximum amount of penalty but this is usually reduced through the negotiation process with the employer and settled at a lower amount. There are no documented guidelines established to reduce the penalty and the extent of the reduction that can be made.

The Commission maintains both manual and electronic case files of uninsured employers. The manual files contain correspondences with uninsured employers, computation of fines, penalties, and settlement amounts, and other documents gathered during investigation and settlement. Information from the manual files is supposed to be encoded into the database so that both manual files and electronic files would have updated information. Auditors compared the information between the manual and electronic case files and noted the database was not updated to reflect current information evident from the manual files.

Commission officials stated there was lack of effective supervision to ensure procedures followed during negotiation and settlement of cases, including the maintenance of the database and manual files, were formalized.

**Updated Response:** The new manager of the Insurance Compliance department is currently working on establishing formal policies and procedures for negotiations, case management tracking and other internal controls including:

### **Policies and procedures for negotiated settlements in noncompliance cases:**

We have begun formalizing the factors to be used in setting penalty amounts for noncompliance cases. The factors include:

- Length of time without coverage
- Number of employees
- Number of workers' compensation claims brought against the employer
- Whether the employer knowingly and willfully failed to obtain insurance

Procedure:

- a. Calculate maximum fine pursuant to Section 4(d)
- b. Calculate amount saved in premium costs
- c. Settlement demand set at 10% of maximum fine and premium saved  
 $(a + b)10\% = c$
- d. Mitigation based on factors such as length of time without coverage, number of employees, claims against employer and reasons for failing to obtain insurance.

### **Case Management Tracking:**

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Steps are underway to clean up the noncompliance case database. We have closed over 2400 investigation files as well as ensured all new investigation files reflect the same information as reflected in manually kept files. We are also going back and updating open, active investigation files.

**Fiscal Controls:**

The Insurance Compliance unit is working with the Fiscal Office to formalize procedures to adequately track and account for settlement revenues collected.

**4. Comply with the requirements of the Fiscal Control and Internal Auditing Act. (Repeated-2001)**

**Findings:** The Commission did not comply with the Fiscal Control and Internal Auditing Act (FCIAA). In previous engagements, auditors reported the Commission did not file the FCIAA certifications for fiscal years 2004, 2005, 2006, and 2007. In the current engagement, it was noted the FCIAA certifications for fiscal years 2008 and 2009 were still not filed in compliance the Fiscal Control and Internal Auditing Act.

The Commission is neither a designated State agency required to establish a full-time program of internal auditing nor an agency that falls under the jurisdiction of the Illinois Office of Internal Audit. However, this does not relieve the chief executive officer from the responsibility of maintaining an effective internal control system.

Commission officials again cited the lack of internal auditor contributed to them not meeting the FCIAA requirements.

**Response:** Accepted. The Commission had previously entered into an agreement with the CMS's Internal Audit Office. However, limited resources did not allow for the internal auditor to provide assistance to any other program except the RAF program.

The Commission is in the process of creating an Auditor position and will seek funding from the Governor's Office and the General Assembly this year.

**Updated Response:** Accepted and partially implemented. Mitch Weisz, who began serving as the Commission's Chairman March 22, 2010, is working with a team to ensure compliance with the Fiscal Control and Internal Auditing Act. As the certification has not been completed in several years, this will be a very time-consuming undertaking. However, once the process is complete the FCIAA certification will be submitted.

**5. Comply with the Illinois Administrative Code and complete performance evaluations for all employees as required. Management should also design monitoring procedures to ensure that performance evaluations are completed timely. (Repeated-2005)**

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**Findings:** The Commission did not complete performance evaluations for its employees on an annual basis. Auditors noted the following:

- Thirteen of 25 (52%) employees tested did not have performance evaluations for both fiscal years 2008 and 2009.
- Two of 25 employees tested did not have a performance evaluation in FY09.
- Two of six new employees tested had not had a performance evaluation since they were hired. These two employees had worked for the Commission for nine and 20 months.
- One of six new employees tested did not have a performance evaluation during the six months probationary period.

Commission management stated performance evaluations were not performed because supervisory employees did not assign high priority to periodic performance reviews.

**Updated Response:** Accepted and partially implemented. The Commission has taken additional steps to ensure that performance evaluations for all employees are completed as required. CMS Labor Relations provided managers of the Commission a training course in March of 2010, providing the managers additional information on the evaluation process. Additionally, the HR office has developed an excel spreadsheet, documenting all employee evaluation due dates and providing emails to all managers reminding them of evaluation deadlines. The HR office continues to work with the IT department to develop the electronic system to track evaluation due dates and submission dates.

### **6. Adhere to the statute and improve control over property and equipment. (Repeated-2003)**

**Findings:** The Commission did not maintain adequate control over State property. The Commission's property and equipment reported on its Agency Report of State Property (C-15) for FY08 and FY09 totaled \$2,510,733 and \$2,584,863, respectively. The auditors noted the following:

- The Commission did not conduct an annual physical inventory in FY08 and did not submit a complete property listing to the Department of Central Management Services (DCMS). An extension until November 30, 2009 was obtained from DCMS to conduct the fiscal year 2009 inventory. The 2009 annual physical inventory was completed by November 30, 2009 and the property listing was submitted to the DCMS on December 1, 2009.

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- The C-15 reports for both fiscal years ended June 30, 2008 and June 30, 2009 did not match with the Commission's detailed equipment listing as follows:

	Per C-15	Per Detailed Equipment Listing	Variance Over (Under)
June 30, 2008	\$2,510,733	\$2,509,232	\$1,501
June 30, 2009	\$2,584,863	\$2,587,016	(\$2,513)

- Two of 25 equipment additions tested totaling \$2,979 were not properly valued in the detailed asset listing.
- Five of 25 equipment items physically inspected were not properly recorded in the detailed asset listing.
- Twenty-five of 25 equipment items tested that were transferred to the Department of Central Management Services (DCMS) lacked required information such as historical cost, purchase price and date.
- The detailed asset listings for FY08 and FY09 were not properly maintained and organized to allow proper accountability. The detailed assets listing did not include information such as location of the asset and department/division charged with custody. As such, physical tracing of assets from inventory listings to floor locations could not be performed.
- The C-15 reports for the quarter ended June 30, 2009 and June 30, 2008 included items totaling \$21,634 and \$98,103, respectively. These items were for equipment ordered but not actually received at year end and therefore should not have been included in the C-15 reports.

Commission management stated the Commission experienced several problems with the old property inventory system. As such, a new property control system was purchased on May 2007 to address the problems with the old system. The new system was not yet fully implemented at the time of testing.

**Response:** The Commission had purchased a new system and hired new staff to take over the responsibility for inventory. Most of the findings were errors that occurred due to the previous lack of controls and all new personal and systems being implemented. New procedures have been written to address most of these issues.

**Updated Response:** Accepted. The fiscal office is in the process of hiring a person who will take over responsibility for this function.

**Accepted or Implemented – continued**

- 7. Develop and implement a formal systems development methodology to assist in planning, developing, testing, and implementing new system developments or modifications to existing systems. Also, develop and implement formal change control policies and procedures for all change requests. (Repeated-2001)**

**Findings:** The Commission had not established a formal System Development Methodology or Change Control Procedures.

The Commission had several computer applications that were critical for providing a no-fault system of benefits to workers who experience job-related injuries or diseases. The Commission plans to rewrite some of its critical applications; however, a formal methodology to assist in the planning, development, testing and implementation of computer applications did not exist.

The Commission also did not have formal change control procedures for documenting the identification of problems, the requests and approvals of program changes, or the movement of authorized changes into production for all applications.

Commission officials stated that for the past few years, the Commission had been faced with key staff turn-over. As a result, the Commission focused on continuing and accomplishing ongoing information technology projects, rather than establishing formal policies and procedures.

**Response:** Accepted. The Commission has purchased new help desk software to monitor and track all user requests for IT services. The change management component of this software is currently being configured which will allow the Commission to accurately track and automate change using proven best practices. The system will allow the Commission to document who initiated the change, the reason for the change, the required return from the change, the risks involved, the required resources and who the responsible party is. Formal change control policies and procedures will also be developed for all change requests in coordination with implementation of change management component.

**Updated Response:** Accepted and partially implemented. The IT Department has submitted a proposal to Management to establish a Program Management Office. The Program Management office will provide the resources and expertise necessary to develop a comprehensive system development methodology including the appropriate standards and procedures.

Additionally, the Numara Track-IT system has been employed to provide a means of documenting program change requests and approval by stake holders and the steering committee, where deemed appropriate. Visio diagrams have been created to depict the processes involved. These diagrams will be used to illustrate the process to members of the steering committee at the next meeting.

8. **Establish comprehensive policies and procedures that outline general security provisions, appropriate use of computer resources, backup and care of data, and other appropriate policies to help ensure that effective controls exist. Communicate policies and procedures to all users and monitor for compliance. In addition, require all users to sign a statement acknowledging they have read, understand, and agree to comply with these policies.**

**Strengthen computer security within the computing environment by enforcing an access control strategy such as limiting concurrent connections and ensuring passwords are changed on a periodic basis. (Repeated-2003)**

**Findings:** The Commission had not established adequate security policies and control over its computer environment.

The primary mission of the Commission is to provide a no-fault system of benefits paid by employers to workers who experience job-related injuries or diseases. The Commission operates the state court system for workers' compensation cases. To accomplish this, the Commission relies on its mainframe and local area network (LAN) applications. The current computer policy was outdated and did not provide details with regards to computer operations at the Commission.

In addition, while Commission employees needed a password to gain access to the local area network, they were not required to change this password on a regular interval. Furthermore, employees could log into many computers at the same time.

Commission officials stated that for the past few years, the Commission had been faced with key staff turn-over. As a result, the Commission focused on continuing and accomplishing ongoing information technology projects, rather than establishing formal policies and procedures. The Commission tried to implement a 30-days password expiration policy but found that it did not have the resources to satisfy the help desk requests for password resets.

**Response:** Accepted. The Commission agrees with the recommendation in regard to establishing comprehensive policies and procedures to be signed by all staff. Although we realize that security can always be enhanced, we do enforce some security measures. The Commission uses a password security system for its court case management system, which requires a password change interval. On other systems, we restrict user access to information based upon job function.

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The Commission agrees with the recommendation to limit connections allowing for one sign in at a time, and will review issues related to LAN password changes. The

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Commission is currently working with a network specialist to continue to improve network security measures.

**Updated Response:** Accepted and partially implemented. The IT Department has drafted two security policies that are in the final stages of management approval to address the computer security issues. They are the Portable Computer and Acceptable Internet Usage policies. These will be followed closely by the development of other policies to strengthen the control environment.

Additionally, an outline of a comprehensive Security Awareness program has been submitted for management review and approval. The strategic objective of the program is to develop an environment and culture where all IWCC personnel understand and appreciate the value of sound security controls and demonstrate so through their behavior. The outline includes a number of tactical initiatives, including password security that will support the achievement of the long term objectives.

Also, a security assessment of the public terminals located at the JRTC was performed in mid April 2010. Seven control weaknesses were noted during the assessment. Three issues were resolved during the assessment and action plans are in place to address those remaining. A control assessment is also in progress for the Central File Room operations.

The combination to the lock on the IWCC computer room at the JRTC has been changed to ensure that only authorized personnel have access to the facility. The combination will be changed on a periodic basis and when personnel leave the department or no longer require access. In addition a lock combination lock will be installed on the back door of the IT department office space and entrance to the front door will be monitored by the administrative assistant. In her absence the door will be closed and monitored by other persons in the department.

**9. Develop a comprehensive disaster recovery plan to address issues relevant to the continuance of services to users of their essential computer systems. To ensure the Commission has the capability to recover from a disaster, include procedures to recover all critical computer systems. Minimize risk and implement the following:**

- **Ensure the Plan reflects the current environment.**
- **Ensure the Plan is updated each year.**
- **Formally assign the title of Disaster Recovery Coordinator.**
- **Include in the Plan:**
  - **Identification of current personnel, their responsibilities and telephone numbers**
  - **Listing of backup tapes**
  - **Listing of prioritized applications**

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- Detailed restoration procedures
- Adequate off-site facility for temporary processing and off-site storage
- Recovery results
- Copies of the plan should be distributed accordingly, having one available on-site in a secure location.

**In addition, perform a test of the disaster recovery plan on the LAN and the mainframe at least annually in order to determine the effectiveness of the plan and ensure that personnel are adequately trained. Upon completion of the test, update the plan to reflect the results.**

**Findings:** The Commission did not have a formal comprehensive disaster contingency plan to promote recovery of its computer systems. In addition, recovery tests had not been performed on the local area network. The Commission tested the recovery of its mainframe-based systems using backup files in April 2009. However, test documentation was limited, there was no written guide outlining the recovery steps, and testing was performed by the backup coordinator (who later retired).

The Commission had not identified key components, such as a recovery site, procurement of replacement equipment and defined personnel assignments in the event of a disaster. Furthermore, the Commission did not perform backups of some applications and data on separate devices, nor did it retain its backup media at an off-site location.

Commission officials stated they plan to mirror its Chicago server and its Springfield server so they would each represent an offsite backup to the other. To complete this, they will have to purchase three additional drives for the Springfield server. The Commission is awaiting approval from the Department of Central Management Services to move forward on this project.

**Response:** Accepted. The Commission performed a successful disaster recovery test of its mainframe court case management system as its mainframe EDI system with the approval of CMS. The test showed there were adequate backups at an off-site facility for storage. Formal documentation of the process is under development. The Commission plans to perform this test on an annual basis.

In regard to the LAN Disaster recovery, the Commission plans to have a new plan completed, tested and in place before the FY10 cycle ends. The required hardware and software have been purchased. Hardware setup and configuration is ongoing. This new process will provide disaster recovery between our Chicago and Springfield facilities. Formal documentation will be provided upon completion.

### **Accepted or Implemented – concluded**

**Updated Response:** Partially implemented. In order to address this issue, a proposal for establishing a Program Management Office has been submitted to management for approval. The Program Management Office will provide the resources

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and expertise necessary to develop a comprehensive disaster recovery program and capability. Until the Program Management Office is in place, a technical consultant has been contracted to assist in developing an interim recovery capability for the Commission's LAN environment.

Also, a mainframe recovery exercise is being scheduled for September to coincide with the CMS /BCCS test.

- 10. Form an information technology steering committee that meets regularly and keep minutes of those meetings. Include on the steering committee representation from senior management, user management and IT management. Prepare a strategic information technology plan for the entire Commission that addresses business process, policies, system development methodology, disaster contingency planning, computer security and the responsibilities of the Commission staff. Review the plan periodically and update at least annually to ensure it meets the needs of the Commission.**

**Findings:** The Commission did not have an information technology (IT) steering committee or an effective strategic planning process.

The Commission had several computer applications that were critical for providing a no-fault system of benefits to workers who experience job-related injuries or diseases. The Commission plans to rewrite some of its critical applications; however, a strategic plan had not been developed to guide ongoing and future IT projects.

Commission officials stated that for the past few years, the Commission had been faced with key staff turn-over. As a result, the Commission focused to continue and accomplish ongoing information technology projects, rather than establish formal policies and procedures.

**Updated Response:** Partially Implemented. A Steering Committee has been established to facilitate the development and execution of a comprehensive strategic plan. In addition a proposal for establishing a Program Management Office has been submitted to management for approval. The Program Management office will provide the resources and expertise necessary to carry out the initiatives resulting from the strategic planning process. The initial meeting was conducted in mid March and a calendar of regular meetings will be established in the near future.

The IT Manager has developed and submitted an extensive road map of projects and initiatives related to strategic planning. The road map addresses the resolution of audit and control issues documented in recent audits and internal control assessments.

### **Emergency Purchases**

The Illinois Purchasing Act (30 ILCS 505/1) states, "The principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts..." The law also recognizes that there will be emergency situations when it will

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be impossible to conduct bidding. It provides a general exemption for emergencies “involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services, to insure the integrity of State records or to avoid lapsing or loss of federal or donated funds. The Chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make ‘quick purchases’, including but not limited to items available at a discount for a limited period of time.”

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY08 the Illinois Workers’ Compensation Commission filed no affidavits for emergency purchases. During FY09, the Commission filed two affidavits totaling \$105,000.00 for medical data analysis and one affidavit for \$63,000.00 for computer software update related to changes in hospital coding.

### **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 of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time.

The Industrial Commission filed a report June 30, 2009 stating that 12 of its officers and employees spent more than 50% of their time away from their official headquarters.