

**STATE OF ILLINOIS  
DEPARTMENT OF INSURANCE**

**COMPLIANCE EXAMINATION  
For the Year Ended June 30, 2010**

**Performed as Special Assistant Auditors  
for the Auditor General, State of Illinois**



**STATE OF ILLINOIS  
DEPARTMENT OF INSURANCE  
COMPLIANCE EXAMINATION  
For the Year Ended June 30, 2010**

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
Agency Officials .....	1
Management Assertion Letter.....	2
Compliance Report	
Summary .....	4
Accountant’s Reports	
Independent Accountants’ Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes .....	7
Schedule of Findings	
Current Findings – State Compliance .....	10
Prior Findings Not Repeated.....	14
Supplementary Information for State Compliance Purposes	
Summary .....	15
Fiscal Schedules and Analysis	
Schedule of Expenditures of Federal Awards.....	16
Notes to the Schedule of Expenditures of Federal Awards .....	17
Schedule of Appropriations, Expenditures and Lapsed Balances .....	19
Schedule of Locally Held Funds.....	21
Schedule of Changes in State Property .....	22
Schedule of Cash Receipts by Fund.....	23
Schedule of Cash Receipts by Category .....	24
Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller .....	25
Analysis of Significant Lapse Period Spending .....	26
Analysis of Accounts Receivable .....	27
Analysis of Operations	
Agency Functions and Planning Program.....	28
Average Number of Employees.....	31
Service Efforts and Accomplishments (Not Examined).....	32

**STATE OF ILLINOIS  
DEPARTMENT OF INSURANCE**

**AGENCY OFFICIALS**

**Director:**

June 2009 to present

Mr. Michael McRaith

**Chief Deputy Director:**

June 2009 to present

Mr. Jack Messmore

**Chief Fiscal Officer:**

June 2009 to present

Ms. Jane Bachman

**Chief Legal Counsel:**

June 2009 to present

Mr. Robert Wagner

**Deputy Director, Financial Corporate Regulatory:**

June 2009 to present

Ms. Etta Mae Credi

**Deputy Director, Consumer Market:**

June 2009 to August 2010

August 2010 to present

Mr. Bill McAndrew

Vacant

**Deputy Director, Public Pension:**

June 2009 to March 2010

March 2010 to present

Mr. Scott Brandt, Acting

Mr. Travis March

**Deputy Director, Director of Information Technology:**

June 2009 to present

Mr. Paul Escarraz, Acting

**Deputy Director, Legislative Affairs:**

June 2009 to present

Ms. Melissa Hansen

**Internal Auditor:**

July 2010 to present

Mr. Edward Schofield

Agency offices are located at:

320 West Washington Street  
3rd Floor  
Springfield, IL 62786

James R. Thompson Center  
100 West Randolph, 9th Floor  
Chicago, IL 60601



# Illinois Department of Insurance

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PAT QUINN  
Governor

MICHAEL T. McRAITH  
Director

## MANAGEMENT ASSERTION LETTER

Sikich LLP  
Certified Public Accountants & Business Advisors  
3201 West White Oaks Dr., Suite 102  
Springfield, IL 62704

April 19, 2011

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Agency. We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the Agency's compliance with the following assertions during the year ended June 30, 2010. Based on this evaluation, we assert that during the year ended June 30, 2010, the Agency has materially complied with the assertions below.

- A. The agency has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The agency has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The agency has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the agency are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.


- E. Money or negotiable securities or similar assets handled by the agency on behalf of the State or held in trust by the agency have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

Department of Insurance



Michael T. McRaith, Director



Jane S. Bachman, Chief Fiscal Officer



Robert Wagner, Chief Legal Counsel

**STATE OF ILLINOIS  
DEPARTMENT OF INSURANCE**

**COMPLIANCE REPORT**

**SUMMARY**

The Department of Insurance (Department) was established on June 1, 2009 by Executive Order 2009-04 of the Governor. The Department was previously a part of the Department of Financial and Professional Regulation as the Division of Insurance. This is the initial compliance examination of the Department.

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

**ACCOUNTANTS' REPORTS**

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

**SUMMARY OF FINDINGS**

<u>Number of</u>	<u>Current Report</u>	<u>Prior Report</u>
Findings	3	N/A
Repeated findings <sup>(a)</sup>	1	N/A
Prior recommendations implemented or not repeated <sup>(a)</sup>	1	N/A

<sup>(a)</sup> Findings relating to the Division of Insurance reported as part of the compliance examination of the Department of Financial and Professional Regulation for the year ended June 30, 2008.

Details of findings are presented in a separately tabbed report section.

**SCHEDULE OF FINDINGS**

FINDINGS (STATE COMPLIANCE)

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
10-1	10	Untimely approval or denial of life, accident, and/or health insurance policy forms	Noncompliance, significant deficiency
10-2	11	Employee performance evaluations not performed on a timely basis	Noncompliance, significant deficiency

FINDINGS (STATE COMPLIANCE) - Continued

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
10-3	12	Time sheets not maintained in compliance with the State Officials and Employees Ethics Act	Noncompliance, significant deficiency

PRIOR FINDINGS NOT REPEATED (STATE COMPLIANCE)

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
A	14	Recommendations presented in the Management Audit of Group Workers' Compensation Self-Insured Pools not implemented

**EXIT CONFERENCE**

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on April 14, 2011. Attending were:

DEPARTMENT OF INSURANCE

Michael T. McRaith	Director
Jack Messmore	Chief Deputy Director
Jane Bachman	Chief Fiscal Officer
Edward Schofield	Internal Auditor

OFFICE OF THE AUDITOR GENERAL

Peggy Hartson	Audit Manager
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SIKICH LLP

Nick Appelbaum	Partner
Leslie McConnell	Manager

Responses to the recommendations were provided by Jane Bachman, Chief Fiscal Officer, in correspondence received on April 19, 2011.





3201 West White Oaks Drive, Suite 102 • Springfield, IL 62704

**INDEPENDENT ACCOUNTANTS' REPORT ON STATE COMPLIANCE,  
ON INTERNAL CONTROL OVER COMPLIANCE, AND ON SUPPLEMENTARY  
INFORMATION FOR STATE COMPLIANCE PURPOSES**

Honorable William G. Holland  
Auditor General  
State of Illinois

**Compliance**

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois, Department of Insurance's compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2010. The management of the State of Illinois, Department of Insurance is responsible for compliance with these requirements. Our responsibility is to express an opinion on the State of Illinois, Department of Insurance's compliance based on our examination.

- A. The State of Illinois, Department of Insurance has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The State of Illinois, Department of Insurance has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The State of Illinois, Department of Insurance has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the State of Illinois, Department of Insurance are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

- E. Money or negotiable securities or similar assets handled by the State of Illinois, Department of Insurance on behalf of the State or held in trust by the State of Illinois, Department of Insurance have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the State of Illinois, Department of Insurance's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the State of Illinois, Department of Insurance's compliance with specified requirements.

In our opinion, the State of Illinois, Department of Insurance complied, in all material respects, with the requirements listed in the first paragraph of this report during the year ended June 30, 2010. However, the results of our procedures disclosed instances of noncompliance, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as items 10-1, 10-2 and 10-3.

### **Internal Control**

The management of the State of Illinois, Department of Insurance is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the State of Illinois, Department of Insurance's internal control over compliance with the requirements listed in the first paragraph of this report as a basis for designing our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Department of Insurance's internal control over compliance.

A *deficiency* in an entity's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *material weakness over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we considered to be significant deficiencies as described in the accompanying schedule of findings as items 10-1, 10-2 and 10-3. A *significant deficiency over compliance* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

As required by the Audit Guide, immaterial findings excluded from this report have been reported in a separate letter to your office.

The State of Illinois, Department of Insurance's responses to the findings identified in our examination are described in the accompanying schedule of findings. We did not examine the State of Illinois, Department of Insurance's responses and, accordingly, we express no opinion on the responses.

#### **Supplementary Information for State Compliance Purposes**

Our examination was conducted for the purpose of forming an opinion on compliance with the requirements listed in the first paragraph of this report. The accompanying supplementary information as listed in the table of contents as Supplementary Information for State Compliance Purposes is presented for purposes of additional analysis. We have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the 2010 Supplementary Information for State Compliance purposes, except for information on Service Efforts and Accomplishments on which we did not perform any procedures. However, we do not express an opinion on the supplementary information.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and agency management, and is not intended to be and should not be used by anyone other than these specified parties.

*Sehik LLP*

Springfield, Illinois  
April 19, 2011

**10-1**      **FINDING:**    (Untimely approval or denial of life, accident, and/or health insurance policy forms)

The Department failed to approve/deny life, accident, and/or health insurance policy forms submitted by insurance companies in a timely manner as required by the Illinois Insurance Code.

During our testing, we noted that 39 out of 50 (78%) policy forms reviewed were not approved or denied on a timely basis. These policy forms were approved or denied between 36 and 716 days later than the maximum 90 day time period.

The Illinois Insurance Code (Code) (215 ILCS 5/143) requires the Director to approve or disapprove any such form within 60 days after submission unless the Director extends by not more than an additional 30 days the period within which he shall approve or disapprove any such form by giving written notice to the insurer of such extension before expiration of the initial 60 days period.

Department personnel stated that the policy forms were not being approved or disapproved within the required timeframe due to a shortage in staff. In addition, many of these reviews are complex and lengthy.

By not approving or disapproving life, accident, or health insurance policy forms in a timely manner as required by the Code, insurance companies are delayed from distributing their products to the market. (Finding Code No. 10-1, DFPR 08-15, DFPR 07-14, DFPR 06-24)

**RECOMMENDATION:**

We recommend the Department implement procedures to ensure life, accident, and/or health insurance policy forms are properly approved or disapproved in a timely manner as required by the Code.

**DEPARTMENT RESPONSE:**

The Department concurs with this finding. It is the responsibility of the Department to ensure that final action is taken on all policy form filings within the timeframes prescribed by statute. The Department has already implemented several critical path processes for expediting the approval/disapproval of certain filing types and has expanded existing staff responsibilities to include the review and approval/disapproval of life, accident and health insurance policy forms. We will continue to seek appropriate staffing levels needed to consistently meet the time frames required by 215 ILCS 5/143.

**10-2**      **FINDING:**    (Employee performance evaluations not performed on a timely basis)

The Department did not conduct employee performance evaluations on a timely basis.

During our testing, we noted 15 out of 25 (60%) employees sampled did not have a performance evaluation performed on a timely basis. These untimely evaluations included 1 evaluation that was not prepared or completed during the fiscal year and 14 evaluations that were completed between 3 and 161 days late.

The Illinois Administrative Code (80 Ill. Adm. Code 302.270(d)) requires performance records to include an evaluation of employee performance prepared by each agency not less often than annually. In addition, the Illinois Administrative Code (80 Ill. Adm. Code 310.450 (C)) requires that evaluations be completed prior to when annual merit increases are awarded.

Department officials stated the State of Illinois Administrative and Regulatory Shared Services Center sends out an initial notification to the supervisor to remind them that evaluations are due, but evaluations continue to be untimely.

Without performance evaluations there is no documented basis for promotion, demotion, discharge, layoff, recall, or reinstatement. (Finding Code No. 10-2)

**RECOMMENDATION:**

We recommend the Department implement controls to ensure evaluations are completed on a timely basis and hold management personnel accountable for completing employee performance evaluations on a timely basis.

**DEPARTMENT RESPONSE:**

The Department concurs with this finding that employee evaluations are often not filed on a timely basis. The Administrative and Regulatory Shared Services Center, which is responsible for the evaluation process for the Department of Insurance, is working to develop an Evaluation System, which will help the Department with their evaluation process. The Department will also evaluate the need for the implementation of training in this area.

**10-3**      **FINDING:**    (Time sheets not maintained in compliance with the State Officials and Employees Ethics Act)

The Department is not maintaining time sheets for employees in compliance with the State Officials and Employees Ethics Act (Act).

The Department expended \$15,053,918 for payroll and had an average of 249 employees during fiscal year 2010.

The Department’s official timekeeping system is the Central Management Services (CMS) payroll system, which tracks time using a “negative” approval, whereby the employee is assumed to be working unless noted otherwise. An additional timekeeping system, the Ethics Timekeeping Work Diary, is used to track time for all Department employees. The Ethics Timekeeping Work Diary tracks time all employees spend each day on official State business to the nearest quarter hour.

During our testing of the Department’s Ethics Timekeeping Work Diary, we noted the following:

- In 16 out of 25 (64%) employee Ethics Timekeeping Work Diaries reviewed, time was not entered for any days worked by the employee for the selected pay period.
- In 2 out of 25 (8%) employee Ethics Timekeeping Work Diaries reviewed, time was not entered in the work diary for every day worked by the employee for the selected pay period.

The Act requires the Department to adopt personnel policies consistent with the Act. The Act (5 ILCS 430/5-5 (c)) states, “The policies shall require State employees to periodically submit time sheets documenting the time spent each day on official State business to the nearest quarter hour.”

Department management stated the Department has sent several notices to employees to remind them of the requirement to enter work time into the Ethics Timekeeping Work Diary.

By not maintaining appropriate timekeeping records, the Department is not monitoring employees’ time spent on official State business as required to comply with the Act. (Finding Code No. 10-3)

**RECOMMENDATION:**

We recommend the Department monitor the entries made into the Ethics Timekeeping Work Diary to ensure compliance with the Act.

**DEPARTMENT RESPONSE:**

The Department concurs with this finding and will seek to implement improved methods to monitor the entries made into the Ethics Timekeeping Work Diary to ensure compliance with the Act.

## **PRIOR FINDINGS NOT REPEATED (STATE COMPLIANCE)**

Executive Order 2009-04 established the Department of Insurance on June 1, 2009; therefore, all findings specific to the Division of Insurance in the compliance examination of the Department of Financial and Professional Regulation for the year ended June 30, 2008 were tested as part of the Department of Insurance compliance examination for the year ended June 30, 2010.

**A. FINDING:** (Recommendations presented in the Management Audit of Group Workers' Compensation Self-Insured Pools not implemented)

During the prior engagement period, the Department of Financial and Professional Regulation, Division of Insurance did not fully implement two of nine recommendations presented in the Management Audit of Group Workers' Compensation Self-Insured Pools (Management Audit) conducted by the Office of the Auditor General. The Management Audit found that there were pools in liquidation and some active pools that included members with dissimilar risk characteristics and that some pools licensed at December 31, 2001, either reported gross annual payrolls under \$10,000,000 or did not disclose payrolls in their annual statements at all.

During the current period, the Department enacted regulations (50 Ill. Adm. Code 575.110) to define homogenous risk characteristics for pool membership and revised the Workers' Compensation Pool Law (215 ILCS 5/107a.07) to exempt pools in run-off from the \$10,000,000 payroll requirement. (Finding Code No. DFPR 08-19, DFPR 07-18, DFPR 06-29, DFPR 05-34, DOI 04-3)



**STATE OF ILLINOIS  
DEPARTMENT OF INSURANCE**

**SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES**

**SUMMARY**

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:

- Schedule of Expenditures of Federal Awards
- Notes to the Schedule of Expenditures of Federal Awards
- Schedule of Appropriations, Expenditures and Lapsed Balances
- Schedule of Locally Held Funds
- Schedule of Changes in State Property
- Schedule of Cash Receipts by Fund
- Schedule of Cash Receipts by Category
- Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller
- Analysis of Significant Lapse Period Spending
- Analysis of Accounts Receivable

- Analysis of Operations:

- Agency Functions and Planning Program
- Average Number of Employees
- Service Efforts and Accomplishments (Not Examined)

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states the accountants have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General, except for information on the Service Efforts and Accomplishments on which they did not perform any procedures. However, the accountants do not express an opinion on the supplementary information.

**STATE OF ILLINOIS  
DEPARTMENT OF INSURANCE**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ended June 30, 2010  
(Expressed in Thousands)**

<u>Federal Grantor:</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Health and Human Services:		
Centers for Medicare and Medicaid Services (CMS)		
Research, Demonstrations and Evaluations	93.779	<u>\$      980</u>

The accompanying notes are an integral part of this schedule.

**STATE OF ILLINOIS  
DEPARTMENT OF INSURANCE**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2010**

1. **SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the State of Illinois, Department of Insurance (Department).

The Schedule of Expenditures of Federal Awards was prepared for State compliance purposes only. A separate single audit of the State of Illinois, Department of Insurance was not conducted. A separate single audit of the entire State of Illinois (which includes the State of Illinois, Department of Insurance) was performed and released under separate cover.

2. **BASIS OF ACCOUNTING**

The Schedule of Expenditures of Federal Awards has been prepared on the cash basis of accounting.

3. **INDIRECT COSTS**

The Department does not claim indirect cost reimbursements for its federal award program. Consequently, the Department does not have an indirect cost rate established for allocating indirect costs to its federal award program.

4. **DESCRIPTION OF FEDERAL AWARD PROGRAM**

The following is a brief description of the program included in the Schedule of Expenditures of Federal Awards:

U.S. Department of Health and Human Services:

CFDA #93.779

The grant has been used to develop the new and innovative approaches necessary to enhance the Senior Health Insurance Program (SHIP) counseling services. Primary efforts are to keep updated on the changes in Medicare and Medicare Supplement and to educate the senior population as well as SHIP volunteers on those changes, as well as to recruit more SHIP volunteers and sponsoring organizations. Receipts derived from the Department's participation in the program were accounted for in the Senior Health Insurance Program Fund – 0396.

**STATE OF ILLINOIS  
DEPARTMENT OF INSURANCE  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued**

5. PASS-THROUGH AND SUBRECIPIENT AWARDS

The Department receives its federal award directly from the U.S. Department of Health and Human Services, and does not provide any awards to subrecipients.

6. NONCASH AWARDS

The Department does not receive any noncash awards.

STATE OF ILLINOIS  
DEPARTMENT OF INSURANCE

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES  
APPROPRIATIONS FOR FISCAL YEAR 2010

Fourteen Months Ended August 31, 2010

	Appropriations (Net After Transfers)	Expenditures Through June 30, 2010	Approximate Lapse Period Expenditures July 1 to August 31, 2010	Approximate Total Expenditures	Approximate Balances Lapsed
<u>Public Acts 096-0042, 096-0046, 096-0819</u>					
<u>APPROPRIATED FUNDS</u>					
<u>Senior Health Insurance Program Fund - 0396</u>					
Lump sum, operations	\$ 1,490,900	\$ 932,403	\$ 76,683	\$ 1,009,086	\$ 481,814
<u>Illinois Workers' Compensation Commission Operations Fund - 0534</u>					
Lump sums and other purposes	485,000	238,523	18,000	256,523	228,477
<u>Public Pension Regulation Trust Fund - 0546</u>					
Personal services	616,600	561,244	21,890	583,134	33,466
Retirement - employer contribution	175,000	159,345	6,218	165,563	9,437
Social security	47,200	41,432	1,611	43,043	4,157
Group insurance	159,000	122,767	4,534	127,301	31,699
Contractual services	12,600	3,136	230	3,366	9,234
Travel	50,000	29,567	2,486	32,053	17,947
Printing	10,500	110	19	129	10,371
Equipment	15,300	-	2,476	2,476	12,824
Telecommunications	9,200	-	-	-	9,200
Lump sums and other purposes	557,000	97,778	16,353	114,131	442,869
Total - Public Pension Regulation Trust Fund - 0546	1,652,400	1,015,379	55,817	1,071,196	581,204
<u>Insurance Producers' Administration Fund - 0922</u>					
Personal services	6,941,200	5,755,586	284,579	6,040,165	901,035
Retirement - employer contribution	1,969,700	1,634,882	80,852	1,715,734	253,966
Social security	531,000	425,102	21,061	446,163	84,837
Group insurance	1,828,500	1,272,165	57,302	1,329,467	499,033
Contractual services	1,726,900	525,415	43,016	568,431	1,158,469
Travel	145,000	66,383	7,388	73,771	71,229
Commodities	23,400	9,485	211	9,696	13,704
Printing	34,800	18,556	148	18,704	16,096
Equipment	36,800	21,406	6,546	27,952	8,848
Electronic data processing	589,200	322,150	63,712	385,862	203,338
Telecommunications	203,900	88,857	24,372	113,229	90,671
Operation of automotive equipment	9,300	6,826	212	7,038	2,262
Lump sums and other purposes	2,186,300	683,934	325,685	1,009,619	1,176,681
Refunds	162,100	63,180	9,240	72,420	89,680
Total - Insurance Producers' Administration Fund - 0922	16,388,100	10,893,927	924,324	11,818,251	4,569,849

**STATE OF ILLINOIS  
DEPARTMENT OF INSURANCE**

**SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES  
APPROPRIATIONS FOR FISCAL YEAR 2010**

**Fourteen Months Ended August 31, 2010**

	Appropriations (Net After Transfers)	Expenditures Through June 30, 2010	Approximate Lapse Period Expenditures July 1 to August 31, 2010	Approximate Total Expenditures	Approximate Balances Lapsed
<u>Insurance Financial Regulation Fund - 0997</u>					
Personal services	\$ 8,657,400	\$ 8,050,207	\$ 380,412	\$ 8,430,619	\$ 226,781
Retirement - employer contribution	2,456,700	2,287,681	108,109	2,395,790	60,910
Social security	662,300	581,816	27,652	609,468	52,832
Group insurance	2,162,400	1,691,014	74,660	1,765,674	396,726
Contractual services	1,851,900	329,314	69,449	398,763	1,453,137
Travel	300,000	91,709	7,124	98,833	201,167
Commodities	23,400	2,463	69	2,532	20,868
Printing	34,700	4,768	814	5,582	29,118
Equipment	35,700	20,551	5,023	25,574	10,126
Electronic data processing	589,200	49,114	-	49,114	540,086
Telecommunications	203,600	87,625	17,515	105,140	98,460
Operation of automotive equipment	9,300	4,786	1,568	6,354	2,946
Lump sums and other purposes	2,217,000	614,269	179,293	793,562	1,423,438
Refunds	50,000	-	-	-	50,000
Total - Insurance Financial Regulation Fund - 0997	<u>19,253,600</u>	<u>13,815,317</u>	<u>871,688</u>	<u>14,687,005</u>	<u>4,566,595</u>
TOTAL - APPROPRIATED FUNDS	<u>\$ 39,270,000</u>	<u>26,895,549</u>	<u>1,946,512</u>	<u>28,842,061</u>	<u>\$ 10,427,939</u>
<u>NON-APPROPRIATED FUNDS</u>					
<u>Insurance Premium Tax Refund Fund - 0378</u>					
Refunds	N/A	<u>974,331</u>	-	<u>974,331</u>	N/A
TOTAL - NON-APPROPRIATED FUNDS		<u>974,331</u>	-	<u>974,331</u>	
GRAND TOTAL - ALL FUNDS		<u>\$ 27,869,880</u>	<u>\$ 1,946,512</u>	<u>\$ 29,816,392</u>	

The Schedule of Appropriations, Expenditures and Lapsed Balances does not include the State Officers' salaries paid by the Office of the Comptroller. State Officers' salaries totaled \$135,081 for the year ended June 30, 2010.

Note: All data on this schedule has been taken from State Comptroller records and reconciled to those of the Department.  
Expenditure amounts are vouchers approved for payment by the Agency and submitted to the State Comptroller for payment to the vendor.  
Approximate lapse period expenditures do not include interest payments approved for payment by the Agency and submitted to the Comptroller for payment after August.

**STATE OF ILLINOIS  
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION**

**SCHEDULE OF LOCALLY HELD FUNDS  
SECURITY DEPOSIT FUND - 1109**

**For the Year Ended June 30, 2010  
(Expressed in Thousands)**

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2010</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,380	\$ 42,024	\$ (40,534)	\$ 4,870
Investments	<u>872,827</u>	<u>224,694</u>	<u>(204,170)</u>	<u>893,351</u>
Total assets	<u>\$ 876,207</u>	<u>\$ 266,718</u>	<u>\$ (244,704)</u>	<u>\$ 898,221</u>
<b>LIABILITIES</b>				
Other liabilities	<u>\$ 876,207</u>	<u>\$ 266,718</u>	<u>\$ (244,704)</u>	<u>\$ 898,221</u>

The Security Deposit Fund (Fund) (Fund 1109) is a fiduciary fund created by the Illinois Insurance Code (215 ILCS 5/404.1). The Code requires companies domiciled in the State of Illinois to make and maintain, with the director of the Department of Insurance, a deposit of securities having a fair market value of specified amounts for the protection of all creditors, policyholders, and policy obligations of the company. The amount of deposit required is determined by the classification under which a company is organized and also as required to support certain classes of reserves.

The fund is reported using the economic resources measurement focus and the accrual basis of accounting.

Cash equivalents are defined as short-term, highly liquid investments convertible to cash with maturities of less than 90 days at the time of purchase. Cash and cash equivalents include cash on hand, cash in banks, certificates of deposit, and money market accounts for locally held funds.

Investments are reported at fair value. The Department holds investments pursuant to statutory authority for locally held funds.

**STATE OF ILLINOIS  
DEPARTMENT OF INSURANCE**

**SCHEDULE OF CHANGES IN STATE PROPERTY  
For the Year Ended June 30, 2010**

Property balance, July 1, 2009	<u>\$ -</u>
Additions:	
Purchases	39,662
Transfers in	<u>2,274,810</u>
Total Additions	<u>2,314,472</u>
Deductions:	
Deletions	(16,758)
Transfers out	<u>-</u>
Total Deductions	<u>(16,758)</u>
Property balance, June 30, 2010	<u><u>\$ 2,297,714</u></u>

The above balances consist of equipment and capital lease equipment.

Note: The above schedule has been derived from Department records which have been reconciled to property reports submitted to the Office of the Comptroller.



**STATE OF ILLINOIS  
DEPARTMENT OF INSURANCE  
SCHEDULE OF CASH RECEIPTS BY FUND**

**For the Year Ended June 30, 2010**

General Revenue Fund - 0001	\$ 322,431,226
Fire Prevention Fund - 0047	22,207,685
Senior Health Insurance Program Fund - 0396	985,700
Protest Fund - 0401	11,444,164
Illinois Workers' Compensation Commission Operations Fund - 0534	14,974,858
Public Pension Regulation Trust Fund - 0546	1,564,067
Group Self-Insurers Workers Compensation Fund - 0739	138,882
Insurance Producers' Administration Fund - 0922	24,132,976
Insurance Financial Regulation Fund - 0997	<u>26,127,400</u>
 Total - All Funds	 <u><u>\$ 424,006,958</u></u>

**STATE OF ILLINOIS  
DEPARTMENT OF INSURANCE  
SCHEDULE OF CASH RECEIPTS  
BY CATEGORY**

**For the Year Ended June 30, 2010**

Privilege insurance tax		\$ 176,264,991
Retaliatory tax		104,871,738
Surplus line tax		38,565,508
Licenses fees and registration:		
Industrial Commission Operations Fund surcharges	\$ 14,974,858	
Insurance producer licenses and fees	22,982,857	
Regulatory insurance licenses and fees	26,064,347	
Pensions filing fees	1,564,067	
Insurance performance examination fees	<u>662,979</u>	
		66,249,108
Protest fees		11,444,164
Fire marshal tax		22,207,685
Federal government grant		985,700
Surety bonds		138,882
Fines, penalties, interest		3,116,174
Miscellaneous		<u>163,008</u>
Total		<u><u>\$ 424,006,958</u></u>

**STATE OF ILLINOIS  
DEPARTMENT OF INSURANCE**

**RECONCILIATION SCHEDULE OF CASH RECEIPTS TO DEPOSITS REMITTED TO THE STATE COMPTROLLER**

**For the Year Ended June 30, 2010**

<b>Fund</b>	<b>Receipts Per Department Records</b>	<b>Plus Deposits in Transit Beginning of Year</b>	<b>Less Deposits in Transit End of Year</b>	<b>Transfers/ Adjustments Other Funds</b>	<b>Deposits Per Comptroller Records</b>
General Revenue Fund - 0001	\$ 322,431,226	\$ 2,202,335	\$ (120,961)	\$ (2,070,635)	\$ 322,441,965
Fire Prevention Fund - 0047	22,207,685	-	-	-	22,207,685
Insurance Premium Tax Refund Fund - 0378	-	-	-	2,070,635	2,070,635
Senior Health Insurance Program Fund - 0396	985,700	-	-	-	985,700
Protest Fund - 0401	11,444,164	-	-	-	11,444,164
Illinois Workers' Compensation Commission Operations Fund - 0534	14,974,858	-	-	-	14,974,858
Public Pension Regulation Trust Fund - 0546	1,564,067	182,944	(78,201)	-	1,668,810
Group Self-Insurers Workers Compensation Fund - 0739	138,882	-	-	-	138,882
Insurance Producers' Administration Fund - 0922	24,132,976	848,192	(436,943)	(32,147)	24,512,078
Insurance Financial Regulation Fund - 0997	26,127,400	40,589	(2,893,983)	-	23,274,006
	<u>\$ 424,006,958</u>	<u>\$ 3,274,060</u>	<u>\$ (3,530,088)</u>	<u>\$ (32,147)</u>	<u>\$ 423,718,783</u>

**STATE OF ILLINOIS  
DEPARTMENT OF INSURANCE**

**ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING**

The Department of Insurance's (Department) analysis of significant lapse period spending, as presented in the Schedule of Appropriations, Expenditures and Lapsed Balances, for fiscal year 2010 for lapse period expenditures exceeding 20% and \$15,000 of total expenditures are detailed below.

Insurance Producers' Administration Fund – 0922

Telecommunications expenditures of \$24,372 (22%) during the lapse period resulted from the delay in Communications Revolving Fund billings from the Department of Central Management Services (CMS).

Lump sums and other purposes expenditures of \$325,685 (32%) during the lapse period resulted from the delay in Facilities Management Revolving Fund billings from CMS in the amount of \$93,129 and due to personal services and related expenses totaling \$228,402 expended during lapse period from this lump sum due to timing of payroll. Additionally, \$3,832 was expended during the lapse period for Communication Consolidation payments due to the timing of the billings.

Insurance Financial Regulation Fund – 0997

Lump sums and other purposes expenditures of \$179,293 (23%) during the lapse period resulted from the delay in Facilities Management Revolving Fund billings totaling \$101,469 from CMS and due to personal services and related expenses totaling \$37,976 expended during lapse period from this lump sum appropriation due to timing of payroll. The remaining expenditures were comprised of contractual expenses paid during the lapse period due to timing of billings for statistical and tabulating services and professional and artistic services, totaling \$36,344. The remaining lapse spending included Communications Consolidation payments in the amount of \$3,180, paid during lapse period due to the timing of the billings.

**STATE OF ILLINOIS  
DEPARTMENT OF INSURANCE**

**ANALYSIS OF ACCOUNTS RECEIVABLE**

An aging schedule of the Department's accounts receivable (expressed in thousands) at June 30, 2010 is presented below:

Aging Schedule	General Revenue Fund 0001	Fire Prevention Fund 0047	Public Pension Regulation Trust Fund 0546	Insurance Producers' Administration Fund 0922	Insurance Financial Regulation Fund 0997	Total
Current	\$ 455	\$ -	\$ -	\$ 11	\$ 14,271	\$ 14,737
31-60	965	-	166	-	2	1,133
61-120	45	1	-	1	30	77
121-180	154	-	-	1	4	159
181-365	73	-	1	-	-	74
Over 365	4,669	-	-	3	41	4,713
Accounts Receivable Gross Balance	6,361	1	167	16	14,348	20,893
Less: Estimated Uncollectibles	<u>(304)</u>	<u>-</u>	<u>-</u>	<u>(4)</u>	<u>(44)</u>	<u>(352)</u>
Accounts Receivable Net Balance	<u>\$ 6,057</u>	<u>\$ 1</u>	<u>\$ 167</u>	<u>\$ 12</u>	<u>\$ 14,304</u>	<u>\$ 20,541</u>

Note: The Department uses private collection services and the offset system in its efforts to collect past due receivables.

**STATE OF ILLINOIS  
DEPARTMENT OF INSURANCE**

**AGENCY FUNCTIONS AND PLANNING PROGRAM**

**For the Year Ended June 30, 2010**

**AGENCY FUNCTIONS**

The Department of Insurance (Department) was established on June 1, 2009 by Executive Order 2009-04 of the Governor. The Department entered into an intergovernmental agreement with the Department of Financial and Professional Regulation from June 1, 2009 through June 30, 2009 and the subsequent lapse period to continue to administer the fiscal operations of the Department. On July 1, 2009, the Department received appropriations and assumed fiscal responsibilities.

The mission of the Department is to protect consumers by providing assistance and information, by efficiently regulating the insurance industry's market behavior and financial solvency, and by fostering a competitive insurance marketplace. The Department includes a Consumer Market Division responsible for consumer protection, education and non-financial regulatory functions. The Financial Corporate Regulatory Division is responsible for analyzing and monitoring the financial strength of insurance companies and all other regulated insurance risk bearing entities.

The Department was organized into the following divisions during the engagement period:

- Consumer Market Division
- Financial-Corporate Regulatory Division
- Legal Division

**Consumer Market Division**

The Consumer Market Division is responsible for consumer protection and education programs and nonfinancial regulatory functions. The Division oversees the activities of insurance producers and monitors the market place operations of insurance companies through policy analysis, complaint investigation, and periodic on-site examinations.

Included within the Consumer Market Division is the Office of Consumer Health Insurance. The Office of Consumer Health Insurance assists consumers by explaining patient's rights, answers questions about health insurance and coverage provisions; and assists with consumer problems or complaints.

## Financial-Corporate Regulatory Division

The Financial-Corporate Regulatory Division is responsible for analyzing and monitoring the financial strength of insurance companies and all other regulated insurance risk bearing entities. This task is accomplished via on-site financial examinations and intervening when developing problems are identified. The Division licenses authorized insurers in the State, and investigates and takes action against unauthorized companies illegally conducting the business of insurance. The Division is intricately involved in oversight of the management operations of Illinois insurers because by law many corporate transactions, such as entering reinsurance agreements, paying dividends, and transacting business with affiliates, require the prior approval of the Department.

Included within the Financial-Corporate Regulatory Division is the Public Pension Division. This Division regulates the suburban and downstate police and fire fighter pension systems and collects vital information from those funds, as well as from the State pension systems, Cook County and Chicago's pension systems, including the Illinois Municipal Retirement System. The Division's field examinations of pension fund documents and desk audits of annual statements are the principal processes under which the State is able to protect the accrued pension benefits of active and retired public employees. The Division must also ensure the investments of Illinois public pension systems are in compliance with laws.

## Legal Division

The Legal Division provides a variety of legal services to the regulatory units of the Department. The Division arranges and conducts formal hearings, conducts the rule making process, drafts contracts, and advises other areas of the Department on legal issues which arise in the course of their work.

The Legal Division staff normally does not represent the Department in matters before the courts, but acts as liaison with the Attorney General's staff and outside counsel on litigation in which the Department has an interest. The Legal Division responds to external inquiries from the Office of the Special Deputy Receiver, other agencies of government, and the general public as needed.

## Other Department Functions

### Office of the Special Deputy (OSD)

The Office of the Special Deputy (OSD) assists the Director in carrying out his responsibilities as the statutory conservator, rehabilitator, or liquidator of insurance companies that are declared insolvent or are otherwise impaired from managing their own affairs.

## Comprehensive Health Insurance Plan (CHIP)

The Comprehensive Health Insurance Plan (CHIP) is a State program, which offers health insurance to a limited number of Illinois residents who can afford, but are unable to find adequate health insurance coverage in the private market because of their medical or physical condition. CHIP is subject to its own enabling law and is governed by a Board of Directors, which is chaired by the Director of Insurance or his designee.

## Planning Program

Insurance regulation has two primary objectives, financial solvency and consumer protection, which are carried out through a number of programs designed to effectively serve the people of Illinois.

The following is a partial list of those programs:

- analysis of the financial statements of all licensed companies, fraternal organizations, and public employee pension funds established in the State;
- periodic financial and market conduct examinations of insurance companies;
- examination and licensing of insurance producers;
- review and approval of policy forms;
- rate regulation and rate adjustment for select lines of insurance prescribed by statute;
- investigation of consumer complaints against insurance companies and producers;
- preparation of new legislation; and
- conduct hearings on complaints and violations of the Illinois Insurance Code.

The Department has formal strategic priorities outlined in their current Strategic Plan. The Department's Performance Metrics Summary includes target dates/periods and descriptions of criteria to help the Department evaluate their priorities and initiatives.



**STATE OF ILLINOIS  
DEPARTMENT OF INSURANCE**

**AVERAGE NUMBER OF EMPLOYEES**

**For the Year Ended June 30, 2010**

The following table, prepared from Department records, presents the average number of employees for the fiscal year ended June 30, 2010:

<b><u>Division/Unit</u></b>	
Worker's Compensation Fraud	1
Public Pension	11
Producer Administration	77
Financial Corporation Regulation	101
Executive Office	6
Fiscal and Accounting Unit	5
Legal Unit	14
Legislative Affairs Unit	2
Administration Services Unit	9
Information Technology Unit	13
Shared Services – Administrative	7
Senior Health Insurance Program	<u>3</u>
<b>TOTAL</b>	<b><u><u>249</u></u></b>

**STATE OF ILLINOIS  
DEPARTMENT OF INSURANCE**

**SERVICE EFFORTS AND ACCOMPLISHMENTS  
(Not Examined)  
For the Year Ended June 30, 2010**

The State of Illinois, Department of Insurance is a state regulatory agency whose mission is to protect consumers by monitoring and ensuring the solvency of Illinois-based insurance companies; to make certain that insurance companies and producers adhere to state insurance laws and regulations; and to work with insurance regulators from other states to maintain and enhance the efficiency of state based insurance regulation.

The Department of Insurance oversees the regulation and licensure of insurance companies and producers. The Department protects the rights of all Illinois residents in their transactions with the insurance industry, consistently applies regulatory standards and procedures, and enforces standards of professional practice and conduct. One hundred percent of the Department's budget appropriations come from various fees collected from insurance companies and producers. Beginning in fiscal year 2010, Executive Order 2009-04 of the Governor transferred the functions of the Division of Insurance from the Department of Financial and Professional Regulation into the re-established Department of Insurance.

Consumer Market Division

The Consumer Market Regulation Program oversees consumer protection and education efforts, licenses and regulates the activities of insurance producers, and monitors the marketplace operations of insurance companies through policy analysis, complaint investigation, and periodic on-site market conduct examinations. In addition, this program includes the Senior Health Insurance Plan (SHIP), a counseling program for Medicare beneficiaries who have questions or problems about health insurance issues facing senior citizens. In January 2000, the Department established an Office of Consumer Health Insurance (OCHI), which assists Illinois consumers with health insurance issues.

Financial-Corporate Regulatory Division

The Financial-Corporate Regulatory Division is responsible for analyzing and monitoring the financial condition of insurance companies, health maintenance organizations (HMOs), and all other regulated insurance risk bearing entities, conducting on site financial examinations, and intervening when problems are identified. This program licenses authorized insurers and identifies and investigates acts against companies conducting business in the state illegally. This program also includes the assistance provided to the state's public pension funds.

ACTIVITIES AND PERFORMANCE

	<u>FY2010 Actual</u>
Consumer Market Division	
New/Renewal Licenses Processed	25,477
Market Conduct Examinations completed	11
Closed Consumer Complaint Files	10,284
Financial-Corporate Regulatory Division	
Financial Statement Analysis Annual	376
Field Financial Examinations	79
Pension Fund Examinations completed	81