LEGISLATIVE AUDIT COMMISSION

Review of
Illinois Industrial Commission
Two Years Ended June 30, 2003

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REVIEW: 4208
ILLINOIS INDUSTRIAL COMMISSION
TWO YEARS ENDED JUNE 30, 2003

FINDINGS/RECOMMENDATIONS - 10

IMPLEMENTED - 1
ACCEPTED - 9

REPEATED RECOMMENDATIONS - 5

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 7

This review summarizes an audit of the Illinois Industrial Commission for the two years ended June 30, 2003, filed with the Legislative Audit Commission April 6, 2004. The auditors performed a financial and compliance audit in accordance with Government Auditing Standards and State law. They stated that the financial statements were fairly presented.

The Illinois Industrial Commission administers the Workers' Compensation Act and the Occupational Disease Act. The Self-Insurance Advisory Board, established within the Commission, was created for the purpose of administering the Self-Insurance Security Fund. The Commission consists of seven members appointed by the Governor with the consent of the Senate. Of the seven members, two are representatives of employers and two are employees covered under the Act, and three are not identified with either employers or employees. The Chairman is selected by the Governor. Not more than four 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.

John Hallock, Jr. was the Chairman of the Illinois Industrial Commission during most of the audit period. Mr. Dennis R. Ruth became Chairman on February 22, 2003. Prior to becoming Chairman, Mr. Ruth served as a Commission arbitrator.

The total number of employees was as follows:

	FY03	FY02	FY01
Administrative – General	83	89	93
Arbitrators	22	23	24
Court Reporters	26	26	28
Electronic Data Processing	11	11	10
Peoria Office	1	1	1
Accident Reporting	3	3	3
Information Handbook	1	1	1
Self-Insurers' Administration Fund	5	6	5
Self-Insurers' Security Fund	2	3	9
TOTAL	**154**	**163**	**175**
Commissioners	6	6	6

The Commissioners are paid from the Comptroller's State Officers' Salaries appropriation. Commissioners are now paid $106,400 per year.

Appendix A summarizes caseload activity of the Commission, along with an analysis of cases closed during FY03, FY02 and FY01. The number of cases pending at year-end has decreased from 119,893 as of July 1, 2001 to 116,251 as of June 30, 2003.

Expenditures From Appropriations

Appendix B provides a summary of appropriations and expenditures for FY01 through FY03. The General Assembly appropriated a total of $10,733,600 (all General Revenue Fund) to the Industrial Commission for FY03. Total expenditures in FY03 were $10,265,726 compared to $10,610,509 in FY02, which represents a decrease of $344,783, or 3.2%. EDP expenditures also included associated personnel costs. The increase in Metro East Area Office expenses was due to normal operating changes being incurred. This office opened in September 2002, so the annualized expense was greater. Most other expenses were lower due to a decrease in appropriations.

Cash Receipts

Appendix C summarizes the total deposits remitted to the Comptroller by the Commission which totaled $22,536,300 in FY03. The vast majority of receipts are in two funds. Receipts in the Self-Insurers' Security Fund increased to $12,292,586 due to the fact that two companies filed bankruptcy during FY03 and paid approximately $10 million in surety bonds into the Fund.

The Rate Adjustment Fund increased to $8,702,648, 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.

Locally Held and Nonappropriated Funds

Appendix D provides 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, 2003 was $12,950,021.

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.

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.

<u>Operations Fund</u>

This Fund was created in FY99 and provides for the operation of the Commission. The Fund is financed through penalty assessments on employers for violation of the Workers' Compensation Act.

Property and Equipment

Appendix E summarizes the property and equipment for which the Commission was accountable for during the period under review. The balance decreased from $1,735,442 as of July 1, 2001, to $1,475,205 at June 30, 2003, a decrease of $253,746, or 14.6%. The primary cause of the decrease was transfer of outdated EDP equipment.

Accountants' Findings and Recommendations

Condensed below are the ten findings and recommendations presented in the audit report. Five of the recommendations in the report were repeated from previous audits. The following recommendations are classified on the basis of information provided in the original audit report by Charles T. Kusar, Chief Financial Officer, Illinois Industrial Commission.

Implemented

1. Strengthen internal controls by ensuring conflicting duties are adequately segregated. In addition, the employee who reconciles the cash receipt journal should initial and date the reconciliation.

<u>Findings:</u> The Commission had inadequate segregation of duties in the following two areas:

- The same employee was responsible for purchasing equipment, maintaining the inventory listing, maintaining the equipment tags, and receiving the equipment.
- The same employee that maintained the cash receipt journal could also reconcile it.

<u>Response:</u> Implemented. As soon as this weakness was brought to the Commission's attention, duties were reassigned. The Commission will continue to review the assignment of duties to make certain there is adequate separation of responsibilities. In addition, the Commission will require the reconciliations to be initialed and dated by the preparer.

Accepted

2. Continue to perform secondary procedures, such as cross checks with the Department of Insurance to ensure that payments in accordance with statutory requirements are made to the Funds. Consider pursuing legislation to permit the performance of field audits. (Repeated-1987)

Findings: The Commission did not determine that employer contributions made to various funds as required by the Workers' Compensation Act were in accordance with statutory requirements. State statutes do not grant the Commission authority to perform field audits and therefore has to rely on secondary procedures. Without better procedures to ascertain the accuracy of the amounts paid, there is no certainty that employers are paying the correct amounts.

The Illinois Workers' Compensation Act requires:

- All employers to make contributions based on a percentage of all compensation paid during a specified period to the Second Injury Fund at a rate of 1/8th of 1%. When the fund reaches $500,000, then the amount required to be paid by employers should be reduced by one-half, and when the fund reaches $600,000, the payments shall cease entirely. However, when the fund has been reduced to $400,000, payment of one-half shall be resumed, and when the fund has reduce to $300,000, payments in full shall be resumed.
- Contributions made to the Rate Adjustment Fund shall be at a rate of ½ of 1%. When the fund reaches $4 million, then the amount required to be paid by employers should be reduced by one-half, and when the fund reaches $5 million, then the payments shall cease entirely. However, when the fund has been reduced to $3 million, the payments in full shall be resumed.
- All group self-insurers make contribution of 0.5% of all compensation payments made under either the Workers' Compensation Act or the Workers' Compensation Disease Act to the Group Self-Insurers' Insolvency Fund.
- Private self-insurers contribute to the Self-Insurers' Security Fund a pro rata share based on the most recent payment into the Rate Adjustment Fund, not to exceed more than 0.6% at one time, of compensation paid during the preceding year.

Response: Accepted. The Commission will continue to perform secondary procedures to ensure that payments in accordance with statutory requirements are made to the Funds. We also will consider pursuing legislation to perform more direct verifications.
Accepted - continued

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

Findings: The Commission was not incompliance with the Fiscal Control and Internal Auditing Act (FCIAA). The certification of internal fiscal and administrative controls is due

May 1 of each year. The FY02 certification was submitted in November 2002 and was not based on a thorough internal control evaluation. The FY03 certification was not submitted.

The auditors noted the following noncompliance:

- No internal audits were performed during FY02 or FY03.
- No internal audit was performed of the petty cash funds.

The Fiscal Control and Internal Auditing Act requires that by May of each year, each chief executive officer of all State agencies to prepare and transmit to the Auditor General a certification as to whether or not the systems of internal fiscal and administrative controls comply with the requirement of FCIAA.

FCIAA requires the chief executive officer to ensure the internal auditing program includes audits of all major systems of internal accounting and administrative control at least once every two years.

Response: Accepted. The Commission will refocus its attention to internal audit issues with the assistance of the Office of Internal Audit within the Department of Central Management Services.

4. Pursue legislation that would enable the Commission to comply with the Workers' Compensation Act or pursue other statutory remedies.

Findings: The Commission was not collecting statutorily required payments from out-of-state insured employers. The Workers' Compensation Act requires out-of-state insured employers, engaged primarily in the building and construction industry, to make payments based on the insurance premiums for the location in Illinois where the work is being performed. The Commission is responsible for imposing a penalty upon an employer who does not make the proper payment.

Commission personnel state they have no way of inquiring about out-of-state rates. Without knowing the out-of-state rate, they cannot compare it to the in-state rate and require the employer to pay the difference.

Response: Accepted. The Commission will research what additional legislation is necessary in order for the Commission to comply with this mandate.

5. Implement the necessary controls to ensure vouchers are approved or denied within the time required by law and that all invoices be date-stamped when received.

Findings: The Commission did not always date-stamp invoices when they were received; therefore, it was not possible to determine whether vouchers were approved or denied within the 30-day time period required by law.

The auditors noted that for 49 of 147 vouchers tested, totaling $404,385, the invoices were not date-stamped. Failure to approve or deny vouchers timely could cause the State to incur interest penalties.

Response: Accepted. The Commission will direct that all invoices be date-stamped upon receipt.

6. Ensure all invoice vouchers are signed and dated by the receiving officer.

Findings: The Commission's invoice-vouchers were missing the signature and date of the receiving officer. Based upon the 147 invoice vouchers examined, 43 vouchers, totaling $16,408, were lacking the signature and date of the receiving officer.

Response: Accepted. The Commission agrees with the recommendation that a receiving officer approve all invoice vouchers, and will implement this process immediately.

7. Implement procedures to strengthen the accounting for property and equipment.

Findings: Property and equipment was not adequately reported in the Commission's records. The auditors noted the following exceptions:

- No complete physical inventory of property and equipment since June 2001, and the next inventory is scheduled for June 2004. According to the Statewide Accounting Management System (SAMS), agencies should conduct inventory on an annual basis.
- Property records lacked information on the location of the property and equipment within the Commission.

Accepted - continued

- Five of 12 equipment items purchased prior to the audit period could not be traced to the property control records. Either the tag number did not appear on the inventory listing or the item was not tagged at all. In addition, none of the three FY02 and FY03 equipment purchases examined had been tagged or could be traced to the property control records.
- Seven of 13 equipment items, totaling $14,709, selected from the property control records could not be located.

- Two of the 10 equipment items examined had both Commission tags and CMS tags. The items were not included in the Commission's property control records.
- 23 of the 24 equipment deletions, totaling $50,310, were not properly approved by the Commission.

Response: Accepted. The Commission will complete the physical inventory by the end of February 2004. This inventory process will allow us to include specific room locations on our records, in addition to the official location code used by CMS.

8. Form a steering committee from senior management, user management and information services to prepare a strategic information technology plan to address the business process, policies and procedures, computer security, and responsibilities of staff. Review plan periodically and update annually. The Committee should meet regularly and keep minutes. (Repeated 2001)

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

The Commission had not developed a strategic plan until it was required to submit information regarding its current environment, personnel, budget and Information System strategies to the Illinois Technology Office in 2001. The submission did not contain sufficient detail to reflect the Commission's environment, or sufficiently address its information technology plans or mission. Since 2001, the Commission has not made any improvements to the planning systems, nor have they developed a strategic plan of their own.

In addition, a steering committee for ensuring the strategic plan is adequate and meets the Commission's mission did not exist. Members of senior management met in July 2003 to discuss an overall strategic plan for the Commission; however, no minutes were prepared. Therefore, it is unclear whether this constituted a steering committee or addressed technology issues. The lack of a steering committee and strategic planning process has contributed to deficiencies in the Commission's business process including a lack of strategic direction, inadequate policies and procedures, insufficient disaster contingency capabilities, computer security deficiencies, and ineffective communication of responsibility to staff.

Commission management should ensure that issues and opportunities, for the Information Systems division and the entire Commission, are assessed and incorporated into a strategic plan. The planning process should be structured to accommodate changes within the Commission and changing technology. The strategic plan should be comprehensive, evaluate risks, evaluate alternatives, and analyze cost benefit relationships of the alternatives. This strategic planning process should be translated into short and long-term plans and goals.

The Commission's focus has been on other developments rather than formalizing a strategic planning process. Without a strategic plan, the Commission could fail to perform its mission of resolving disputes between injured workers and employers.

<u>Response:</u> Accepted. Since July 2003 senior managers from each department have met with the Chairman on a monthly basis to discuss key issues facing the agency. Every month an agenda of commission issues are addressed in detail by the group. This group has been instrumental in resolving business, procedure and policy issues and shall continue to work towards full compliance.

9. 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, enforce and monitor for compliance. Strengthen security with the computing environment by establishing, implementing, monitoring, maintaining and enforcing an access control strategy relating to the LAN and internet, specifically:

- **Develop and distribute LAN and security policies outlining basic security guidelines and identifying user responsibilities. Have users sign a statement acknowledging that they have read the policies and agree to comply;**
- **Require passwords on all user accounts;**
- **Prohibit use of generically assigned user accounts;**
- **Enforce 30-day password change policy;**
- **Revoke or disable accounts during extended periods of non-use;**
- **Require all unattended workstations to have password-protected screensavers and implement controls to prevent unattended workstations from remaining active for excessive timeframes;**
- **Require all workstations to have antivirus software installed and updated timely; and**

Accepted - concluded

- **Implement security controls to restrict access to the web site computer to prevent unauthorized changes to the web site. (Repeated-2001)**

<u>Findings:</u> The Commission had not established adequate security control over its LAN or internet environments. The Commission relies on its computer resources to meet its mission. The auditors noted the following security control deficiencies:

- A LAN Policy was approved on 9/13/01. However, key provisions regarding acceptable use, backup, and security were not included in the policy;

- There is no Security Policy. One was drafted in 2001, however it was never distributed. It addressed internet, LAN, and mainframe access, however key provisions regarding acceptable usage and security were not included;
- Days between forced password changes exceeded the Commission's policy of 30 days and some users had no interval set at all;
- The Administrator account password never has to be changed;
- Passwords were not required on all user accounts;
- some user accounts were generically assigned and shared by employees;
- physical security restrictions limiting public access to user workstations did not exist;
- 68% of the workstations were not protected with anti-virus software; and
- Access to hardware and software utilized to update the Commission's website was not protected

Response: Accepted. The Commission will comply with the recommendation.

10. Develop a formal system development methodology to assist in planning, developing, testing and implementing new system developments or modifications to existing systems. At a minimum the methodology should include:

- **Outline of responsibilities throughout each project phase;**
- **Requirements for the development and maintenance of user manuals and system/program documentation;**
- **Specifications for initiation and approval of a new development or modification project;**
- **Requirements for the design of a project including information requirements, feasibility studies, and user participation in design;**
- **Guidelines for the development of a project including documentation, system testing, user testing, and training plans;**
- **Guidelines for implementing a project;**
- **Requirements for post-implementation review.**

Change control procedures should include:

- **Outline of responsibilities for change process;**
- **Provide specific instructions for initiation and approval of request; and**
- **Procedures for handling emergency changes. (Repeated-2001)**

Findings: The Commission had not established formal system development methodology or change control procedures. The Commission develops, acquires, implements, maintains, and modifies seven information systems that are critical for completing its mission. However, there was no formal methodology to assist in the planning of the information systems development process, testing, and changing programs.

The Commission does not have formal change control procedures for documenting a problem identified, requesting a change, approving a change, or moving an authorized change into production for all applications.

The Commission began using a Lotus notes application to initiate and provide follow up on all projects since November 2001. However, projects that began before November 2001 did not have documented changes and no formal policies or procedures have been established.

<u>Response:</u> Accepted. The Commission will comply with this recommendation.

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 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 or to insure the integrity of State records. 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 FY02-03 the Illinois Industrial Commission filed no affidavits for emergency purchases.

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 on June 12, 2003 stating that 35 of its officers and employees spent more than 50% of their time away from their official headquarters.

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In the previous audit period, 13 employees spent more than 50% of their time away from official headquarters.