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

**FINANCIAL AUDIT AND COMPLIANCE EXAMINATION**
**For the Year Ended June 30, 2008**

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

Sikich LLP
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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

**FINANCIAL AUDIT AND COMPLIANCE EXAMINATION**
**For the Year Ended June 30, 2008**

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**DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION**

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

## AGENCY OFFICIALS

| | |
|---|---|
| **Secretary:** | |
| September 2005 to December 2008 | Mr. Dean Martinez |
| December 2008 to present | Mr. Michael McRaith (acting) |
| **Chief of Staff:** | |
| December 2005 to January 2008 | Mr. Andrew Fox |
| January 2008 to present | Mr. Brent Adams |
| **Chief Fiscal Officer:** | |
| April 2007 to present | Mr. Tony Goldstein |
| **Chief Legal Counsel:** | |
| June 2006 to August 2007 | Ms. Gina DeCiani |
| August 2007 to November 2007 | Mr. Scott Seder (acting) |
| November 2007 to March 2008 | Mr. Scott Seder |
| March 2008 to present | Mr. Kevin Connor |
| **Director of Human Resources:** | |
| July 2004 to November 2007 | Mr. Richard Foxman |
| November 2007 to present | Shared Services |
| **Director of Administrative Services:** | |
| September 2005 to present | Mr. James Marron |
| **Director of Information Technology:** | |
| February 2007 to present | Mr. Dom Greco |
| **Director of Legislative Affairs:** | |
| March 2007 to present | Ms. Melissa Hansen |
| **Director of the Division of Professional Regulation:** | |
| July 2004 to present | Mr. Dan Bluthardt |
| **Director of the Division of Financial Institutions:** | |
| November 2005 to August 2007 | Ms. Gina DeCiani (acting) |
| August 2007 to February 2008 | Mr. Brent Adams (acting) |
| February 2008 to present | Mr. Robert Meza |

**Director of the Division of Insurance:**
April 2005 to present — Mr. Michael McRaith

**Director of the Division of Banking:**
May 2007 to present — Mr. Jorge Solis

Agency offices are located at:

| | |
|---|---|
| 320 West Washington Street<br>3rd Floor<br>Springfield, IL 62786 | James R. Thompson Center<br>100 West Randolph, 9th Floor<br>Chicago, IL 60601 |
| 500 East Monroe Street<br>Springfield, IL 62701 | 122 South Michigan Avenue, 19th Floor<br>Chicago, IL 60604 |

# Illinois Department of Financial and Professional Regulation

**Office of the Secretary**

**PAT QUINN**
**Governor**

**MICHAEL T. McRAITH**
**Acting Secretary**

MANAGEMENT ASSERTION LETTER

Sikich LLP
Certified Public Accountants & Advisors
1000 Churchill Road
Springfield, IL 62702

May 4, 2009

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, 2008. Based on this evaluation, we assert that during the year ended June 30, 2008, 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 Financial and Professional Regulation

Michael T. McRaith, Acting Secretary

Tony Goldstein, Chief Fiscal Officer

Kevin Connor, ~~Chief~~ Counsel
GENERAL

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

## COMPLIANCE REPORT

## SUMMARY

Effective July 1, 2004, Executive Order Number 6 (2004) abolished the Department of Professional Regulation (DPR), Department of Insurance (DOI), Department of Financial Institutions (DFI) and Office of Banks and Real Estate (BRE) and transferred all the rights, powers and duties vested in these Agencies to the newly created Department of Financial and Professional Regulation.

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

| Number of | Current Report | Prior Report |
|---|---|---|
| Findings | 19 | 18 |
| Repeated findings | 16 | 18 |
| Prior recommendations implemented or not repeated | 2 | 11 |

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

## SCHEDULE OF FINDINGS

FINDINGS (STATE COMPLIANCE)

| Item No. | Page | Description | Finding Type |
|---|---|---|---|
| 08-1 | 15 | Inadequate controls over computer inventory | Material noncompliance, material weakness |
| 08-2 | 17 | Division of Professional Regulation enforcement activities not performed timely and/or not sufficiently documented | Noncompliance, significant deficiency |

FINDINGS (STATE COMPLIANCE) - Continued

| Item No. | Page | Description | Finding Type |
|---|---|---|---|
| 08-3 | 20 | Deficiencies identified in controls over interagency agreements | Noncompliance, significant deficiency |
| 08-4 | 22 | Inaccurate property control records | Noncompliance, significant deficiency |
| 08-5 | 24 | Deficiencies identified with the CLEAR computer system | Significant deficiency |
| 08-6 | 26 | Failure to reconcile Department expenditure and fund records to the Illinois Office of the Comptroller records in a timely manner | Noncompliance, significant deficiency |
| 08-7 | 28 | Inadequate internal and administrative controls over locally held funds | Noncompliance, significant deficiency |
| 08-8 | 30 | Time sheets not maintained in compliance with the State Officials and Employees Ethics Act | Noncompliance, significant deficiency |
| 08-9 | 32 | Employee performance evaluations not performed on a timely basis | Noncompliance, significant deficiency |
| 08-10 | 33 | Failure to enforce travel rules | Noncompliance, significant deficiency |
| 08-11 | 34 | Controls over telecommunication services and expenditures | Noncompliance, significant deficiency |
| 08-12 | 36 | Controls over vehicle reporting and operation of automotive equipment expenditures | Noncompliance, significant deficiency |
| 08-13 | 39 | Failure to certify license and automotive liability coverage | Noncompliance, significant deficiency |
| 08-14 | 41 | Department Boards not fully staffed | Noncompliance, significant deficiency |
| 08-15 | 46 | Untimely approval or denial of life, accident, and/or health insurance policy forms) | Noncompliance, significant deficiency |
| 08-16 | 47 | Residential mortgage license examinations not conducted in accordance with statutory requirements | Noncompliance, significant deficiency |

FINDINGS (STATE COMPLIANCE) - Continued

| Item No. | Page | Description | Finding Type |
|---|---|---|---|
| 08-17 | 48 | Failure to establish a Savings Bank Examiner Training Foundation | Noncompliance, significant deficiency |
| 08-18 | 49 | Noncompliance with Residential Mortgage License Act of 1987 | Noncompliance, significant deficiency |
| 08-19 | 51 | Recommendations presented in the Management Audit of Group Workers' Compensation Self-Insured Pools not implemented | Noncompliance, significant deficiency |

PRIOR FINDINGS NOT REPEATED (STATE COMPLIANCE)

| Item No. | Page | Description |
|---|---|---|
| A | 53 | Failure to reconcile Department receipt records to the Illinois Office of the Comptroller records in a timely manner |
| B | 53 | Failure to ensure receipt of annual statements from viatical settlement providers |

## EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on April 9, 2009. Attending were:

DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

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|---|---|
| Michael McRaith | Secretary (Acting)/Director, Division of Insurance |
| Dan Bluthhardt | Director, Division of Professional Regulation |
| Jorge Solis | Director, Division of Banking |
| Dom Greco | Director, Information Technology |
| Donald Seasock | Deputy Director (Acting), Division of Professional Regulation |
| Kevin Connor | Chief Legal Counsel |
| Michael Leslie | Assistant Director (Acting), Administrative Services |
| Tony Goldstein | Chief Fiscal Officer |
| Jane Bachman | Audit Coordinator/Assistant Chief Fiscal Officer |
| Brent Adams | Chief of Staff |

OFFICE OF THE AUDITOR GENERAL

| | |
|---|---|
| Peggy Hartson | Audit Manager |

SIKICH LLP

| | |
|---|---|
| Nick Appelbaum | Partner |
| Leslie Ruyle | Manager |
| Sarah Sullivan | Senior Accountant |

Responses to the recommendations were provided by Michael McRaith, Secretary, on April 28, 2009.

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# 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 Financial and Professional Regulation'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, 2008. The management of the State of Illinois, Department of Financial and Professional Regulation is responsible for compliance with these requirements. Our responsibility is to express an opinion on the State of Illinois, Department of Financial and Professional Regulation's compliance based on our examination.

A. The State of Illinois, Department of Financial and Professional Regulation 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 Financial and Professional Regulation 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 Financial and Professional Regulation 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 Financial and Professional Regulation 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 Financial and Professional Regulation on behalf of the State or held in trust by the State of Illinois, Department of Financial and Professional Regulation 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 Financial and Professional Regulation'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 Financial and Professional Regulation's compliance with specified requirements.

As described in finding 08-1 in the accompanying schedule of State findings, the State of Illinois, Department of Financial and Professional Regulation did not comply with requirements regarding:

C. The State of Illinois, Department of Financial and Professional Regulation has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

Compliance with such requirements is necessary, in our opinion, for the State of Illinois, Department of Financial and Professional Regulation to comply with the requirements listed in the first paragraph of this report.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Illinois, Department of Financial and Professional Regulation complied, in all material respects, with the requirements listed in the first paragraph of this report during the year ended June 30, 2008. However, the results of our procedures disclosed other 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 State findings as findings 08-2 through 08-4, and 08-6 through 08-19.

**<u>Internal Control</u>**

The management of the State of Illinois, Department of Financial and Professional Regulation 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 Financial and Professional Regulation's internal control over compliance with the requirements listed in the first paragraph of this report in order to determine 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 the State of Illinois, Department of Financial and Professional Regulation's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Department of Financial and Professional Regulation's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to comply with the requirements listed in the first paragraph of this report such that there is more than a remote likelihood that noncompliance with a requirement that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance as described in the accompanying schedule of State findings as items 08-1 through 08-19 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of State findings, we consider item 08-1 to be a material weakness.

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 Financial and Professional Regulation's response to the findings identified in our examination are described in the accompanying schedule of State findings. We did not examine the State of Illinois, Department of Financial and Professional Regulation's response and, accordingly, we express no opinion on it.

**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 2008 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.

We have not applied procedures to the 2007 Supplementary Information for State Compliance Purposes, and accordingly, we do not express an opinion thereon.

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.

Sikich LLP

Springfield, Illinois
May 4, 2009

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the Security Deposit Fund – 1109 of the State of Illinois, Department of Financial and Professional Regulation, as of June 30, 2008, and have issued our report thereon dated May 4, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the State of Illinois, Department of Financial and Professional Regulation's internal control over financial reporting of the Security Deposit Fund – 1109 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Department of Financial and Professional Regulation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Department of Financial and Professional Regulation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State of Illinois, Department of Financial and Professional Regulation's Security Deposit Fund – 1109 financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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.

Sikich LLP

Springfield, Illinois
May 4, 2009

**08-1 <u>FINDING</u>:** (Inadequate controls over computer inventory)

The Department was not able to locate computer equipment and did not adequately plan, coordinate, and verify the transfer of EDP equipment to the Department of Central Management Services (CMS).

The Department conducts an annual physical inventory of all equipment with an acquisition cost of $500 or more and annually reports its results to CMS. In its fiscal year 2008 Physical Inventory Report submitted to CMS, the Department reported it was unable to locate 98 of 3,771 (3%) items totaling $169,813. Department personnel stated that $161,204 was presumed missing as a result of the transfer of computer equipment for the consolidation of the Information Technology (IT) functions of State government with CMS in accordance with Public Act 93-25.

Upon further inquiry with Department and CMS personnel, we noted the following:

- The missing EDP equipment consisted of approximately 35 laptop computers, 17 desktop computers, and other peripheral items. The Department "assumed" the missing items were transferred to and removed by CMS.

  Upon follow up with CMS, CMS personnel stated <u>none</u> of these missing items were on its post-consolidation property control records.

  The Department was unable to produce property transfer records or locate the EDP equipment. The Department had not performed an assessment, and was unsure how much, if any, confidential information was on the missing computers.

- CMS provided us with a list of items that they removed as part of the IT consolidation. We noted 68 items totaling $223,509 which were on CMS' listing and also still on Department inventory records. As a result, these items are duplicated on two Agencies' records, thus overstating State assets by $223,509.

The State Property Control Act (30 ILCS 605/4 and 6.02) requires the Department be accountable for the supervision, control and inventory of all items under its jurisdiction and control. In addition, the Department had the responsibility to ensure that confidential information is protected from disclosure and that provisions in the Personal Information Protection Act (815 ILCS 530) are followed.

Department personnel stated there was <u>no</u> paperwork documenting the items that were removed by CMS. We were able to obtain this information from CMS. This indicates the Department did not make the effort to adjust its records for the items removed by CMS, did not follow up on many computers and peripheral equipment that were missing, and did not assess whether the missing computers contained confidential information.

Failure to follow up on missing computer equipment and failure to coordinate and verify the transfer of EDP equipment to CMS resulted in lack of control over State property, duplicate recording of equipment by the Department and CMS, and the risks associated with the potential exposure of confidential information. (Finding Code No. 08-1)

**RECOMMENDATION:**

We recommend the Department:

- Immediately perform a detailed inventory of computer equipment.

- Contact CMS in an effort to reconcile any missing items that may have been transferred to CMS, but lacked appropriate paperwork.

- Perform a detailed assessment to determine if any of the missing computers contained confidential information.

**DEPARTMENT RESPONSE:**

Concur. The Department has initiated a detailed inventory of computer equipment, and will work with representatives of the Department of Central Management Services to reconcile any missing items that lacked appropriate paperwork. The Department will also review current procedures to ensure better management of inventory of all items under its jurisdiction and control.

**08-2 FINDING:** (Division of Professional Regulation enforcement activities not performed timely and/or not sufficiently documented)

The Department's Division of Professional Regulation's Enforcement Unit did not perform and/or document enforcement activities in a timely or sufficient manner.

The Department has established and implemented guidelines and time frames for significant investigation, prosecution, and probation/compliance activities of the Enforcement Unit. Since the Department did implement guidelines to ensure that the investigation and prosecution activity is initiated and completed within reasonable time parameters, we used their guidelines and time frames as the criteria for our tests. We based our initial testing procedures on guidelines and timeframes provided to us by the Department from their enforcement policies and procedures manual. However, we were later informed nine months after our testing that these guidelines and timeframes were not the correct or most up-to-date versions, causing us to retest many of these files.

We reviewed 25 investigation files and noted the following deficiencies:

- In 3 out of 25 (12%) case files reviewed, the Investigative Reports were not generated within 30 days of the investigative activity. The completion of the investigative reports ranged from 75 to 126 days late.

- In 3 out of 25 (12%) case files reviewed, we noted that the Investigator did not interview the complaining witness within 30 calendar days from the date assigned to the case. The case interviews ranged from 9 to 157 days late.

- In 1 out of 25 (4%) case files reviewed, an Investigative Summary Report was not included in the file.

- In 3 out of 25 (12%) case files reviewed, no acknowledgement letter was sent to the complaint witness.

We reviewed 25 prosecution files and noted the following deficiencies:

- In 1 out of 25 (4%) case files reviewed, an Investigative Summary Report was not included in the file.

- In 1 out of 25 (4%) case files reviewed, the Investigative Summary Report was not signed by the investigator.

- In 2 out of 25 (8%) case files reviewed, the Chief of Prosecutions did not review the case and assign to an attorney within 30 days of receipt. The completion of the review and assignment ranged from 3 to 12 days late.

We also noted the Integrated Licensing and Enforcement System (ILES) screen printouts, which were provided to us at the time of our initial testing, were not updated and did not contain current information. The ILES printouts summarize the most recent activity for each case file. Department management stated printouts originally provided to us were not current because investigators may have been out of the office and not had an opportunity to update investigation and prosecution files.

The activity of investigators and attorneys should be performed within reasonable time frames to allow for the accumulation of competent and sufficient evidence relating to complaints and to provide for timely prosecution of licensees. It is also essential that information in the ILES be updated immediately because, as a real time system, data must be current and accurate. Furthermore, good internal controls require the Department to enforce its internal policies and procedures and maintain adequate documentation. The State Records Act (5 ILCS 160/8) states in part, "The head of each agency shall cause to be made and preserved records containing adequate and proper documentation of the…decisions…and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency's activities."

In its response to this previous finding, the Department stated Chiefs of each unit, Investigation, Prosecution and Probation, now conduct monthly reviews of enforcement files using new policy guidelines to ensure accuracy and timeliness. The Department's Enforcement Unit also outlined several corrective courses during fiscal years 2006 and 2007.

In carrying out the Department's mission to serve, safeguard, and promote the public welfare, the Department has a responsibility to expeditiously discipline licensees who violate the governing regulations to prevent further harm to the public. Continued deficiencies in the enforcement process could place the public at risk to licensees who are not fulfilling their responsibilities. (Finding Code No. 08-2, 07-1, 06-3, 05-5, DPR 04-12)

**RECOMMENDATION:**

We recommend the Department comply with the State Records Act and maintain the documentation required within its Enforcement Unit files. We also recommend ILES be updated immediately as case file information changes or additional information becomes available. Further, we continue to recommend the Department allocate the resources necessary to comply with its internal guidelines for the Enforcement Unit to ensure that case files reflect necessary and significant investigative, prosecution, and probation/compliance activities in the Department within its established time frames.

**DEPARTMENT RESPONSE:**

The Department concurs with the recommendation in that investigators and prosecutors should perform and document their activities within the timeframes and in a manner set by Division policy.

The Department believes that facts presented in this audit finding show that the Department has significantly improved its performance in this area. The FY07 compliance audit reported that in 75 files reviewed at that time a total of 36 deficiencies were found. For the current audit, in the 75 files reviewed only 14 deficiencies were found. This represents a 61% reduction in deficiencies. Additionally, the auditors found no deficiencies in the 25 Probation files reviewed, thereby eliminating this aspect of previous audit findings.

The auditors reviewed 475 details of the 75 files. Only 14 deficiencies or errors have been found. This represents only 2.9% of the total number of possible deficiencies.

The Department has been able to increase compliance by revising the Enforcement Manual, instituting 30 day case reviews with investigators and prosecutors, instituting weekly tracking reports, completing the conversion of the ILES case tracking system and hiring additional probation investigators.

The Department continues to review its processes and policies so that Division of Professional Regulation investigators and prosecutors may continue to protect the public health, safety, and welfare.

**08-3 <u>FINDING</u>:** (Deficiencies identified in controls over interagency agreements)

The Department's controls over interagency agreements were deficient.

During our examination of three interagency agreements (one between the Department and the Governor's Office of Management and Budget, one between the Department and the Governor's Office of Management and Budget and the Department of Labor, and one between the Department and the Department of Healthcare and Family Services), the following deficiencies were noted:

- 2 out of 3 (67%) interagency agreements tested, totaling $145,000, were not signed by all necessary parties before the effective date. The agreements (between the Department and the Department of Healthcare and Family Services and between the Department and the Governor's Office of Management and Budget and the Department of Labor) were signed 14-105 days late.

- 1 out of 3 (33%) interagency agreements tested pertaining to legal services (between the Department and the Governor's Office of Management and Budget), totaling $72,000, did not include supporting documentation detailing the methodology used for determining the percent allocation to be paid by the Department for billing of shared costs.

- In an interagency agreement totaling $95,000, between the Department, the Department of Labor, and the Governor's Office of Management and Budget, the Department could not demonstrate that an employee paid from the multiple agencies (67% from the Department, 33% from the Department of Labor, and 0% from the Governor's Office) was working on Department related activities. Timesheets maintained by the employee did not detail the amount of time the employee worked for each State Agency. Additionally, no supporting documentation existed detailing the methodology used for determining the percent allocation to be paid by each State Agency noted in the interagency agreement.

The Department enters into multiple agreements with other State Agencies and other units of government. The purpose of these agreements is to assist the Department in fulfilling its mandated mission. In order to assess whether the agreement is reasonable, appropriate, and sufficiently documents the responsibilities of the appropriate parties, the agreement needs to be approved prior to the effective date, and include proper documentation supporting the percent allocation used for billings. The State Records Act (5 ILCS 160/8) states, "The head of each agency shall cause to be made and preserved records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency's activities."

Department personnel stated the Department was a party to the agreements and shared in the costs in connection with employment and labor litigation issues relating to the Agency.

Prudent business practices require the approval of agreements prior to the effective date and proper documentation supporting the billing and payment of services to ensure the Department's expenditures are proper.  (Finding Code No. 08-3, 07-2, 06-2)

**RECOMMENDATION:**

We recommend the Department ensure all interagency agreements are signed by all parties prior to the effective date of the agreement.  Further, the Department should require all interagency agreements include methodology supporting the percent allocation.

**DEPARTMENT RESPONSE:**

Concur.  The Department will clarify the methodology for the parties' assumption of payment obligations in all interagency agreements to which the Department is a party. Further, the Department will endeavor to approve all such agreements prior to any performance of services thereunder.

**08-4** **<u>FINDING</u>:** (Inaccurate property control records)

The Department did not maintain complete and accurate property control records.

The Department had property and equipment totaling $10,831,178 at June 30, 2008. We selected a sample of 105 equipment items from 9 Department locations as of June 30, 2008 to test whether the equipment was in the correct location and was properly maintained on the Department's inventory system. As a result of our testing, we noted the following:

- 12 of 105 (11%) items totaling $8,702 could not be located by Department personnel.

- 3 of 105 (3%) items were located at sites other than the location listed on the Department's property control listing.

- 2 of 105 (2%) items were obsolete or unusable, but still maintained on the Department's property control listings.

- 29 of the 105 items tested were required to be reported in its fiscal year 2008 Physical Inventory Report submitted to the Department of Central Management Services (CMS) as items with a value greater than $500 or as having a high theft status. We noted 3 of the 29 (10%) items were reported to CMS at amounts differing from the Department's property control records. These differences ranged from $15 to $690.

During our testing of equipment additions, we noted 7 of 36 (19%) equipment additions totaling $16,180 were not properly reported on the Department's property control records and the *Agency Report of State Property* forms (C-15) submitted to the Illinois Office of the Comptroller for fiscal year 2008. These errors led to inaccurate amounts reported on the Department's *Capital Asset Summary* form (SCO-538) submitted to the Comptroller for GAAP reporting purposes. Revised C-15 and SCO-538 forms were prepared and submitted to the Comptroller. However, only $12,164 of the $16,180 unrecorded equipment additions were reported on these revised forms. Therefore, the revised C-15 and SCO-538 forms submitted as of June 30, 2008 understated the Department's assets by $4,016.

Additionally, the Department was unable to locate 98 of 3,771 (3%) items totaling $169,813 as noted in their fiscal year 2008 Physical Inventory Report submitted to CMS (see finding 08-1).

The State Property Control Act (30 ILCS 605/4 and 6.02) requires the Department be accountable for the supervision, control and inventory of all property under its jurisdiction and control. In addition, the Statewide Accounting Management System (SAMS) Procedure 29.10.10 requires agencies to keep detailed records of property supporting amounts provided to the Office of the Comptroller. Furthermore, good internal control procedures require the proper tracking of property and equipment. The Department has procedures to track the movement of equipment throughout the Department, but these procedures were not followed in all cases.

Department management stated that many of the property control issues noted above were a result of a lack of communication between the Administrative Services section and Fiscal section.

Failure to maintain accurate property control records increases the potential for theft or misappropriation of State assets. In addition, property improperly included on the Department's inventory may result in inaccurate fixed assets reports and misstated financial information. (Finding Code No. 08-4, 07-9, 06-14)

**RECOMMENDATION:**

We recommend the Department implement procedures to ensure property control records are accurate, including frequent physical observation and reconciliation to property control records. Also, the Department should delete all obsolete or unusable items and transfer those items to the Department of Central Management Services Surplus Property.

**DEPARTMENT RESPONSE:**

Concur. The Department will review procedures to establish better controls over the accuracy of property control records. The Department will also review obsolete or unusable items and transfer those items to the Department of Central Management Services for surplus property.

**08-5** **FINDING:** (Deficiencies identified with the CLEAR computer system)

The Department's Division of Banking's (Division) Credentialing Licensing Enforcement and Regulation (CLEAR) system had significant deficiencies.

The CLEAR system was implemented in February 2003. CLEAR is an enterprise-wide computerized licensing, enforcement and regulatory system, which replaced the Division's outdated legacy systems, and processes approximately $40 million in receipts per year. The system was developed by a contractor with a total cost of approximately $1 million.

During our review of the Division, we found the CLEAR system was not meeting the needs of the Division. The following problems with the system were identified:

- Inability to accurately count fees and reconcile to dollar amounts.

- General policies and procedures for revenue processing with the CLEAR system have not been developed to make the CLEAR system more user friendly for Department staff.

The CLEAR system was implemented without the use of system development standards that require adequate testing and security controls to ensure the accuracy and integrity of the system.

Department management stated it has been working with the contractor responsible for the development of the CLEAR system to develop an additional financial system component that will provide for adequate documentation and to address other deficiencies within the system. Currently, the implementation of the additional component is nearly complete and requires only the final testing and training before being place in production according to Department management. Generally accepted information technology guidance endorses the implementation of system development standards that require new system developments and modifications to existing systems be properly approved, thoroughly tested, consistently documented, sufficiently secure, and meets the needs of the user. (Finding Code No. 08-5, 07-5, 06-18, 05-18, BRE 04-2)

**RECOMMENDATION:**

We recommend the Department's Division of Banking conclude its evaluation of the CLEAR system and develop a corrective action plan to enhance the system to ensure that it meets the needs of the users.

**DEPARTMENT RESPONSE:**

Concur. On June 10, 2008, we received the Financial Module from the vendor and installed it in our test environment. Information Technology analysts tested the software, and corrected all programming or functionality issues with the vendor that arose from the testing. On August 14, 2008, we moved the Financial Module for the CLEAR system to the production environment and made it available to agency users.

**08-6 <u>FINDING</u>:** (Failure to reconcile Department expenditure and fund records to the Illinois Office of the Comptroller records in a timely manner)

The Department did not perform timely reconciliations of Department expenditure and fund records to the Illinois Office of the Comptroller records, as required by the Statewide Accounting Management System (SAMS).

During our testing of monthly expenditure reconciliations of Department records to the Comptroller's Monthly Appropriation Status Report, we noted the following:

- The Department failed to perform timely expenditure reconciliations of Department records for four separate funds. Expenditures for these funds totaled $21,972,801 during the engagement period. The reconciliations for the months of August 2007 and October 2007 through March 2008 were performed one to six months late for one fund related to the Division of Financial Institutions. The reconciliations for the months of November 2007 through April 2008 were performed one to six months late for two funds related to the Division of Professional Regulation. Additionally, the Department failed to document when the reconciliations were completed for the month of October 2007 for these same two funds; therefore, we were unable to determine if these reconciliations were completed timely. The reconciliations for the months of November 2007 and December 2007 were performed one to two months late for one fund for the Division of Banks.

  SAMS (Procedure 11.40.20) requires an Agency to perform a monthly reconciliation and notify the Comptroller's Office of any unreconcilable differences.

During our testing of monthly fund reconciliations of Department records to the Comptroller's Cash Report, we noted the following:

- The Department failed to timely perform cash reconciliations for six months of the fiscal year for one of the Division of Financial Institutions funds. The reconciliations for July 2007 through November 2007 and January 2008 were performed in April 2008.

- The Department failed to document when the reconciliations were completed for all twelve months of fiscal year 2008 for the Division of Professional Regulation funds; therefore, we were unable to determine if these were completed timely.

- The Department failed to locate the cash reconciliations for one of the funds for the Division of Financial Institutions; therefore, we were unable to determine if these were completed timely.

  SAMS (Procedure 9.40.30) requires an Agency to perform a monthly reconciliation of ending cash balance and notify the Comptroller's Office of any unreconcilable differences.

Department personnel stated the reconciliations were prepared untimely due to loss of staff within the Division of Fiscal and Accounting, the time required to implement a reconciliation process, and the inability to catch up on the back log of activity as a result of the staff shortages. Furthermore, Department personnel stated that the missing reconciliations were due to the move of Fiscal staff to the Administrative and Regulatory Shared Services Center.

Failure to properly reconcile expenditure and fund records could lead to unresolved differences between Department and Comptroller records and to inaccurate financial reporting. (Finding Code No. 08-6, 07-4, 06-08, 05-10)

**RECOMMENDATION:**

We recommend the Department ensure all monthly expenditure and fund reconciliations are performed in accordance with SAMS procedures to ensure accurate financial reporting.

**DEPARTMENT RESPONSE:**

Concur. The Department will continue to work with the Administrative and Regulatory Shared Services Center to ensure that the monthly reconciliations of expenditure and fund records are performed in a timely manner.

**08-7** **<u>FINDING</u>:** (Inadequate internal and administrative controls over locally held funds)

During our review, we noted weaknesses in internal controls, preparation and reporting of three locally held funds maintained by the Department's Division of Professional Regulation. Receipts and disbursements totaled $7,921 and $6,145, respectively, in these funds during fiscal year 2008

Weaknesses noted were as follows:

- The custodian of the locally held funds has incompatible responsibilities including access to funds, recordkeeping and the preparation of monthly bank reconciliations. This lack of segregation of duties compromises the security of the funds.

- The *Report of Receipts and Disbursements for Locally Held Funds* (Form C-17) required to be filed quarterly with the Office of the Comptroller contained errors. One quarterly C-17 had incorrect deposits of $140.

- The C-17 reports were prepared and approved by a single employee. They are not independently reviewed prior to submission with the Comptroller.

- Adequate reconciliations were not prepared for the locally held funds. The Department maintains two locally held funds, the Official Advance General Fund and the Medical Fund, with balances of $3,500 and $5,000 respectively, maintained at local bank accounts. The Department did not prepare monthly reconciliations of these funds, which should include any in-transit items. Because no monthly reconciliations were prepared, the Department was unable to reconcile to the authorized balances as of June 30, 2008.

The Comptroller's Statewide Accounting Management System (SAMS) procedure for locally held fund reporting (SAMS Procedure 33.13.20) states the reports should be completed using actual receipts and disbursements and states that C-17 reports be prepared then sent to the agency official responsible for approving them prior to submission to the Office of the Comptroller.

Department personnel stated the lack of segregation of duties is a result of Department oversight and that errors have occurred do to the numerous manual calculations required to summarize transactions from several bank accounts. Computerizing the preparation process and training employees on the proper completion of the forms should minimize the errors.

Good business practice and internal control procedures provide for the establishment of effective controls to safeguard assets and provide accountability. Failure to establish an effective internal control system could result in loss from fraud or theft or in errors and discrepancies going undetected. (Finding Code No. 08-7)

**RECOMMENDATION:**

We recommend the Department implement policies to ensure adequate internal and administrative controls over locally held funds, including adequate segregation of duties and proper reconciliation of funds. Further, an independent supervisor should review the C-17 reports before they are submitted to the Comptroller.

**DEPARTMENT RESPONSE:**

Concur. The Department will ensure that there are adequate internal and administrative controls implemented to address this finding. All completed reports will also be reviewed by supervisory personnel before submission to the Comptroller's Office.

**08-8** **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 $47,901,720 for payroll and had an average of approximately 782 employees during fiscal year 2008.

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. However, the Department implemented an additional timekeeping system, the Ethics Timekeeping Work Diary, during fiscal year 2008 that 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 8 out of 35 (23%) employee Ethics Timekeeping Work Diary's reviewed, time was not entered for any days worked by the employee for the selected pay period.

- In 6 out of 35 (17%) employee Ethics Timekeeping Work Diary's 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 that employee orientation has been transferred to Shared Services and training in the use of the Ethics Timekeeping Work Diary is not part of the orientation process. They further stated there were employees who have not integrated the Ethics Timekeeping Work Diary entries into their work responsibilities. Department management stated they plan to provide periodic reminders to employees and post them on the Department's intranet about the system and its use.

By not maintaining appropriate time sheets, the Department is not monitoring employees' time spent on official state business as required to comply with the Act. (Finding Code No. 08-8, 07-6, 06-11, 05-12, DPR 04-7, DFI 04-2)

**RECOMMENDATION:**

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

**DEPARTMENT RESPONSE:**

Concur. The Department will send an agency-wide reminder to staff about the importance of making timely entries into the Ethics Timekeeping Work Diary. The Department's policy regarding the Work Diary will also be included in the updated version of the Department's Policy Manual. Finally, the Department will coordinate with Administrative and Regulatory Shared Services to ensure that new employees receive orientation regarding the Work Diary.

**08-9** **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 that 20 out of 25 (80%) employees sampled did not have a performance evaluation performed on a timely basis. These untimely evaluations included 6 evaluations that were not prepared or completed during the fiscal year and 14 evaluations that were completed between 7 to 189 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 they send 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. 08-9, 07-7, 06-12, 05-13, DPR 04-6, 03-4, 01-4, 99-17, 97-20, 95-17, 93-26, BRE 04-9)

**RECOMMENDATION:**

We continue to 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:**

Concur. The Department will coordinate with the Administrative and Regulatory Shared Services Center to develop internal controls to address the timely submission of employee evaluations.

**08-10 FINDING:** (Failure to enforce travel rules)

The Department did not enforce the travel regulations outlined within the *Travel Guide for State of Illinois Employees* (Travel Guide), codified by the Illinois Administrative Code (80 Ill. Adm. Code 2800), that was developed by the Governor's Travel Control Board.

During our review of travel vouchers, we noted 4 of 7 (57%) out-of-country examiner travel vouchers tested, totaling $24,963 were not approved in advance by the Chairman of the Governor's Travel Control Board. The vouchers related to travel to London to conduct an examination of a Department regulated bank's international operations in November 2007, but was not approved by the Chairman of the Governor's Travel Control Board until December 10, 2007.

The Illinois Administrative Code (80 Ill. Adm. Code 2800.700(b)) requires the Department to obtain approval from the Chairman of the Governor's Travel Control Board 30 days in advance of the departure date.

Department officials stated that the Travel Control Board approvals for out-of-country travel were not obtained prior to travel due to a key fiscal employee being on leave of absence and the remaining fiscal employees were unaware of the requirement to obtain approvals.

Failure to comply with travel rules and regulations could result in excessive or unauthorized travel. (Finding Code No. 08-10, 07-8, 06-13, 05-14, DPR 04-2)

**RECOMMENDATION:**

We continue to recommend the Department establish effective controls over approval of out-of-country travel requests.

**DEPARTMENT RESPONSE:**

The Department has implemented the necessary procedures to address the approval process for out-of country travel requests.

**08-11** **<u>FINDING</u>:** (Controls over telecommunication services and expenditures)

The Department did not maintain adequate controls over telecommunication services and expenditures.

The Department expended $1,180,216 for telecommunications services during fiscal year 2008. In January 2008, the Department created new phone bill distribution procedures to address issues noted in prior audits regarding the lack of review and approval of detail telephone line billings. These procedures require each telephone and or cell phone line billing to be reviewed and approved by the user of the phone line, as well as their supervisor, within approximately ten days from receipt of the billing. A follow-up notice is to be sent to the individuals if the approvals not returned within the noted time frame.

During our testing we examined 60 detail billings for telephone and cell phone charges to determine if the Department performed a timely review of the vendor invoices and monitored charges for services and expenditures to ensure unnecessary expenditures were eliminated, proper service was provided, and misuse of telecommunications services did not occur. We noted the following:

- 3 of 60 (5%) detail phone line billings requested for testing could not be located by the Department.

- 6 of 60 (10%) detail phone line billings were approved by an individual other than the user of that particular phone line.

- 9 of 60 (15%) detail phone line billings included no documentation of supervisor approval.

- 5 of 60 (8%) detail phone line billings were found to be assigned to a user inconsistent with Department records for that particular phone line.

- 23 of 60 (38%) detail phone line billings required a follow-up notice for approval to be sent; however, these notices were not sent out timely or at all. Approvals were received between 11 and 254 days after originally due. Additionally, upon further review, detail phone line billings related to December 2007 and March 2008 included 344 of 1,319 (26%) phone line billings and 613 of 1,419 (43%) phone line billings, respectively, that had still not been approved as of the date of our testing, August 2008. However, the Department paid these invoices prior to receiving approval from the responsible reviewer.

During our review of telephone credit card cancellations, we noted the Department failed to timely submit *Telephone Credit Card Request* forms to the Department of Central Management Services for 3 of 6 (50%) separated employees. The forms were submitted 52 to 305 days after the employee separation. Prior to cancellation by the Department, these employees continued to have access to State telephone credit cards.

The Department of Central Management Services (DCMS), Division of Telecommunications, "A Guide to Services and Procedures" (November 2003) (Guide), requires each agency to appoint a Telecommunications Coordinator, designated by the Agency's director or executive officer, to interface with DCMS on all telecommunications needs. Specific responsibilities of a telecommunications coordinator are: review all communications requests within the Agency to ensure compliance with DCMS and Agency guidelines; determine user needs and approve requests for service and equipment which are in compliance with established guidelines; coordinate on all projects involving telecommunications services, including submitting completed service request forms; develop a program for monitoring services and expenditures to ensure that unnecessary expenditures are eliminated and a proper level of service is provided; and monitor the use of telecommunications services by the Agency for the specific purposes of identifying the misuse of telecommunications services and any need for instruction and/or training.

Subsequent to Department consolidation, one individual has been temporarily assigned the Telecommunications Coordinator responsibilities in addition to normal duties. The Department has not staffed this position permanently.

According to Department personnel, billings were distributed and approved untimely due to difficulties in obtaining employee cooperation in completing the reviews. Additionally, telephone credit cards were not properly canceled timely due to oversight.

These weaknesses could lead to excessive or unnecessary expenditures for telecommunications services. (Finding Code No. 08-11, 07-10, 06-15, 05-15, DPR 04-9, 03-8, BRE 04-10)

**RECOMMENDATION:**

We recommend the Department follow their phone bill distribution procedures and stress to employees the importance of completing these timely reviews of telecommunications services and expenditures. Further, the Department should appoint a permanent Telecommunications Coordinator to ensure monitoring of charges and services, as well as adherence to DCMS guidelines and Department policies.

**DEPARTMENT RESPONSE:**

Concur. The Department will continue to review procedures to establish better controls over telecommunication services and expenditures. The Department will also continue to stress the importance to employees of completing timely reviews of monthly telecommunications services and expenditures.

**08-12** **FINDING:** (Controls over vehicle reporting and operation of automotive equipment expenditures)

The Department did not maintain adequate controls over vehicle reporting and operation of automotive equipment expenditures.

The Department expended $261,469 for operation of automotive equipment expenditures and operated an average of 83 vehicles during fiscal year 2008.

During previous examinations, we noted the Department had not standardized its policies and procedures and relied on various legacy agency vehicle policies and procedures. In its previous response, the Department stated it was in the process of reviewing and approving an extensive policy to address ongoing audit issues.

During the current examination, Department officials stated no extensive vehicle policies and procedures were developed. They stated the Department now relies on the Illinois Administrative Rules promulgated by the Department of Central Management Services (DCMS) (44 Ill. Adm. Code 5040) as its vehicle policies. These rules are general in nature and without additional internal written policies and procedures, little guidance exists for employees on timing and completion of various automotive forms.

We generally followed DCMS rules and existing legacy policies to test controls over vehicle reporting and operation of automotive equipment expenditures.

During our testing of the Department's accident reports filed, vehicle maintenance records, and automotive invoice vouchers processed during the examination period, we noted the following:

- In 1 out of 6 (17%) accident files reviewed, the "Motorist's Report of Illinois Motor Vehicle Accident" form (SR-1) on the Illinois Motorist Report was not submitted by the employee; therefore, we were unable to determine if the form was filed with the Department within two working days, as required by existing Department vehicle policies.

- In 3 out of 6 (50%) accident files reviewed for the examination period, the "Motorist's Report of Illinois Motor Vehicle Accident" form (SR-1) with an Auto Liability Uniform Cover Letter was not filed with DCMS' Risk Management within seven calendar days of the accident, as required by the DCMS' Vehicle Policy. The forms were filed from 10 to 40 days late.

- In 2 out of 6 (33%) accident files reviewed for the examination period, the "Motorist's Report of Illinois Motor Vehicle Accident" form (SR-1) on the Illinois Motorist Report was not filed with the Agency within two calendar days of the accident, as required by the DCMS' Vehicle Policy. The forms were filed 4 days late.

- In 9 out of 65 (14%) automotive invoice vouchers tested, the expenses incurred were not reported on the Monthly Automotive Cost Report for that particular State vehicle.

- In 5 out of 65 (8%) automotive invoice vouchers tested, an automobile description, license plate number, vehicle ID, or any other means to identify the State vehicle used was not given on the supporting documentation.

- In 1 out of 65 (2%) automotive invoice vouchers tested, the charge ticket did not have the employee's signature.

- In 9 out of 25 (36%) vehicles tested for proper vehicle maintenance, an oil change was not performed once every 5,000 miles, as required by existing Department vehicle policies. We noted the mileage at the time of the oil change ranged from 5,048 to 14,134 miles.

- In 3 out of 61 (5%) personally assigned vehicles tested, the vehicle was driven less than 5,000 miles during the fiscal year. We noted 22 of 61 (36%) personally assigned vehicles were driven less than 10,000 miles during the fiscal year. This indicates that the vehicle is not being utilized enough to justify the assignment.

In a response to a prior finding, the Department stated it would work to ensure future accident files were completed, reviewed and maintained by departmental staff and filed with DCMS in a timely manner and that they had implemented procedures to standardize reporting procedures across Divisions and to provide employees with supplemental notice of required state-owned vehicle maintenance.

Department officials were unresponsive when questioned as to why the Department was unable to compel employees to follow existing policies and procedures as noted in the previous six compliance examinations dating back to fiscal year 2003.

Failure to have specific Department policies and procedures may result in misappropriation of assets, misuse of State funds or undue liability to the Department or State for inappropriate use of State vehicles. (Finding Code No. 08-12, 07-11, 06-16, 05-16, DPR 04-10, 03-9, BRE 04-7)

**RECOMMENDATION**:

We recommend the Department revise, review and approve a Vehicle Policy to ensure adequate controls over the operation of automotive equipment and expenditures. Further, Department management should communicate the policies to all employees and implement disciplinary actions for noncompliance to ensure that employees comply with Department policies over the operation of automotive equipment and expenditures. Additionally, we recommend the Department re-evaluate the assignment of vehicles to individuals, especially those driven minimal mileage during the year.

**DEPARTMENT RESPONSE:**

Concur. The Department will include a vehicle policy in its updated policy manual to ensure better controls over the operation of automotive equipment and expenditures. The Department is also in the process of completing a comprehensive review of the assignment of vehicles to individuals, especially those driven minimal mileage during the year.

**08-13 FINDING:** (Failure to certify license and automotive liability coverage)

The Department did not properly certify license and automotive liability coverage for individuals assigned a State vehicle in compliance with the Illinois Vehicle Code (Code).

The Illinois Vehicle Code (625 ILCS 5/7-601(c)) requires every employee of a State agency, who is assigned a specific vehicle owned or leased by the State on an ongoing basis, to provide a certification annually to the Director. The certification shall affirm that the employee is duly licensed to drive and that the employee has liability insurance coverage extending to the employee when the assigned vehicle is used for other than official State business. The certification shall be provided during the period July 1 through July 31 of each calendar year or within 30 days of any new assignment of a vehicle on an ongoing basis, whichever is later.

We tested 2 of 4 quarters (50%) of Assigned Vehicle Summary Reports during fiscal year 2008 and noted the following:

- In 6 of 50 (12%) employees selected for review of personal use of a State vehicle forms filed during fiscal year 2008, no certification was filed with the Department.

- In 38 of 50 (76%) personal use of a State vehicle forms reviewed during fiscal year 2008, the certification was not submitted by July 31st or 30 days after the individual was assigned a vehicle, whichever is later. The filing of the forms ranged from 22 to 162 days late.

- In 1 of 50 (2%) personal use of a State vehicle forms reviewed during fiscal year 2008, the certification was not dated, therefore, we were not able to determine if the certification had been submitted timely.

According to Department officials, confusion existed regarding who was responsible for the administration of the certification of liability insurance coverage.

Failure to obtain an employee certification as required by the Code could result in undue risk of loss to the State for injury or damage. (Finding Code No. 08-13)

**RECOMMENDATION:**

We recommend the Department obtain certification forms for license and automotive liability insurance for State assigned vehicles, as required by statute, or rescind an employee's authority to use a state assigned vehicle if they refuse to provide the required certification.

**DEPARTMENT RESPONSE:**

Concur. The Department will take the necessary corrective action to ensure that certification forms for license and automotive liability insurance for State assigned vehicles are completed annually, as required by statute.

**08-14 <u>FINDING</u>:** (Department Boards not fully staffed)

The Secretary of the Department did not appoint the required number of members to the various Boards in order to fill vacancies.

- The Secretary of the Department did not appoint one member to the Social Work Examining and Disciplinary Board in order to fill a vacancy. A vacancy existed for one licensed clinical social worker since January 2004. The Clinical Social Work and Social Work Practice Act (Act) (225 ILCS 20/6) requires the Secretary appoint a Social Work Examining and Disciplinary Board consisting of 9 persons who shall serve in an advisory capacity to the Secretary. The Board shall be composed of 6 licensed clinical social workers…, two licensed social workers, and one member of the public who is not regulated under this Act or a similar Act and who clearly represents consumer interests.

- The Secretary of the Department did not appoint 2 members to the Board of Nursing in order to fill vacancies. Vacancies existed for one LPN and one APN (CNM). The Nurse Practice Act (Act) (225 ILCS 65/50-65) requires the Secretary to solicit recommendations from nursing organizations and appoint the Board of Nursing which shall consist of 13 members, one of whom shall be a practical nurse; one of whom shall be a practical nurse educator; one of whom shall be a registered professional nurse in practice; one of whom shall be an associate degree nurse educator; one of whom shall be a baccalaureate degree nurse educator; one of whom shall be a nurse who is actively engaged in direct care; one registered professional nurse actively engaged in direct care; one of whom shall be a nursing administrator; 4 of whom shall be advanced practice nurses representing CNS, CNP, CNM, and CRNA practice; and one of whom shall be a public member who is not employed in and has no material interest in any health care field. In addition, the Act requires that the membership terms be for 3 years … No member shall be appointed to more than 2 consecutive terms.

- The Department's Division of Professional Regulation was not in compliance with the provisions of the Pharmacy Practice Act of 1987 (Act) (225 ILCS 85/10) regarding the State Board of Pharmacy. During our testing we noted three of nine (33%) positions (licensed pharmacist) were held by individuals with terms that expired in April 2004 (1 position) and April 2007 (2 positions). The Act requires the Governor to appoint members to the State Board of Pharmacy. The Board shall consist of 9 members, 7 of whom shall be licensed pharmacists…in good standing in this State, a graduate of an accredited college of pharmacy or hold a Bachelor of Science degree in Pharmacy and have at least 5 years' practical experience in the practice of pharmacy. There shall be 2 public members, who shall be voting members, who shall not be licensed pharmacists in this State or any other state.

- The Secretary of the Department did not appoint members to the Board of Orthotics, Prosthetics, and Pedorthics (Board). During our testing we noted that four of six (67%) positions were held by individuals with expired terms. We also noted that one of six (17%) positions (public member) has been vacant since October 2006. The Orthotics, Prosthetics, and Pedorthics Practice Act (Act) (225 ILCS 84/25) requires the Secretary of the Department to appoint 6 voting members to the Board. Three members shall be practicing licensed orthotists, licensed prosthetists, or licensed pedorthists. These members may be licensed in more than one discipline and their appointments must equally represent all 3 disciplines. One member shall be a member of the public who is a consumer of orthotic, prosthetic, or pedorthic professional services. One member shall be a public member who is not licensed under this Act or a consumer of services licensed under this Act. One member shall be a licensed physician.

- The Department's Division of Financial Institutions was not in compliance with the provisions of the Currency Exchange Act (Act) (205 ILCS 405/22.03) regarding the Board of Currency Exchange Advisers. During our testing we noted that seven out of seven (100%) board positions were vacant. We noted that one position has been vacant since January 1997, two positions have been vacant since January 1998, two positions have been vacant since January 1999, and two positions have been vacant since January 2001. Department personnel stated they were unaware of when the Board last met. The Act requires the Governor to appoint 7 members to the Board of Currency Exchange Advisers. The Board is composed of no more than 4 of whom may be members of the same political party, 3 persons who are familiar with and associated in the field of currency exchanges, 2 of whom shall have been actively engaged in the management of currency exchanges for at least 5 years prior to the date of appointment; one person who is a public aid recipient at the time of appointment; and 3 persons who shall represent the public. The Act further requires the Board to have the following duties:

    - To obtain from the Director such reports concerning the supervision and regulation of currency exchanges as they consider desirable.
    - To advise the Governor and the Director on problems concerning currency exchanges.
    - To foster the interest and cooperation of currency exchanges in improvement of their services to the people of the State of Illinois.
    - To advise of the Governor and the Director upon appointments and employment of personnel in connection with the supervision and regulation of currency exchanges.

- The Department's Division of Banking was not in compliance with the provisions of the State Banking Act (Act) (205 ILCS 5/78) regarding the State Banking Board. The Act requires the Governor to appoint members to the State Banking Board of Illinois with the advice and consent of the Senate. The Board should consist of the

Commissioner as its chairman and 16 additional members divided into 3 classes designated as Class A members, Class B members, and Class C members. During our testing we noted the following:

- Two of four (50%) Class A positions were vacant. The Act requires that Class A consist of 4 persons, none of whom shall be an officer or director or owner, whether direct or indirect, of more than 5% of the outstanding capital stock of any bank.

- Nine of ten (90%) Class B positions were vacant. The Act requires that Class B consist of 10 persons who at the time of their respective appointments shall have had not less than 10 years banking experience.

- One of two (50%) Class C positions were vacant. The Act requires that Class C consist of 2 persons who shall be at-large members representing the banking industry generally.

- The Secretary of the Department did not appoint three members, who are Licensed Certified Public Accountants to the Public Accountant Registration Committee in order to fill vacancies that have existed since November 2006, May 2007 and December 2007, respectively. In addition, one public accountant position was held by an individual whose term expired in January 2003. The Illinois Public Accounting Act (Act) (225 ILCS 450/2.05) requires the Secretary to appoint a Public Accountant Registration Committee consisting of 7 persons, who shall be appointed by and shall serve in an advisory capacity to the Secretary. Six members must be licensed public accountants or Licensed Certified Public Accountants in good standing and must be actively engaged in the practice of public accounting in this State and one member must be a member of the public who is not licensed under this Act or a similar Act of another jurisdiction and who has no connection with the accounting or public accounting profession.

- The Department's Division of Professional Regulation was not in compliance with the provisions of the Real Estate License Act of 2000 (Act) (225 ILCS 454/25-10). We noted that one of six (17%) positions (actively engaged broker or salesperson) has been vacant since November 2005, and two of three (67%) positions (public members) have been vacant since March 2002 and September 2003, respectively. Additionally, five of six (83%) positions were held by individuals with terms that expired in October 2006 (4 positions) and October 2007 (1 position). The Act requires the Governor to appoint 9 persons to the Board. Members shall be appointed to the Board subject to the following conditions:

  (1) All members shall have been residents and citizens of this State for at least 6 years prior to the date of appointment.
  (2) Six members shall have been actively engaged as brokers or salespersons or both for at least the 10 years prior to the appointment.

(3) Three members of the Board shall be public members who represent consumer interests.

In addition, the Act requires the members' terms be 4 years and the expiration of their terms shall be staggered. Appointments to fill vacancies shall be for the unexpired portion of the term. A member may be reappointed for successive terms but no person shall be appointed to more than 2 terms or any part thereof in his or her lifetime.

- The Department's Division of Financial Institutions was not in compliance with the provisions of the Debt Management Service Act (Act) (205 ILCS 665/15.1-15.3) regarding the Board of Debt Management Service Advisors. During our testing, we noted that three out of five (60%) board positions were vacant. We noted that 2 positions have been vacant since November 2005 and 1 position has been vacant since February 2006. Additionally, two of five (40%) positions were held by individuals with terms that expired in July 2004 and July 2005. Department personnel stated they were unaware of when the Board last met. The Act requires the Governor to appoint 5 members to the Board of Debt Management Service Advisors. The majority of the members shall be active in a debt management or consumer credit counseling service. The Act further requires that Board members shall be appointed for terms to expire on July 1, 3 years subsequent to the date of appointment.

- The Department's Division of Professional Regulation was not in compliance with the provisions of the Real Estate License Act of 2000 (Act) (225 ILCS 454/30-10). During our testing, we noted that 1 of 7 (14%) position (licensee) on the Advisory Council has been vacant since December 2005. Additionally, 4 of 7 (57%) positions were held by individuals with terms that expired in October 2003 (1 position), October 2006 (2 positions) and October 2007 (1 position). The Act requires the Governor to appoint 7 members to an Advisory Council within the Department's Division of Professional Regulation. The members shall serve 4 year staggered terms but no more than 8 years in a lifetime. Three of the members shall be licensees who are current members of the Real Estate Administration and Disciplinary Board, one member shall be a representative of an Illinois real estate trade organization who is not a member of the Board, one member shall be a representative of a licensed pre-license school or continuing education school, and one member shall be a representative of an institution of higher education that offers pre-license and continuing education courses. The Director shall serve as the chairman of the Advisory Council, ex officio, without vote.

- The Department's Division of Professional Regulation was not in compliance with the provisions of the Illinois Dental Practice Act (Act) (225 ILCS 25/6). During our testing, we noted that 3 of 11 (27%) positions (2 dentists and 1 dental hygienist) were held by individuals with terms that expired in December 2006 (2 positions) and April 2007 (1 position). The Act requires the Director to appoint members to the Board of

Dentistry. The Board shall consist of eleven persons, 8 of whom have been dentists for a period of 5 years or more; 2 of whom have been dental hygienists for a period of 5 years or more, and one public member. The Board members shall serve a 4-year term and no member shall serve more than 2 full terms in his or her lifetime.

Department management stated they are currently reviewing qualified candidates to fill the vacancies. Department management stated it is difficult to find willing candidates to fill the positions. Reappointments were not made due to oversight.

Failure to appoint Board members may prevent the Boards from carrying out their mandated duties of regulating these professions or companies in accordance with the Acts cited. Board members should be appointed in a timely manner in order to properly formulate the function of the Boards as intended. A full board is necessary to properly conduct meetings and operate effectively and efficiently. (Finding Code No. 08-14, 07-12, 06-28, 05-25, BRE 04-16)

**RECOMMENDATION:**

We recommend the Secretary appoint qualifying members to these Boards as required by the Acts cited and reappoint applicable Board members in a timely manner. In those cases where the Governor's Office is required to appoint the Board members we recommend the Department work with the Governor's Office to fill Board vacancies by appointing qualified members to the Boards.

**DEPARTMENT RESPONSE:**

The Department concurs with the recommendations regarding insufficiencies in staffing certain advisory boards. The prior administration maintained tight control over all boards, which resulted in a substantial delay in filling vacancies. This delay would sometimes result in the candidate losing interest, moving, or changing occupations. The current administration has explicitly signaled that it will constructively support Department efforts so that vacancies will be filled expeditiously.

**08-15 FINDING:** (Untimely approval or denial of life, accident, and/or health insurance policy forms)

The Department's Division of Insurance 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 19 out of 25 (76%) policy forms reviewed were not approved or denied on a timely basis. These policy forms were approved or denied between 8 to 402 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. 08-15, 07-14, 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:**

Concur. The Division of Insurance has taken reasonable measures to partially alleviate delays in the timely approval/disapproval of life, accident and/or health insurance policy forms but additional staff will also be required to be hired to completely resolve this issue.

**08-16** **<u>FINDING</u>:** (Residential mortgage license examinations not conducted in accordance with statutory requirements)

The Department failed to timely conduct examinations of the affairs of residential mortgage licensees.

The Residential Mortgage License Act 1987 (Act) (205 ILCS 635/4-2) requires the Commissioner to conduct examinations of the business affairs of a licensee for compliance with the Act. The Illinois Administrative Code (38 Ill. Adm. Code 1050.425) requires the Commissioner conduct examinations at intervals based on the licensee's rating. Examinations are to occur 12 to 36 months from the initial examination based on their previous examination composite rating.

During our testing, we noted examinations had not been conducted timely for 115 of the 1,386 (8%) residential mortgage licensees required to have an examination. The 115 examinations were late as follows:

- 23 were 1 to 5 months late
- 11 were 6 to 10 months late
- 10 were 11 to 15 months late
- 8 were 16 to 20 months late
- 10 were 21 to 25 months late
- 13 were 26 to 30 months late
- 40 were 31 to 67 months late

Department personnel stated due to staff shortages, the Department has not been able to complete all examinations in the required timeframe. Although additional examiners were hired during the year, much of their initial time was spent on training and educational courses due to the highly technical industry.

Failure to conduct examinations could result in licensees conducting business not in compliance with the Residential Mortgage License Act. (Finding Code No. 08-16, 07-15, 06-22, 05-24, BRE 04-14)

**<u>RECOMMENDATION</u>:**

We recommend the Department ensure examinations are conducted within the required timeframe and to ensure licensees are in compliance with the Residential Mortgage License Act.

**<u>DEPARTMENT RESPONSE</u>:**

Concur. The number of late examinations continues to be addressed by the Division of Banks and currently has been reduced to 20, representing 1.5% of licensee exams. The revised exam compliance report from the CLEAR database now clearly identifies the next examination due date and lapsed time since the previous exam.

**08-17 FINDING:** (Failure to establish a Savings Bank Examiner Training Foundation)

The Department's Division of Banking did not establish a Savings Bank Examiner Training Foundation.

The Savings Bank Act (205 ILCS 205/9007) requires that a Savings Bank Examiner Training Foundation be established for the purpose of funding and overseeing the training of savings bank examiners. The Foundation shall be governed by a 15-member board of trustees and shall promulgate regulations to govern the formation, administration, and activities of the Foundation.

Department officials stated they did not feel the Foundation was necessary and is seeking legislation to remedy the statutory requirement. Currently, the Department employs no savings bank examiners, as these duties are performed by financial institutions examiners.

By not complying with the Savings Bank Act, the Department is not funding and overseeing the training of savings bank examiners as required by the General Assembly. (Finding Code No. 08-17, 07-16, 06-20, 05-22, BRE 04-8, 02-6)

**RECOMMENDATION:**

We continue to recommend the Department seek to implement the provisions of the Savings Bank Act until legislative remedy to the statutory requirement is obtained.

**DEPARTMENT RESPONSE:**

Concur. The Department will continue to seek legislative remedy to delete Section 9700 from the Savings Bank Act, which will repeal the requirement to establish a Savings Bank Examiner Training Foundation.

**08-18 FINDING:** (Noncompliance with Residential Mortgage License Act of 1987)

The Department's Division of Banking (Division) was not in compliance with provisions of the Residential Mortgage License Act of 1987 (Act) (205 ILCS 635).

We noted the following:

- The Commissioner did not appoint one member to the Residential Mortgage Board in order to fill a vacancy. This vacancy has existed for the one public member since January 2007.

  The Act (205 ILCS 635/1-5) requires the Commissioner of Banks and Real Estate to appoint 5 members to the Residential Mortgage Board. The majority of persons on the Board shall have no financial interest in any residential mortgage business and one member shall be a representative of the Mortgage Banking Trade Association and one member shall be a representative of the Mortgage Broker Trade Association.

  Department management stated they are currently reviewing qualified candidates to fill the vacancy. Department management stated it is difficult to find a willing candidate to fill the position.

- One out of 5 (20%) Board members did not file a statement with the Commissioner regarding current business transactions or other affiliations with licensees under the Act for 2008. In addition, four out of 5 (80%) Board members did not file the statement in a timely manner. These statements were filed from 63 to 89 days late.

  The Act (205 ILCS 635/1-5(c)) requires each member of the Residential Mortgage Board file annually, no later than February 1, with the Commissioner a statement of his or her current business transactions or other affiliations with any licensee under this Act.

  Department management stated the Conflict of Interest Statements were not filed timely or at all due to the Board members delay in signing the statements and the timing of board appointments.

- A sample of 25 licensees was selected from a universe of 1,530 licensees. According to the Agency's "MB – Audits Received Report – MB Only Report" as of June 30, 2008, 25 of 25 (100%) of the licensees tested did not submit an annual audit report within 90 days of their fiscal year end. The Commissioner did not cause an audit of any of the licensees, as required by law, to be made due to the untimely filing of annual audit reports. The reports were filed from 179 to 551 days late.

The Act (205 ILCS 635/3-2(d)) requires that the most recent audit report be filed with the Commissioner within 90 days after the end of the licensee's fiscal year. The Act (205 ILCS 635/3-2(e)) also states that if any licensee required to make an audit fails to cause an audit to be made, the Commissioner shall cause the same to be made by a certified public accountant at the licensee's expense. The Commissioner shall select such certified public accountant by advertising for bids or by such other fair and impartial means as he or she establishes by regulation.

Department management stated that the Examination staff review the reports as they come in, but the Licensing Section must input the reports. The date the reports are received is logged manually and approximately 1,200 licensees have December 31 year-ends, so between March and April the Department has a large volume of statements to input. Although letters are sent if audit reports are late, Department management stated the Division did not have adequate staffing to keep up with the input on a timely basis.

Failure to enforce the Act results in Board members serving with potential conflicts of interest that are unidentified. Failure to obtain recent audit reports from licensees or to cause an audit to be made results in the Division having inadequate financial information to properly regulate residential mortgage lenders. (Finding Code No. 08-18, 07-17, 06-21, 05-23, BRE 04-12, 02-3)

**RECOMMENDATION:**

We continue to recommend the Department implement procedures to ensure compliance with provisions of the Residential Mortgage License Act of 1987.

**DEPARTMENT RESPONSE:**

Concur. The Department will continue to seek a qualified candidate to fill the vacancy on the Residential Mortgage Board, and to ensure that conflict of interest declarations are filed in a timely manner. The Department will also review internal procedures to ensure that all Mortgage Banking licensees' Annual Reports are received in a timely manner.

**08-19** **<u>FINDING</u>:** (Recommendations presented in the Management Audit of Group Workers' Compensation Self-Insured Pools not implemented)

The Department 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 audit was released in January 2003, pursuant to Legislative Audit Commission Resolution Number 121. The following are findings and issues raised in the audit that have not been fully implemented.

- The Management Audit found that there were pools in liquidation and some active pools that included members with dissimilar risk characteristics. The Workers' Compensation Pool Law (215 ILCS 5/107a.03) enacted effective January 1, 2001 requires all pools to be comprised of members with homogenous risks. However, neither the statutes nor Department rules define homogenous. One Department official was quoted in the Management Audit that "It is impossible to accurately predict losses when the subjects for coverage present a virtual potpourri of risks and exposures thereby undermining the credibility of available statistics regarding frequency and severity of losses." Having members with dissimilar risk characteristics creates the potential for unexpected risks, as claims could greatly exceed the premium rates collected for expected losses. According to Department officials, this issue will be resolved by regulations currently in draft form. (Recommendation 4)

- The Management Audit found that 12 of the 23 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. Effective January 1, 2001, the Workers' Compensation Pool Law (215 ILCS 5/107a.07) requires the Department in evaluating the financial strength of pools to consider "The gross annual payroll of members, which must be at least $10,000,000." The purpose of the statute is to assist in the evaluation of the financial strength and solvency of a pool, gross annual payroll being an indicator of financial strength. The greater the payroll, the greater the ability a pool has to spread the risk of substantial claims. Of the 9 active pools as of June 30, 2008, all had annual gross payrolls in excess of the statutory requirement. The Department has indicated that pools in runoff (not active) lack payroll. According to Department officials, this issue will be resolved by regulations currently in draft form. (Recommendation 5)

While the Department has implemented many of the recommendations presented in the Management Audit of Group Workers' Compensation Self-Insured Pools, it has not yet promulgated the suggested rules with respect to Recommendations 4 and 5. By promulgating the suggested rules, the Department will have the necessary authority to enforce appropriate standards on homogeneous memberships. (Finding Code No. 08-19, 07-18, 06-29, 05-34, DOI 04-3)

**RECOMMENDATION:**

We recommend the Department:

- Continue in its efforts to enact final rules to define homogeneous for pool membership, and monitor the pool members for homogeneous risks on an ongoing basis; and

- Continue in its efforts to enact final rules that would set forth a process to follow in the event that a pool has less than the required gross payroll.

**DEPARTMENT RESPONSE:**

Concur. Recommendation on homogeneity is being implemented by rulemaking initiated in 2008 and currently in process. The recommendation on minimum payroll may be implemented by statutory change in 2010.

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

**A.** **FINDING:** (Failure to reconcile Department receipt records to the Illinois Office of the Comptroller records in a timely manner)

During the prior engagement period, the Department did not perform timely reconciliations of Department receipt records to the Illinois Office of Comptroller records, as required by the Statewide Accounting Management System (SAMS).

During the current period, our sample testing did not disclose any instances where the Department did not perform the receipt reconciliation in a timely manner. (Finding Code No. 07-3, 06-7, 05-7, DPR 04-5, 03-10, BRE 04-3)

**B.** **FINDING:** (Failure to ensure receipt of annual statements from viatical settlement providers)

During the prior engagement period, the Department failed to receive annual statements from viatical settlement providers.

During the current period, our testing did not disclose any instances in which annual statements from viatical settlement provides were not received in a timely manner. (Finding Code No. 07-13, 06-23, 05-26, DOI 04-2)

**Management Audit of the Flu Vaccine Procurement and the I-SaveRx Program (September 2006)**

Illinois House of Representatives Resolution Number 394 directed the Auditor General to conduct a management audit of the process followed in negotiating and entering into the contract with Ecosse Hospital Products Limited and in establishing and operating the I-SaveRx Program. Regarding the I-SaveRx Program, the Auditor General was to determine the procedures applicable to, and the agencies responsible for, establishing and operating the Program and whether the entities involved in the Program followed all applicable laws, regulations, policies and procedures.

The management audit contained three recommendations to the Department. Follow up for the year ended June 30, 2007 found the Department had made progress in implementing some of the recommendations. However, certain recommendations were only partially implemented.

As part of our fiscal year 2008 compliance examination of the Department, we followed up on the 3 recommendations that had not been fully implemented at the time of our prior review. The portions of those recommendations and current year results are as follows:

- *The Department should ensure that I-SaveRx pharmacies are authorized under the Pharmacy Practice Act.*

  According to Department officials, I-SaveRx pharmacies are not licensed under the Pharmacy Practice Act.

- *The Department should ensure that inspection forms of pharmacies inspected for the I-SaveRx Program: are …reviewed by someone other than the person who performed the initial inspection.*

  Department officials stated that there were no inspections of I-SaveRx pharmacies conducted by DFPR during fiscal year 2008.

- *With respect to travel the Department should: …take the steps necessary to ensure that its staff follow travel regulations when being reimbursed for per diem when traveling out of country, or seek appropriate exceptions to the travel regulations; and should refrain from using monies from the Illinois State Pharmacy Disciplinary Fund for travel to out-of country pharmacies if those pharmacies are not licensed under the State Pharmacy Act and would not be considered ordinary and contingent expenses of the Department.*

  According to Department officials, there were no travel expenses incurred by DFPR related to the I-SaveRx program during fiscal year 2008.

The I-SaveRx program is no longer operational. The last prescription was filled the 2nd-3rd week of January 2009. The I-SaveRx website was taken down on February 4, 2009. Therefore, these findings will not be repeated or followed up in future compliance audits.

**STATE OF ILLINOIS**
**DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION**
**Status of Program Audit**
**For the Year Ended June 30, 2008**

**Program Audit of the Department's Disciplining of Physicians (August 2006)**

Illinois House of Representatives Resolution Number 16 directed the Auditor General to conduct a program audit of the disciplining of physicians who violate provisions of the Medical Practice Act of 1987. The Resolution directed the Auditor General to determine the Department's compliance with State law regarding the disciplining of physicians; the procedures for determining the need for, and nature of, any recommended disciplinary actions; process for ensuring that its recommended disciplinary actions are implemented and that any specified corrective steps are instituted; and the process for communicating results of disciplinary action to the public.

The program audit contained twenty-four recommendations to the Department. The program audit was released during the previous compliance examination period and the Department did not have adequate time to implement some of the recommendations. As a result, during the previous compliance examination, most of our follow-up was through inquiry. We noted the Department made progress in implementing findings 1, 2, 4, 5, 6, 13, 15, 17, 21 and 23 during our previous follow-up. The following is the status of the remaining recommendations:

<u>Recommendation</u>

3. *The Department of Financial and Professional Regulation should develop management controls to ensure timely completion of investigations of complaints received by the Department. These controls should be in the form of written policies which include specific timeliness requirements. Any reports required should be reviewed by management personnel to ensure accuracy.*

   Partially implemented. During our follow up to the program audit, Department officials stated they are still developing an automated alert system within its upgraded computer system which will generate tracking reports to assist management personnel in addressing timeliness requirements. During the prior year, a Department official stated they had developed a new weekly report that tracks the activity of each investigator. Through inquiry it was determined that the Department still uses this weekly report.

7. *The Department of Financial and Professional Regulation should take the steps necessary to assist the Medical Coordinators with backlogs and improve case timeliness.*

   Not implemented. During the current examination period, the Department provided an update regarding the backlog. According to a Department official, as of December 17, 2008, the Medical Coordinator had 128 cases in his possession. This was a decrease from 134 in July 2008. In 2008, the average time it took for the Medical Coordinator's Office to complete a file was 26 days, a decrease from the average of 35 days in 2007.

8. *The Department of Financial and Professional Regulation and the Medical Disciplinary Board should develop general criteria to help guide their decisions in disciplinary actions. Such criteria would help to ensure that similar violations under similar circumstances receive similar discipline.*

   Implemented. According to a Department official, the discipline guidelines that were in draft form during the prior year have been adopted. The Department gave us a copy of the *Illinois Medical Disciplinary Board Disciplinary Guidelines*.

9. *The Department of Financial and Professional Regulation should assure that complaints received about out of state physicians are forwarded to the licensing board of the appropriate state.*

   Implemented. The Department's Policy on handling complaints regarding physicians licensed in other states (not subject to our jurisdiction) is to refer the complainant to the appropriate state licensing body. The Department does not have a written policy, but rather a directive to Complaint Intake Unit staff to refer the complainant to the appropriate state, providing contact information for that state licensing body. According to a Department official, the Complaint Intake Unit indicated they have not received any complaints against out of state doctors during the current examination period.

10. *The Department of Financial and Professional Regulation should develop procedures for involving people making complaints in the disciplinary process.*

    Implemented. During the prior year follow up it was noted that an Acting Patient Advocate Liaison had been hired by the Department. During the current period we followed up to ensure the position was still filled by the Department. According to a Department official, the Department still employs a Patient Advocate Liaison, who no longer is in an Acting Status, to provide victims, witnesses, and patients with a point of contact and liaison as they navigate the investigatory, prosecution and probation phases in the Division of Professional Regulation.

11. *The Department of Financial and Professional Regulation should develop and implement management controls to ensure that prosecution activities are timely and properly documented.*

    Partially implemented. During the prior year follow up it was noted that the Department performed case reviews on a monthly basis. According to a Department official, the prosecution section now uses a weekly report that tracks the activity of each prosecutor. During the current examination period we tested physicians as part of our testing of enforcement activities and continued to note documentation problems. (See Finding 08-2).

12. *The Department of Financial and Professional Regulation should devote sufficient resources to ensure that physicians' compliance with terms of disciplinary orders are adequately monitored, including that physicians who have had their licenses suspended or revoked are not practicing. Furthermore, the Department should ensure that probation files contain all required documentation and that staff follow up when required documentation is not submitted.*

    Implemented. During our prior follow up the Department stated that three additional probation investigator positions had been posted. According to a Department official, three individuals have been hired to fill the job postings.

14. *The Department of Financial and Professional Regulation should make its Administrative Rules (68 Ill. Adm. Code 1285.225) relating to the definition of disciplinary and non-disciplinary actions consistent with requirements of the Medical Practice Act of 1987 (225 ILCS 60/2 (4)).*

    Not implemented. According to a Department official, SB 2179 passed both houses and was signed by the Governor on December 18, 2008. The bill only extended the sunset date of the Act two years. According to the Department there were no substantive changes to the Medical Practice Act.

16. *The Department of Financial and Professional Regulation should send required summary reports of final actions taken upon disciplinary files to every licensed health care facility, medical association, and liability insurer as required by the Medical Practice Act of 1987.*

    Implemented. According to a Department official, SB 360 (Public Act 95-0639) was passed allowing the Department to make the Summary Reports available to the public on the Department's Internet website.

18. *The Department of Financial and Professional Regulation should continue to work to make available to the public, through the Internet, and, if requested, in writing, a profile of each physician licensed by the Department as required by Public Act 94-677.*

    Implemented. According to a Department official, the Department has now collected the profile data from over 99% of physicians. All physicians renewed their license in 2008 and were not allowed to renew unless their profile was complete. All new licensees are required to complete the profile within 30 days. If the profile is not completed within the required 30 days, a follow up letter is sent to remind the physician of the requirement. A third notice sent by the Department warns the licensee of pending issuance of a fine or other disciplinary action.

19. *The Department of Financial and Professional Regulation should work to assure that all members, including public members, are appointed to the Medical Disciplinary Board as required by the Medical Practice Act.*

Not implemented. During the current examination period, according to a Department official, there is currently one physician vacancy and three public member vacancies on the Medical Disciplinary Board. Two appointments were made to the Board in 2008 but according to the Department, one of those individuals resigned shortly after his appointment. The Department continues to work with the Governor's Office to fill vacant positions on the Medical Disciplinary Board.

20. *The Department of Financial and Professional Regulation should sufficiently document its decisions and activities. The Department should also ensure that the replacement system for the Regulatory Administration and Enforcement system has the capability to help management better control the adequacy of the Enforcement process.*

Not implemented. During the current examination period we tested physicians as part of our testing of enforcement activities and continued to note documentation problems (see Finding 08-2).

22. *The Department of Financial and Professional Regulation should establish appropriate training programs for medical investigators as directed in its own policies and procedures.*

Implemented. According to a Department official, the next training is scheduled for late February or early March 2009. The Department provided us with a list of specific training courses for each medical investigator.

24. *The Department of Financial and Professional Regulation should require employees, including medical investigators, to prepare timesheets as required by the State Officials and Employees Ethics Act. Timesheets should also help management to more closely monitor medical investigators' time.*

Not implemented. The Department began using "Ethics Timekeeping Work Diary" on July 2, 2007 to track time spent on official state business. We tested this new system during our compliance testing. We noted several employees were not properly entering time into the work diary. See current State compliance finding 08-8.

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

**FINANCIAL STATEMENT REPORT**

**SUMMARY**

The audit of the accompanying financial statement of the Security Deposit Fund – 1109 of the State of Illinois, Department of Financial and Professional Regulation was performed by Sikich LLP.

Based on their audit, the auditors expressed an unqualified opinion on the Department's financial statement of the Security Deposit Fund – 1109.

Certified Public Accountants & Advisors

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Members of American Institute of
Certified Public Accountants &
Illinois CPA Society

**INDEPENDENT AUDITORS' REPORT**

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statement of the Security Deposit Fund – 1109 of the State of Illinois, Department of Financial and Professional Regulation as of June 30, 2008, as listed in the table of contents. This financial statement is the responsibility of the State of Illinois, Department of Financial and Professional Regulation's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statement presents only the Security Deposit Fund – 1109 and does not purport to, and does not, present fairly the financial position of the State of Illinois, Department of Financial and Professional Regulation as of June 30, 2008, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of the Security Deposit Fund – 1109 of the State of Illinois, Department of Financial and Professional Regulation, as of June 30, 2008 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 4, 2009, on our consideration of the State of Illinois, Department of Financial and Professional Regulation's internal control over financial reporting of the Security Deposit Fund – 1109 and on our tests of the State of Illinois, Department of Financial and Professional Regulation's compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The State of Illinois, Department of Financial and Professional Regulation has not presented a management's discussion and analysis for the Security Deposit Fund – 1109 that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statement.

Our audit was conducted for the purpose of forming an opinion on the financial statement of the Security Deposit Fund – 1109 of the State of Illinois, Department of Financial and Professional Regulation. The Statement of Changes in Assets and Liabilities for the year ended June 30, 2008 is presented for purposes of additional analysis and is not a required part of the financial statement. The Statement of Changes in Assets and Liabilities has been subjected to the auditing procedures applied in the audit of the Security Deposit Fund – 1109 financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

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

Sikich LLP

Springfield, Illinois
May 4, 2009

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

**INDIVIDUAL NONSHARED FIDUCIARY FUND**
**STATEMENT OF FIDUCIARY NET ASSETS**

**June 30, 2008**
**(Expressed in Thousands)**

**SECURITY DEPOSIT FUND - 1109**

| | | |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $ | 730 |
| Investments | | 851,865 |
| Total assets | $ | 852,595 |
| LIABILITIES | | |
| Other liabilities | $ | 852,595 |
| Total liabilities | $ | 852,595 |

The accompanying notes to the financial statement are an integral part of this statement.

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

**INDIVIDUAL NONSHARED FIDUCIARY FUND**

**NOTES TO FINANCIAL STATEMENT**

**June 30, 2008**

1. DESCRIPTION OF FUND

The State of Illinois, Department of Financial and Professional Regulation (the Department) administers the fiduciary fund described below. A nonshared fund is a fund in which a single State agency is responsible for administering substantially all financial transactions of the fund.

*1109 – Security Deposit Fund* – The Security Deposit Fund was 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 Division 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statement of the individual nonshared fiduciary fund administered by the Department has been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statement, summarized below are the more significant accounting policies.

(a) Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which elected officials of the primary government are financially accountable. Financial accountability is defined as:

(1) Appointment of a voting majority of the component unit’s board and either (a) the primary government’s ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

(2) Fiscal dependency on the primary government.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

(a) Reporting Entity – Continued

Based upon the required criteria, the nonshared fiduciary fund does not have component units, nor is it a component unit of any other entity. However, because the nonshared fiduciary fund is not legally separate from the State of Illinois (State), it is included in the financial statements of the State as a nonshared fiduciary fund. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1871.

The financial statement presents only the Security Deposit Fund – 1109 administered by the State of Illinois, Department of Financial and Professional Regulation and does not purport to, and does not, present fairly the financial position of the State of Illinois, Department of Financial and Professional Regulation as of June 30, 2008, and changes in its financial position, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

(b) Basis of Presentation

In government the basic accounting and reporting entity is a fund. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The individual nonshared fiduciary fund presented herein is also classified as an agency fund. An agency fund acts as a custodian for other entities. Assets in an agency fund are held for a period of time and then returned to their owners or to another party that is entitled to receive resources. Since the Department has no equity in agency funds, only a statement of fiduciary net assets has been presented.

(c) Basis of Accounting

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

(d) Cash and Cash Equivalents

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.

(e) Investments

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

(f) Use of Estimates

The preparation of the financial statement in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement. Actual results could differ from those estimates.

3. DEPOSITS AND INVESTMENTS

The Public Funds Investment Act (30 ILCS 235/1 et seq.) provides general guidance concerning the criteria to be met for the placement of public funds in a financial institution and the types of investment instruments permitted. Investment instruments permitted include: U.S. Government, State of Illinois, and municipal securities; certificates of deposit or time savings deposits insured by the FDIC; mortgage notes, bonds, or debentures issued by the Federal Housing Administration; bonds and other obligations of the Federal National Mortgage Association; commercial paper rated within the three highest classifications by at least two standard rating services; credit union shares; and the Illinois Funds.

3. DEPOSITS AND INVESTMENTS – Continued

Locally held funds, consisting of statutory reserve requirements of insurance companies conducting business in the State of Illinois, are reported in the accompanying financial statement.

a. Deposits

*Custodial Credit Risk* - Custodial credit risk for deposits with financial institutions is the risk that in the event of bank failure, the Department's deposits may not be returned to it. To guard against custodial credit risk for deposits with financial institutions, the Department requires that deposits with financial institutions in excess of FDIC limits be secured by some form of collateral, by a written agreement, and held at an independent, third-party institution in the name of the Department.

b. Investments

As of June 30, 2008, the Department had the following investments:

| | **Fair Value (Thousands)** | **Weighted Average Maturity (Years)** |
|---|---|---|
| ***Investment Type*** | | |
| U.S. Treasury Bills | $ 9,640 | .26 |
| U.S. Treasury Notes | 419,648 | 3.01 |
| U.S. Treasury Bonds | 179,113 | 13.01 |
| U.S. Treasury Strips | 17,885 | 3.33 |
| U.S. Agency Obligations | 81,170 | 4.29 |
| Municipal Debt | 119,865 | 5.26 |
| Corporate Debt Securities | 21,431 | 4.50 |
| Total Fair Value | 848,752 | |
| Non-negotiable Certificates of Deposit with maturities of greater than 90 days at time of purchase | 3,113 | |
| | $ 851,865 | |

3. DEPOSITS AND INVESTMENTS – Continued

b. Investments - Continued

*Interest Rate Risk* - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The above listing of investments summarizes interest rate risk using the Weighted Average Maturity Method. The Weighted Average Maturity Method (WAM) expresses investment time horizons – the time when investments become due and payable – in years to reflect the dollar size of individual investments within an investment type. The portfolio's WAM is derived by dollar-weighting the WAM for each investment type.

*Credit Risk* - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Department does not have a formal investment policy that limits investment choices. The below table summarizes the credit rating by Moody's, a nationally recognized statistical ratings organization.

| | **Fair Value (Thousands)** | **Credit Rating (Moody's)** |
|---|---|---|
| ***Investment Type*** | | |
| U.S. Agency Obligations | $ 501 | AA2 |
| | 173 | AGN |
| | 80,496 | AAA |
| | $ 81,170 | |
| Municipal Debt | $ 28,046 | AA1 |
| | 12,596 | AA2 |
| | 31,900 | AA3 |
| | 44,823 | AAA |
| | 2,500 | A2 |
| | $ 119,865 | |
| Corporate Debt Securities | $ 4,131 | AA1 |
| | 6,008 | AA3 |
| | 11,292 | A2 |
| | $ 21,431 | |

4. SUBSEQUENT EVENTS

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect companies' account balances and the amounts reported in the Statement of Fiduciary Net Assets.

Recent market conditions have resulted in an unusually high degree of volatility and increased the risks and short term liquidity associated with certain investments held by the Department which have impacted the value of individual investments after the date of this financial statement. However, the Department monitors the minimum deposit amount required by each company on a weekly basis ensuring that securities are maintained at the minimum market value required by the Code.

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

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**

**For the Year Ended June 30, 2008**
**(Expressed in Thousands)**

| | Balance July 1, 2007 | Additions | Deductions | Balance June 30, 2008 |
|---|---|---|---|---|
| **SECURITY DEPOSIT FUND - 1109** | | | | |
| ASSETS | | | | |
| Cash and cash equivalents | $ 1,119 | $ 19,062 | $ 19,451 | $ 730 |
| Investments | 830,515 | 355,862 | 334,512 | 851,865 |
| Total assets | $ 831,634 | $ 374,924 | $ 353,963 | $ 852,595 |
| LIABILITIES | | | | |
| Other liabilities | $ 831,634 | $ 374,924 | $ 353,963 | $ 852,595 |

See accompanying Independent Auditors' Report

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

## 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 by Fund
  Schedule of Appropriations, Expenditures and Lapsed Balances by Major Object Code
  Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances by Fund
  Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances by Major Object Code
  Schedule of Receipts, Disbursements and Fund Balance (Cash Basis) – Locally Held Funds
  Schedule of Changes in Assets and Liabilities – Depository Fund 1132
  Schedule of Changes in State Property
  Comparative Schedule of Cash Receipts by Fund
  Comparative Schedule of Cash Receipts by Division by Revenue Category
  Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller
  Analysis of Significant Variations in Expenditures by Fund
  Analysis of Significant Variations in Expenditures by Major Object Code
  Analysis of Significant Variations in Receipts by Fund
  Analysis of Significant Variations in Receipts by Division by Revenue Category
  Analysis of Significant Lapse Period Spending by Major Object Code
  Analysis of Accounts Receivable

- Analysis of Operations:

  Agency Functions and Planning Program
  Average Number of Employees
  Administrative and Regulatory Shared Services Center
  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 FINANCIAL AND PROFESSIONAL REGULATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ended June 30, 2008**
**(Expressed in Thousands)**

| Federal Grantor: | Federal CFDA Number | Expenditures |
|---|---|---|
| U.S. Department of Health and Human Services: | | |
| Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations | 93.779 | $ 477 |

The accompanying notes are an integral part of this schedule.

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

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## For the Year Ended June 30, 2008

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 Financial and Professional Regulation (Department). The Department reporting entity is defined in Note 2 of the Department's financial statement for the nonshared fund.

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 Financial and Professional Regulation was not conducted. A separate single audit of the entire State of Illinois (which includes the State of Illinois, Department of Financial and Professional Regulation) 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>U.S. Department of Health and Human Services</u>:

<u>CFDA #93.779</u>

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.

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 FINANCIAL AND PROFESSIONAL REGULATION

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
APPROPRIATIONS FOR FISCAL YEAR 2008 - BY FUND

Fourteen Months Ended August 31, 2008

| Public Acts 95-0011, 95-0348 | Appropriations (Net After Transfers) | Expenditures Through June 30, 2008 | Lapse Period Expenditures July 1 to August 31, 2008 | Total Expenditures | Balances Lapsed |
|---|---|---|---|---|---|
| APPROPRIATED FUNDS | | | | | |
| DIVISION OF FINANCIAL INSTITUTIONS | | | | | |
| Financial Institution Fund - 0021 | $ 4,399,200 | $ 3,574,919 | $ 184,908 | $ 3,759,827 | $ 639,373 |
| TOMA Consumer Protection Fund - 0241 | 20,000 | - | - | - | 20,000 |
| Credit Union Fund - 0243 | 2,889,500 | 2,440,570 | 129,221 | 2,569,791 | 319,709 |
| Total - Division of Financial Institutions | 7,308,700 | 6,015,489 | 314,129 | 6,329,618 | 979,082 |
| DIVISION OF INSURANCE | | | | | |
| Senior Health Insurance Program Fund - 0396 | 800,000 | 446,285 | 96,021 | 542,306 | 257,694 |
| Illinois Workers' Compensation Commission Operations Fund - 0534 | 950,000 | 262,281 | 9,304 | 271,585 | 678,415 |
| Public Pension Regulation Trust Fund - 0546 | 936,600 | 824,999 | 38,775 | 863,774 | 72,826 |
| Insurance Producers' Administration Fund - 0922 | 8,264,900 | 6,546,085 | 517,167 | 7,063,252 | 1,201,648 |
| Insurance Financial Regulation Fund - 0997 | 11,336,000 | 9,584,302 | 422,504 | 10,006,806 | 1,329,194 |
| Total - Division of Insurance | 22,287,500 | 17,663,952 | 1,083,771 | 18,747,723 | 3,539,777 |
| DIVISION OF BANKING | | | | | |
| Savings and Residential Finance Regulatory Fund - 0244 | 4,819,400 | 3,647,897 | 199,779 | 3,847,676 | 971,724 |
| Pawnbroker Regulation Fund - 0562 | 98,800 | 87,849 | 4,416 | 92,265 | 6,535 |
| Bank and Trust Company Fund - 0795 | 14,714,500 | 13,552,053 | 536,059 | 14,088,112 | 626,388 |
| Total - Division of Banking | 19,632,700 | 17,287,799 | 740,254 | 18,028,053 | 1,604,647 |

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

**SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES**
**APPROPRIATIONS FOR FISCAL YEAR 2008 - BY FUND**

**Fourteen Months Ended August 31, 2008**

| | Appropriations (Net After Transfers) | Expenditures Through June 30, 2008 | Lapse Period Expenditures July 1 to August 31, 2008 | Total Expenditures | Balances Lapsed |
|---|---|---|---|---|---|
| DIVISION OF PROFESSIONAL REGULATION | | | | | |
| General Professions Dedicated Fund - 0022 | $ 3,998,800 | $ 3,634,967 | $ 194,263 | $ 3,829,230 | $ 169,570 |
| Illinois State Pharmacy Disciplinary Fund - 0057 | 4,086,200 | 3,962,024 | 50,386 | 4,012,410 | 73,790 |
| Illinois State Medical Disciplinary Fund - 0093 | 4,099,300 | 3,608,950 | 261,935 | 3,870,885 | 228,415 |
| Registered CPA Administration and Disciplinary Fund - 0151 | 473,600 | 242,975 | 16,524 | 259,499 | 214,101 |
| Professional Regulation Evidence Fund - 0192 | 30,000 | - | - | - | 30,000 |
| Professions Indirect Cost Fund - 0218 | 35,722,900 | 26,830,449 | 4,111,782 | 30,942,231 | 4,780,669 |
| Nurse Dedicated and Professional Fund - 0258 | 2,150,900 | 1,485,970 | 46,580 | 1,532,550 | 618,350 |
| Optometric Licensing and Disciplinary Committee Fund - 0259 | 353,700 | 284,223 | 11,409 | 295,632 | 58,068 |
| Appraisal Administration Fund - 0386 | 819,900 | 576,994 | 16,025 | 593,019 | 226,881 |
| Auction Regulation Administration Fund - 0641 | 141,800 | 76,125 | 3,843 | 79,968 | 61,832 |
| Home Inspector Administration Fund - 0746 | 114,300 | 88,047 | 4,321 | 92,368 | 21,932 |
| Real Estate Audit Fund - 0750 | 40,000 | - | - | - | 40,000 |
| Illinois State Dental Disciplinary Fund - 0823 | 996,000 | 837,932 | 40,154 | 878,086 | 117,914 |
| Real Estate Research and Education Fund - 0849 | 70,000 | 11,000 | 7,000 | 18,000 | 52,000 |
| Real Estate License Administration Fund - 0850 | 3,659,100 | 2,936,501 | 148,577 | 3,085,078 | 574,022 |
| Design Professional Administration and Investigation Fund - 0888 | 843,400 | 701,892 | 36,440 | 738,332 | 105,068 |
| Illinois State Podiatric Disciplinary Fund - 0954 | 11,000 | 2,381 | 432 | 2,813 | 8,187 |
| Total - Division of Professional Regulation | 57,610,900 | 45,280,430 | 4,949,671 | 50,230,101 | 7,380,799 |
| TOTAL - ALL APPROPRIATED FUNDS | $ 106,839,800 | 86,247,670 | 7,087,825 | 93,335,495 | $ 13,504,305 |

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
APPROPRIATIONS FOR FISCAL YEAR 2008 - BY FUND

Fourteen Months Ended August 31, 2008

| | Appropriations (Net After Transfers) | Expenditures Through June 30, 2008 | Lapse Period Expenditures July 1 to August 31, 2008 | Total Expenditures | Balances Lapsed |
|---|---|---|---|---|---|
| NON-APPROPRIATED FUNDS | | | | | |
| DIVISION OF INSURANCE | | | | | |
| Insurance Premium Tax Refund Fund - 0378 | N/A | $ 1,774,715 | $ - | $ 1,774,715 | N/A |
| DIVISION OF BANKING | | | | | |
| Auction Recovery Fund - 0643 | N/A | 11,500 | - | 11,500 | N/A |
| TOTAL - ALL NON-APPROPRIATED FUNDS | | 1,786,215 | - | 1,786,215 | |
| GRAND TOTAL - ALL FUNDS | | $ 88,033,885 | $ 7,087,825 | $ 95,121,710 | |

Note: All data on this schedule has been taken from State Comptroller records and reconciled to those of the Department.

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

**SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES**
**APPROPRIATIONS FOR FISCAL YEAR 2008 - BY MAJOR OBJECT CODE**

**Fourteen Months Ended August 31, 2008**

| Public Acts 95-0011, 95-0348 | Appropriations (Net After Transfers) | Expenditures Through June 30, 2008 | Lapse Period Expenditures July 1 to August 31, 2008 | Total Expenditures | Balances Lapsed |
|---|---|---|---|---|---|
| APPROPRIATED FUNDS | | | | | |
| Personal services | $ 50,704,800 | $ 45,740,001 | $ 2,161,719 | $ 47,901,720 | $ 2,803,080 |
| Retirement - employer contribution | 8,398,100 | 7,586,333 | 358,446 | 7,944,779 | 453,321 |
| Social security | 3,844,400 | 3,284,936 | 157,896 | 3,442,832 | 401,568 |
| Group insurance | 11,912,500 | 9,977,614 | 445,625 | 10,423,239 | 1,489,261 |
| Contractual services | 12,297,200 | 6,371,388 | 2,025,785 | 8,397,173 | 3,900,027 |
| Travel | 2,629,200 | 1,775,407 | 167,263 | 1,942,670 | 686,530 |
| Commodities | 255,800 | 96,840 | 7,198 | 104,038 | 151,762 |
| Printing | 343,500 | 147,902 | 42,434 | 190,336 | 153,164 |
| Equipment | 275,800 | 72,773 | 63,318 | 136,091 | 139,709 |
| Electronic data processing | 4,315,700 | 2,592,093 | 1,076,376 | 3,668,469 | 647,231 |
| Telecommunications | 1,295,400 | 948,008 | 232,208 | 1,180,216 | 115,184 |
| Operation of automotive equipment | 263,300 | 213,601 | 47,868 | 261,469 | 1,831 |
| Lump sum | 6,591,100 | 3,976,162 | 290,585 | 4,266,747 | 2,324,353 |
| Awards and grants | 3,344,000 | 3,343,875 | - | 3,343,875 | 125 |
| Refunds | 369,000 | 120,737 | 11,104 | 131,841 | 237,159 |
| TOTAL - APPROPRIATED FUNDS | $ 106,839,800 | 86,247,670 | 7,087,825 | 93,335,495 | $ 13,504,305 |

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

**SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES**
**APPROPRIATIONS FOR FISCAL YEAR 2008 - BY MAJOR OBJECT CODE**

**Fourteen Months Ended August 31, 2008**

| | Appropriations (Net After Transfers) | Expenditures Through June 30, 2008 | Lapse Period Expenditures July 1 to August 31, 2008 | Total Expenditures | Balances Lapsed |
|---|---|---|---|---|---|
| NON-APPROPRIATED FUNDS | | | | | |
| Awards and grants, lump sum and other purposes | N/A | $ 11,500 | $ - | $ 11,500 | N/A |
| Refunds | N/A | 1,774,715 | - | 1,774,715 | N/A |
| TOTAL - NON-APPROPRIATED FUNDS | | 1,786,215 | - | 1,786,215 | |
| GRAND TOTAL - ALL FUNDS | | $ 88,033,885 | $ 7,087,825 | $ 95,121,710 | |

Note: All data on this schedule has been taken from State Comptroller records and reconciled to those of the Department.

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

**COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES BY FUND**

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Public Acts 95-0011, 95-0348 | | | Public Act 94-0798 | | |
| | Appropriations (Net After Transfers) | Total Expenditures | Balances Lapsed | Appropriations (Net After Transfers) | Total Expenditures | Balances Lapsed |
| APPROPRIATED FUNDS | | | | | | |
| DIVISION OF FINANCIAL INSTITUTIONS | | | | | | |
| Financial Institution Fund - 0021 | $ 4,399,200 | $ 3,759,827 | $ 639,373 | $ 3,764,000 | $ 3,476,690 | $ 287,310 |
| TOMA Consumer Protection Fund - 0241 | 20,000 | - | 20,000 | 20,000 | - | 20,000 |
| Credit Union Fund - 0243 | 2,889,500 | 2,569,791 | 319,709 | 2,564,600 | 2,233,723 | 330,877 |
| Total - Division of Financial Institutions | 7,308,700 | 6,329,618 | 979,082 | 6,348,600 | 5,710,413 | 638,187 |
| DIVISION OF INSURANCE | | | | | | |
| Senior Health Insurance Program Fund - 0396 | 800,000 | 542,306 | 257,694 | 800,000 | 506,383 | 293,617 |
| Illinois Workers' Compensation Commission Operations Fund - 0534 | 950,000 | 271,585 | 678,415 | 950,000 | 179,821 | 770,179 |
| Public Pension Regulation Trust Fund - 0546 | 936,600 | 863,774 | 72,826 | 791,200 | 753,868 | 37,332 |
| Insurance Producers' Administration Fund - 0922 | 8,264,900 | 7,063,252 | 1,201,648 | 8,159,100 | 6,860,423 | 1,298,677 |
| Insurance Financial Regulation Fund - 0997 | 11,336,000 | 10,006,806 | 1,329,194 | 10,941,100 | 9,882,316 | 1,058,784 |
| Total - Division of Insurance | 22,287,500 | 18,747,723 | 3,539,777 | 21,641,400 | 18,182,811 | 3,458,589 |
| DIVISION OF BANKING | | | | | | |
| Savings and Residential Finance Regulatory Fund - 0244 | 4,819,400 | 3,847,676 | 971,724 | 3,917,600 | 3,637,503 | 280,097 |
| Pawnbroker Regulation Fund - 0562 | 98,800 | 92,265 | 6,535 | 92,300 | 77,417 | 14,883 |
| Bank and Trust Company Fund - 0795 | 14,714,500 | 14,088,112 | 626,388 | 13,846,500 | 13,039,850 | 806,650 |
| Total - Division of Banking | 19,632,700 | 18,028,053 | 1,604,647 | 17,856,400 | 16,754,770 | 1,101,630 |
| DIVISION OF PROFESSIONAL REGULATION | | | | | | |
| General Professions Dedicated Fund - 0022 | 3,998,800 | 3,829,230 | 169,570 | 3,713,300 | 3,337,761 | 375,539 |
| Illinois State Pharmacy Disciplinary Fund - 0057 | 4,086,200 | 4,012,410 | 73,790 | 3,131,300 | 2,958,535 | 172,765 |
| Illinois State Medical Disciplinary Fund - 0093 | 4,099,300 | 3,870,885 | 228,415 | 4,416,600 | 3,473,304 | 943,296 |
| Registered CPA Administration and Disciplinary Fund - 0151 | 473,600 | 259,499 | 214,101 | 473,600 | 223,168 | 250,432 |
| Professional Regulation Evidence Fund - 0192 | 30,000 | - | 30,000 | 30,000 | - | 30,000 |
| Professions Indirect Cost Fund - 0218 | 35,722,900 | 30,942,231 | 4,780,669 | 33,007,800 | 28,114,057 | 4,893,743 |
| Nurse Dedicated and Professional Fund - 0258 | 2,150,900 | 1,532,550 | 618,350 | 1,983,300 | 1,249,091 | 734,209 |
| Optometric Licensing and Disciplinary Committee Fund - 0259 | 353,700 | 295,632 | 58,068 | 541,900 | 396,327 | 145,573 |
| Appraisal Administration Fund - 0386 | 819,900 | 593,019 | 226,881 | 544,300 | 364,589 | 179,711 |

(Continued)

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

**COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES BY FUND**

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Public Acts 95-0011, 95-0348 | | | Public Act 94-0798 | | |
| | Appropriations (Net After Transfers) | Total Expenditures | Balances Lapsed | Appropriations (Net After Transfers) | Total Expenditures | Balances Lapsed |
| DIVISION OF PROFESSIONAL REGULATION - (Continued) | | | | | | |
| Auction Regulation Administration Fund - 0641 | $ 141,800 | $ 79,968 | $ 61,832 | $ 216,500 | $ 91,210 | $ 125,290 |
| Home Inspector Administration Fund - 0746 | 114,300 | 92,368 | 21,932 | 107,300 | 77,660 | 29,640 |
| Real Estate Audit Fund - 0750 | 40,000 | - | 40,000 | 40,000 | - | 40,000 |
| Illinois State Dental Disciplinary Fund - 0823 | 996,000 | 878,086 | 117,914 | 844,500 | 719,415 | 125,085 |
| Real Estate Research and Education Fund - 0849 | 70,000 | 18,000 | 52,000 | 70,000 | 18,000 | 52,000 |
| Real Estate License Administration Fund - 0850 | 3,659,100 | 3,085,078 | 574,022 | 3,153,600 | 2,844,339 | 309,261 |
| Design Professional Administration and Investigation Fund - 0888 | 843,400 | 738,332 | 105,068 | 715,400 | 592,489 | 122,911 |
| Illinois State Podiatric Disciplinary Fund - 0954 | 11,000 | 2,813 | 8,187 | 11,000 | 4,360 | 6,640 |
| Total - Division of Professional Regulation | 57,610,900 | 50,230,101 | 7,380,799 | 53,000,400 | 44,464,305 | 8,536,095 |
| TOTAL - ALL APPROPRIATED FUNDS | $ 106,839,800 | 93,335,495 | $ 13,504,305 | $ 98,846,800 | 85,112,299 | $ 13,734,501 |
| NON-APPROPRIATED FUNDS | | | | | | |
| DIVISION OF INSURANCE | | | | | | |
| Insurance Premium Tax Refund Fund - 0378 | N/A | $ 1,774,715 | N/A | N/A | $ 2,155,909 | N/A |
| Department of Insurance Federal Trust Fund - 0673 | N/A | - | N/A | N/A | 298,243 | N/A |
| Group Self-Insurers Workers Compensation Fund - 0739 | N/A | - | N/A | N/A | 684,118 | N/A |
| Total - Division of Insurance | | 1,774,715 | | | 3,138,270 | |
| DIVISION OF BANKING | | | | | | |
| Auction Recovery Fund - 0643 | N/A | 11,500 | N/A | N/A | - | N/A |
| Total - Division of Banking | | 11,500 | | | - | |
| TOTAL - ALL NON-APPROPRIATED FUNDS | | 1,786,215 | | | 3,138,270 | |
| GRAND TOTAL - ALL FUNDS | | $ 95,121,710 | | | $ 88,250,569 | |
| APPOINTED STATE OFFICERS' SALARIES | | | | | | |
| General Revenue Fund - 0001 | $ 489,600 | $ 423,138 | $ 66,462 | $ 455,500 | $ 353,300 | $ 102,200 |
| Bank and Trust Company Fund - 0795 | 131,300 | 131,230 | 70 | 120,400 | 114,025 | 6,375 |
| Total - State Officers' Salaries | $ 620,900 | $ 554,368 | $ 66,532 | $ 575,900 | $ 467,325 | $ 108,575 |

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

**COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES BY MAJOR OBJECT CODE**

| | Fiscal Year | |
|---|---|---|
| | 2008 | 2007 |
| | Public Acts 95-0011, 95-0348 | Public Act 94-0798 |
| APPROPRIATED FUNDS | | |
| Appropriations (net of transfers) | $ 106,839,800 | $ 98,846,800 |
| Expenditures: | | |
| Personal services | 47,901,720 | 45,454,049 |
| Retirement - employer contribution | 7,944,779 | 5,246,523 |
| Social security | 3,442,832 | 3,259,511 |
| Group insurance | 10,423,239 | 10,015,667 |
| Contractual services | 8,397,173 | 7,481,910 |
| Travel | 1,942,670 | 1,801,657 |
| Commodities | 104,038 | 103,691 |
| Printing | 190,336 | 190,154 |
| Equipment | 136,091 | 200,802 |
| Electronic data processing | 3,668,469 | 3,279,259 |
| Telecommunications | 1,180,216 | 893,351 |
| Operation of automotive equipment | 261,469 | 237,803 |
| Lump sum | 4,266,747 | 4,684,601 |
| Awards and grants | 3,343,875 | 2,129,079 |
| Refunds | 131,841 | 134,242 |
| Total expenditures | 93,335,495 | 85,112,299 |
| Lapsed balances | $ 13,504,305 | $ 13,734,501 |
| NON-APPROPRIATED FUNDS | | |
| Expenditures: | | |
| Lump sum | $ - | $ 298,243 |
| Awards and grants | - | 684,118 |
| Awards and grants, lump sum and other purposes | 11,500 | - |
| Refunds | 1,774,715 | 2,155,909 |
| Total expenditures - non-appropriated funds | $ 1,786,215 | $ 3,138,270 |

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

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE (CASH BASIS)**
**LOCALLY HELD FUNDS**

**For the Year Ended June 30, 2008**

| | Liquidated Currency Exchange Fund 1133 | Official Advance Fund 1249 | Bank Examiner's Education Fund 1296 (Note 1) | Total |
|---|---|---|---|---|
| Cash Balance at July 1, 2007 | $ 153,521 | $ 9,764 | $ 418,329 | $ 581,614 |
| Receipts | 57,997 | 7,921 | 325,946 | 391,864 |
| Disbursements | (52,346) | (6,146) | (494,855) | (553,347) |
| Cash Balance at June 30, 2008 | $ 159,172 | $ 11,539 | $ 249,420 | $ 420,131 |

The above locally held funds are held at the following institutions:

| | |
|---|---|
| Liquidated Currency Exchange Fund | Corus Bank |
| Official Advance Fund | Chase Bank |
| Bank Examiner's Education Fund | Marine Bank |

Note 1 - In addition to its account at Marine Bank, the Bank Examiner's Education Fund had certificates of deposit totaling $6,550,000 at June 30, 2008 on deposit with various banks throughout Illinois with times varying from 12 to 36 months.

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

**DEPOSITORY FUND - 1132**
**SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES**

**For the Year Ended June 30, 2008**
**(Expressed in Thousands)**

| | Balance July 1, 2007 | Additions | Deductions | Balance June 30, 2008 |
|---|---|---|---|---|
| ASSETS | | | | |
| Cash and cash equivalents | $ - | $ 300 | $ - | $ 300 |
| Investments | 28,298 | 7,525 | 7,788 | 28,035 |
| Total assets | $ 28,298 | $ 7,825 | $ 7,788 | $ 28,335 |
| LIABILITIES | | | | |
| Other liabilities | $ 28,298 | $ 7,825 | $ 7,788 | $ 28,335 |

Note: The Depository Fund - 1132 is a nonappropriated locally held agency fund. The Title Insurance Act (215 ILCS 155/1 et seq.) requires each approved applicant to furnish a corporate surety bond "to the State for the use and benefit of the State and of any creditor of the licensee for any liability incurred on any exchange issued by the licensee" in the minimum amount of $50,000. In lieu of the bond, the licensee may deposit cash or securities with financial institutions pledged to the Department bearing a par value equal to any such bond required.

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

### SCHEDULE OF CHANGES IN STATE PROPERTY
### For the Year Ended June 30, 2008

| | |
|---|---|
| Property balance, July 1, 2007 | $ 13,498,600 |
| | |
| Additions: | |
| Purchases | 582,763 |
| Transfers in | - |
| Total Additions | 582,763 |
| | |
| Deductions: | |
| Deletions | (19,706) |
| Transfers out | (3,230,479) |
| Total Deductions | (3,250,185) |
| | |
| Property balance, June 30, 2008 | $ 10,831,178 |

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 FINANCIAL AND PROFESSIONAL REGULATION**
**COMPARATIVE SCHEDULE OF CASH RECEIPTS BY FUND**

**For the Years Ended June 30, 2008 and 2007**

| | 2008 | 2007 |
|---|---|---|
| Division of Financial Institutions: | | |
| Financial Institution Fund - 0021 | $ 8,373,988 | $ 8,680,980 |
| Credit Union Fund - 0243 | 5,097,546 | 10,081,363 |
| Subtotal - Division of Financial Institutions | $ 13,471,534 | $ 18,762,343 |
| | | |
| Division of Insurance: | | |
| General Revenue Fund - 0001 | $ 299,475,784 | $ 311,941,274 |
| Fire Prevention Fund - 0047 | 20,952,209 | 20,313,284 |
| Senior Health Insurance Program Fund - 0396 | 474,900 | 497,100 |
| Protest Fund - 0401 | 11,983,963 | 20,252,341 |
| Illinois Workers' Compensation Commission Operations Fund - 0534 | 14,287,161 | 13,987,935 |
| Public Pension Regulation Trust Fund - 0546 | 1,554,166 | 1,421,813 |
| Department of Insurance Federal Trust Fund - 0673 | - | 330,176 |
| Group Self-Insurers Workers Compensation Fund - 0739 | 141,760 | 1,639,310 |
| Insurance Producers' Administration Fund - 0922 | 23,835,582 | 23,071,125 |
| Insurance Financial Regulation Fund - 0997 | 17,968,820 | 19,844,039 |
| Subtotal - Division of Insurance | $ 390,674,345 | $ 413,298,397 |
| | | |
| Division of Banking: | | |
| Savings and Residential Finance Regulatory Fund - 0244 | $ 9,186,404 | $ 11,195,431 |
| Pawnbroker Regulation Fund - 0562 | 188,870 | 321,105 |
| Bank and Trust Company Fund - 0795 | 29,370,420 | 28,279,577 |
| Subtotal - Division of Banking | $ 38,745,694 | $ 39,796,113 |

**STATE OF ILLINOIS**
**DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION**
**COMPARATIVE SCHEDULE OF CASH RECEIPTS BY FUND**

**For the Years Ended June 30, 2008 and 2007**

| | 2008 | 2007 |
|---|---|---|
| Division of Professional Regulation: | | |
| General Revenue Fund - 0001 | $ - | $ 96 |
| General Professions Dedicated Fund - 0022 | 11,496,574 | 9,248,328 |
| Illinois State Pharmacy Disciplinary Fund - 0057 | 4,358,051 | 2,429,268 |
| Illinois State Medical Disciplinary Fund - 0093 | 12,546,986 | 1,498,579 |
| Registered CPA Administration and Disciplinary Fund - 0151 | 448,111 | 3,204,545 |
| Nurse Dedicated and Professional Fund - 0258 | 10,620,320 | 2,701,755 |
| Optometric Licensing and Disciplinary Committee Fund - 0259 | 1,005,635 | 123,666 |
| Paper and Print Revolving Fund - 0308 | - | 30 |
| Appraisal Administration Fund - 0386 | 2,631,227 | 471,421 |
| Real Estate Recovery Fund - 0629 | 45,314 | 35,247 |
| Auction Regulation Administration Fund - 0641 | 608,443 | 43,075 |
| Auction Recovery Fund - 0643 | 14,250 | 27,650 |
| Home Inspector Administration Fund - 0746 | 137,845 | 1,202,853 |
| Illinois State Dental Disciplinary Fund - 0823 | 340,651 | 4,699,224 |
| Real Estate License Administration Fund - 0850 | 6,601,428 | 8,991,234 |
| Design Professional Administration and Investigation Fund - 0888 | 1,345,842 | 1,100,220 |
| Hearing Instrument Dispenser Examining and Disciplinary Fund - 0938 | 33,310 | 1,890 |
| Illinois State Podiatric Disciplinary Fund - 0954 | 55,363 | 487,055 |
| Subtotal - Division of Professional Regulation | $ 52,289,350 | $ 36,266,136 |
| Total - All Funds | $ 495,180,923 | $ 508,122,989 |

**STATE OF ILLINOIS**
**DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION**
**COMPARATIVE SCHEDULE OF CASH RECEIPTS**
**BY DIVISION BY REVENUE CATEGORY**

**For the Years Ended June 30, 2008 and 2007**

| | 2008 | | 2007 | |
|---|---|---|---|---|
| Division of Financial Institutions: | | | | |
| Licenses fees and registration: | | | | |
| Credit union regulatory fees | $ 5,053,768 | | $ 10,032,484 | |
| Financial institution licenses and fees | 3,692,086 | | 4,094,202 | |
| Retaliatory fees | 2,315,285 | | 2,299,286 | |
| Financial institution examination fees | 1,365,700 | | 1,333,525 | |
| Credit union examination fees | 5,100 | | 720 | |
| | | $ 12,431,939 | | $ 17,760,217 |
| Fines, penalties or violations | | 1,039,595 | | 1,002,126 |
| Subtotal - Division of Financial Institutions | | 13,471,534 | | 18,762,343 |
| Division of Insurance: | | | | |
| Privilege insurance tax | | 158,380,580 | | 165,970,274 |
| Retaliatory tax | | 98,561,782 | | 106,355,671 |
| Surplus line tax | | 38,200,420 | | 37,160,595 |
| Licenses fees and registration: | | | | |
| Industrial Commission Operations Fund surcharges | 14,287,161 | | 13,987,935 | |
| Insurance producer licenses and fees | 22,536,771 | | 21,880,262 | |
| Regulatory insurance licenses and fees | 17,968,820 | | 19,844,039 | |
| Pensions filing fees | 1,554,151 | | 1,421,813 | |
| Insurance performance examination fees | 696,251 | | 618,294 | |
| | | 57,043,154 | | 57,752,343 |
| Protest fees | | 11,965,195 | | 16,666,348 |
| Fire marshal tax | | 20,952,209 | | 20,313,284 |
| Federal government grant | | 474,900 | | 827,276 |
| Surety bonds | | 141,760 | | 1,639,310 |
| Fines, penalties, interest | | 4,953,795 | | 6,612,721 |
| Miscellaneous | | 550 | | 575 |
| Subtotal - Division of Insurance | | 390,674,345 | | 413,298,397 |
| Division of Banking: | | | | |
| Licenses fees and registration: | | | | |
| Bank examination fees | 18,364,274 | | 18,013,457 | |
| Mortgage banking registrations | 4,807,085 | | 6,193,844 | |
| Loan originator licenses and fees | 2,150,667 | | 2,642,972 | |
| EDP examination fees | 3,664,266 | | 3,498,809 | |
| Corporate fiduciary registrations | 1,980,999 | | 2,097,110 | |
| International bank examination fees | 4,719,112 | | 4,017,694 | |
| Savings and loan supervisory fees | 993,259 | | 1,004,912 | |
| Corporate fiduciary receivership fees | 399,999 | | 399,998 | |
| Thrift registration fees | 2,000 | | 1,000 | |
| Mortgage banking examination fees | 633,576 | | 460,756 | |
| Mortgage banking full service fees | 234,000 | | 403,350 | |
| Savings and loan examination fees | 198,373 | | 238,848 | |
| Miscellaneous banking fees | 165,575 | | 190,776 | |

**STATE OF ILLINOIS**
**DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION**
**COMPARATIVE SCHEDULE OF CASH RECEIPTS**
**BY DIVISION BY REVENUE CATEGORY**

**For the Years Ended June 30, 2008 and 2007**

| | 2008 | | 2007 | |
|---|---|---|---|---|
| Division of Banking - Continued: | | | | |
| Pawnbroker licenses and fees | $ 178,770 | | $ 320,105 | |
| Miscellaneous international banking fees | 56,800 | | 34,400 | |
| Miscellaneous trust company fees | 16,240 | | 22,300 | |
| Check printer fees | 2,600 | | 2,400 | |
| | | $ 38,567,595 | | $ 39,542,731 |
| Fines, penalties or violations | | 177,500 | | 250,750 |
| Miscellaneous | | 599 | | 2,632 |
| Subtotal - Division of Banking | | 38,745,694 | | 39,796,113 |
| | | | | |
| Division of Professional Regulation: | | | | |
| Licenses fees and registration: | | | | |
| General professions licenses and fees | 11,496,574 | | 9,248,328 | |
| Medical licenses and fees | 12,546,986 | | 1,498,579 | |
| Dental licenses and fees | 340,651 | | 4,699,224 | |
| Nursing licenses and fees | 10,620,320 | | 2,701,755 | |
| Pharmacy licenses and fees | 4,358,051 | | 2,429,268 | |
| Design professional licenses and fees | 1,345,842 | | 1,100,220 | |
| Podiatric physician licenses and fees | 55,363 | | 487,055 | |
| CPA licenses and fees | 448,111 | | 3,204,545 | |
| Optometrics licenses and fees | 1,005,635 | | 123,666 | |
| Audiologists licenses and fees | 33,310 | | 1,890 | |
| Real estate licenses and fees | 5,998,473 | | 8,449,406 | |
| Home inspector licenses and fees | 137,845 | | 1,202,853 | |
| Appraisal licenses and fees | 2,631,227 | | 471,421 | |
| Timeshare registration fees | 405,425 | | 390,475 | |
| Land sales fees | 230,600 | | 186,600 | |
| Auctioneer licenses and fees | 608,443 | | 43,075 | |
| Printing fees | - | | 30 | |
| | | 52,262,856 | | 36,238,390 |
| Fines, penalties or violations | | 26,449 | | 27,650 |
| Miscellaneous | | 45 | | 96 |
| Subtotal - Division of Professional Regulation | | 52,289,350 | | 36,266,136 |
| | | | | |
| Total | | $ 495,180,923 | | $ 508,122,989 |

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

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

**For the Year Ended June 30, 2008**

| Fund | Receipts Per Department Records | Plus Deposits in Transit Beginning of Year | Less Deposits in Transit End of Year | Transfers/ Adjustments Other Funds | Deposits Per Comptroller Records |
|---|---|---|---|---|---|
| General Revenue Fund - 0001 | $ 299,475,784 | $ 1,600,293 | $ (1,411,542) | $ (1,868,680) | $ 297,795,855 |
| Financial Institution Fund - 0021 | 8,373,988 | 66,267 | (136,939) | (1,200) | 8,302,116 |
| General Professions Dedicated Fund - 0022 | 11,496,574 | 663,485 | (172,327) | 21,865 | 12,009,597 |
| Fire Prevention Fund - 0047 | 20,952,209 | - | (14) | - | 20,952,195 |
| Illinois State Pharmacy Disciplinary Fund - 0057 | 4,358,051 | 151,812 | (25,750) | 3,350 | 4,487,463 |
| Illinois State Medical Disciplinary Fund - 0093 | 12,546,986 | 40,273 | (1,312,398) | 63,812 | 11,338,673 |
| Registered CPA Administration and Disciplinary Fund - 0151 | 448,111 | 32,635 | (9,575) | 20,302 | 491,473 |
| Professions Indirect Cost Fund - 0218 | - | - | - | 377 | 377 |
| Credit Union Fund - 0243 | 5,097,546 | 3,195 | (4,615) | - | 5,096,126 |
| Savings and Residential Finance Regulatory Fund - 0244 | 9,186,404 | 752,970 | (343,071) | (6,875) | 9,589,428 |
| Nurse Dedicated and Professional Fund - 0258 | 10,620,320 | 69,929 | (66,287) | (20,816) | 10,603,146 |
| Optometric Licensing and Disciplinary Committee Fund - 0259 | 1,005,635 | 13,150 | (6,670) | (1,950) | 1,010,165 |
| Insurance Premium Tax Refund Fund - 0378 | - | - | - | 1,868,680 | 1,868,680 |
| Appraisal Administration Fund - 0386 | 2,631,227 | 45,200 | (2,325) | - | 2,674,102 |
| Senior Health Insurance Program Fund - 0396 | 474,900 | - | - | - | 474,900 |
| Protest Fund - 0401 | 11,983,963 | - | - | - | 11,983,963 |
| Illinois Workers' Compensation Commission Operations Fund - 0534 | 14,287,161 | - | - | - | 14,287,161 |
| Public Pension Regulation Trust Fund - 0546 | 1,554,166 | 68,098 | (170,430) | - | 1,451,834 |
| Pawnbroker Regulation Fund - 0562 | 188,870 | 149,940 | (3,360) | - | 335,450 |
| Real Estate Recovery Fund - 0629 | 45,314 | 20,797 | - | 2,051 | 68,162 |
| Auction Regulation Administration Fund - 0641 | 608,443 | 1,425 | (500) | (750) | 608,618 |
| Auction Recovery Fund - 0643 | 14,250 | - | - | - | 14,250 |
| Group Self-Insurers Workers Compensation Fund - 739 | 141,760 | - | - | - | 141,760 |
| Home Inspector Administration Fund - 0746 | 137,845 | 7,750 | (2,750) | - | 142,845 |
| Bank and Trust Company Fund - 0795 | 29,370,420 | 3,150 | (1,850) | 100 | 29,371,820 |
| Illinois State Dental Disciplinary Fund - 0823 | 340,651 | 38,172 | (10,630) | 21 | 368,214 |
| Real Estate License Administration Fund - 0850 | 6,601,428 | 304,130 | (154,533) | 360 | 6,751,385 |

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

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

For the Year Ended June 30, 2008

| Fund | Receipts Per Department Records | Plus Deposits in Transit Beginning of Year | Less Deposits in Transit End of Year | Transfers/ Adjustments Other Funds | Deposits Per Comptroller Records |
|---|---|---|---|---|---|
| Design Professional Administration and Investigation Fund - 0888 | $ 1,345,842 | $ 19,880 | $ (7,640) | $ 1,200 | $ 1,359,282 |
| Insurance Producers' Administration Fund - 0922 | 23,835,582 | 777,219 | (434,761) | - | 24,178,040 |
| Hearing Instrument Dispenser Examining and Disciplinary Fund - 0938 | 33,310 | 270 | (135) | - | 33,445 |
| Illinois State Podiatric Disciplinary Fund - 0954 | 55,363 | 5,897 | (2,315) | - | 58,945 |
| Insurance Financial Regulation Fund - 0997 | 17,968,820 | 5,673,182 | (30,344) | - | 23,611,658 |
| | $ 495,180,923 | $ 10,509,119 | $ (4,310,761) | $ 81,847 | $ 501,461,128 |

Note: Transfers/Adjustments Other Funds consist primarily of receipts recorded in Department records that are paid under protest and interfund transfers that are recorded as receipts per Department records, but are not recorded on the Comptroller's Monthly Revenue Status Report.

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

**ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BY FUND**

The Department of Financial and Professional Regulation's (Department) analysis of significant fluctuations in expenditures as presented in the Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances by Fund is detailed below.

We obtained explanations from Department personnel for material fluctuations in expenditures between years. We considered fluctuations in excess of 15% and $100,000 to be significant. Explanations of material expenditure fluctuations are as follows:

Division of Financial Institutions

Credit Union Fund (0243) expenditures increased $336,068 (15%) from fiscal year 2007 to 2008. This increase was due to additional personal services expenditures related to union and merit compensation increases, increased pension and insurance contribution rates, and expenditures related to travel due to the examination cycles.

Division of Insurance

Insurance Premium Tax Refund Fund (0378) (non-appropriated) expenditures decreased $381,194 (18%) from fiscal year 2007 to 2008. This decrease was due to the overall decrease of refunds requested of annual premium tax collections processed for fiscal year 2008.

Public Pension Regulation Trust Fund (0546) expenditures increased $109,906 (15%) from fiscal year 2007 to 2008. This increase was due to additional personal services expenditures related to union and merit compensation increases, increased pension and insurance contribution rates, and expenditures related to travel for pension fund examinations.

Department of Insurance Federal Trust Fund (0673) (non-appropriated) expenditures decreased $298,243 to $0 (100%) from fiscal year 2007 to 2008. This decrease was due to the non-renewal of a federal grant that provided funding to develop a plan for providing affordable health insurance to uninsured citizens of Illinois.

Group Self-Insurers Workers Compensation Fund (0739) (non-appropriated) expenditures decreased $684,118 to $0 (100%) from fiscal year 2007 to 2008. This decrease was due to cases settled to compensate eligible employees when their group workers' compensation self-insured pool is unable to pay their claims due to financial insolvency.

Division of Banking

No significant fluctuations in expenditures by fund from 2007 to 2008

Division of Professional Regulation

Illinois State Pharmacy Disciplinary Fund (0057) expenditures increased $1,053,875 (36%) from fiscal year 2007 to 2008 as a result of additional personal services expenditures related to union and merit compensation increases, increased pension and insurance contribution rates, and expenditures related to an increase in education grants as requested and approved by the Legislature.

Nurse Dedicated and Professional Fund (0258) expenditures increased $283,459 (23%) from fiscal year 2007 to 2008. This increase was due to additional personal services expenditures related to union and merit compensation increases, increased pension and insurance contribution rates, and expenditures related to a survey performed by the Nursing Advisory Board.

Optometric Licensing and Disciplinary Committee Fund (0259) expenditures decreased $100,695 (25%) from fiscal year 2007 to 2008. This decrease was due to a decrease in personal services expenditures due to a decrease in headcount.

Appraisal Administration Fund (0386) expenditures increased $228,430 (63%) from fiscal year 2007 to 2008. This increase wad due to additional personal services expenditures related to union and merit compensation increases, increased pension and insurance contribution rates, and expenditures related to the forwarding of appraisal fees to the federal government on a biennial cycle, which occurs during even numbered fiscal years.

Illinois State Dental Disciplinary Fund (0823) expenditures increased $158,671 (22%) from fiscal year 2007 to 2008. This increase was due to a combination of additional personal services expenditures related to union and merit compensation increases, increased pension and insurance contribution rates, and various decreases in travel and lump sums.

Design Professional Administration and Investigation Fund (0888) expenditures increased $145,843 (25%) from fiscal year 2007 to 2008. This increase was due to additional personal services expenditures related to union and merit compensation increases, increased pension and insurance contribution rates, and increased expenditures related to travel for the profession’s Board members.

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

**ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES**
**BY MAJOR OBJECT CODE**

The Department of Financial and Professional Regulation's (Department) analysis of significant fluctuations in expenditures as presented in the Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances by Major Object Code is detailed below.

We obtained explanations from Department personnel for material fluctuations in expenditures between years. We considered fluctuations in excess of 15% and $100,000 to be significant. Explanations of material expenditure fluctuations are as follows:

Retirement – employer contribution expenditures increased $2,698,256 (51%) from fiscal year 2007 to 2008 as a result of the established pension contribution rate changing from 11.525% in fiscal year 2007 to 16.561% in fiscal year 2008.

Telecommunications expenditures increased $286,865 (32%) from fiscal year 2007 to 2008 as a result of an increase in rental fees for telecommunication services and equipment, as well as an increase in the cost for parts and supplies for telecommunications equipment. The increase is also attributable to the various physical moves within the Department.

Lump sum expenditures (non-appropriated) decreased $298,243 (100%) from fiscal year 2007 to 2008 as a result of the non-renewal of a federal grant that provided funding to develop a plan for providing affordable health insurance to uninsured citizens of Illinois.

Awards and grants expenditures (appropriated) increased $1,214,796 (57%) from fiscal year 2007 to 2008 as a result of an increase in pharmacy grant spending and due to payments of Real Estate Appraisal Fees to the federal government for updating the Federal Appraisal Register.

Awards and grants expenditures (non-appropriated) decreased $684,118 (100%) from fiscal year 2007 to 2008 as a result of fluctuations in the amount of cases settled to compensate eligible employees when their group workers' compensation self-insured pool is unable to pay their claims dues to financial insolvency.

Refunds (non-appropriated) decreased $381,194 (18%) from fiscal year 2007 to 2008 as a result of the overall decrease of refunds requested of annual premium tax collections processed for fiscal year 2008.

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

**ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS BY FUND**

The Department's analysis of significant fluctuations in cash receipts as presented in the Comparative Schedule of Cash Receipts by Fund is detailed below. We considered fluctuations in excess of 20% and $250,000 to be significant.

Division of Financial Institutions

Credit Union Fund (0243) receipts decreased $4,983,817 (49%) from fiscal year 2007 to 2008 as a result of a timing difference in the receipt of the annual Credit Union Regulatory Fee payments. The payments related to fiscal year 2006 were billed during December 2006, the middle of fiscal year 2007 and the payments related to fiscal year 2007 were billed during February 2007, also during fiscal year 2007, resulting in regulatory payments for two years being billed and received in fiscal year 2007.

Division of Insurance

Protest Fund (0401) receipts decreased $8,268,378 (41%) from fiscal year 2007 to 2008 as a result of a large protest penalty received during fiscal year 2007 from an insurance company due to a disagreement with the retaliatory audit finding regarding their income tax refund.

Department of Insurance Federal Trust Fund (0673) receipts decreased $330,176 (100%) from fiscal year 2007 to 2008 as a result of the non-renewal of a federal grant that provided funding to develop a plan for providing affordable health insurance to uninsured citizens of Illinois.

Group Self-Insurers Workers Compensation Fund (0739) receipts decreased $1,497,550 (91%) from fiscal year 2007 to 2008 as a result of several large estate claims settled by the Office of the Special Deputy Receiver during fiscal year 2007.

Division of Professional Regulation

In general, variances in receipts were due to fee changes, renewal periods, changes in the number of licensees and changes in profession titles and qualifications. Professions have renewal periods of one, two or three years. Specific profession variances in receipts follow:

General Professions Dedicated Fund (0022) receipts increased $2,248,246 (24%) from fiscal year 2007 to 2008 due to the renewal cycle of many professions, with renewals during fiscal year 2008.

Illinois State Pharmacy Disciplinary Fund (0057) receipts increased $1,928,783 (79%) from fiscal year 2007 to 2008 due to the renewal cycle of registered pharmacists, with renewals during fiscal year 2008.

Illinois State Medical Disciplinary Fund (0093) receipts increased $11,048,407 (737%) from fiscal year 2007 to 2008 due to the renewal cycle of the medical profession, with renewals during fiscal year 2008.

Registered CPA Administration and Disciplinary Fund (0151) receipts decreased $2,756,434 (86%) from fiscal year 2007 to 2008 due to the renewal cycle of the public accountant profession, with renewals being received during fiscal year 2007 and the new registered designation required for CPA's also during fiscal year 2007.

Nurse Dedicated and Professional Fund (0258) receipts increased $7,918,565 (293%) from fiscal year 2007 to 2008 due to the renewal cycles of nursing professions, with renewals during fiscal year 2008.

Optometric Licensing and Disciplinary Committee Fund (0259) receipts increased $881,969 (713%) from fiscal year 2007 to 2008 due to the renewal cycle of the optometrist profession, with renewals during fiscal year 2008.

Appraisal Administration Fund (0386) receipts increased $2,159,806 (458%) from fiscal year 2007 to 2008 due to the renewal cycle of the appraisal profession, with renewals during fiscal year 2008.

Auction Regulation Administration Fund (0641) receipts increased $565,368 (1,313%) from fiscal year 2007 to 2008 due to the renewal cycle of the auction regulation profession, with renewals during fiscal year 2008.

Home Inspector Administration Fund (0746) receipts decreased $1,065,008 (89%) from fiscal year 2007 to 2008 due to renewal cycle of the home inspector profession, with renewals during fiscal year 2007.

Illinois State Dental Disciplinary Fund (0823) receipts decreased $4,358,573 (93%) from fiscal year 2007 to 2008 due to the renewal cycle of the dentist and hygienist professions, with renewals during fiscal year 2007.

Real Estate License Administration Fund (0850) receipts decreased $2,389,806 (27%) from fiscal year 2007 to 2008 due to the renewal cycle of the real estate license profession. Brokers and Salespersons renew on a biennial basis, with approximately 30,000 brokers renewing during fiscal year 2008 and approximately 60,000 salespersons renewing during fiscal year 2007, resulting in more receipts being received in fiscal year 2007.

Illinois State Podiatric Disciplinary Fund (0954) receipts decreased $431,692 (89%) from fiscal year 2007 to 2008 due to renewal cycles for podiatrist profession, with renewals during fiscal year 2007.

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

**ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS BY DIVISION BY REVENUE CATEGORY**

The Department's analysis of significant fluctuations in cash receipts as presented in the Comparative Schedule of Cash Receipts by Division by Revenue Category is detailed below. We considered fluctuations in excess of 20% and $250,000 to be significant.

<u>Division of Financial Institutions</u>

Credit union regulatory fees decreased $4,978,716 (50%) from fiscal year 2007 to 2008 as a result of a timing difference in the receipt of the annual Credit Union Regulatory Fee payments. The payments related to fiscal year 2006 were billed during December 2006, the middle of fiscal year 2007, and the payments related to fiscal year 2007 were billed during February 2007, also during fiscal year 2007, resulting in regulatory payments for two years being billed in fiscal year 2007.

<u>Division of Insurance</u>

Protest fees decreased $4,701,153 (28%) from fiscal year 2007 to 2008 as a result of a large protest penalty received during fiscal year 2007 from an insurance company due to a disagreement with the retaliatory audit finding regarding their income tax refund.

Federal government grant decreased $352,376 (43%) from fiscal year 2007 to 2008 due to the non-renewal of a federal grant that provided funding to develop a plan for providing affordable health insurance to uninsured citizens of Illinois.

Surety bonds decreased $1,497,550 (91%) from fiscal year 2007 to 2008 due to several large estate claims settled by the Office of the Special Deputy Receiver during fiscal year 2007.

Fines, penalties, interest decreased $1,658,926 (25%) from fiscal year 2007 to 2008 due to more producer licenses being renewed timely.

<u>Division of Banking</u>

Mortgage banking registrations decreased $1,386,759 (22%) from fiscal year 2007 to 2008 due to the poor economic conditions and a lower volume of mortgage activity, causing the licensees to surrender their licenses.

<u>Division of Professional Regulation</u>

General professions licenses and fees increased $2,248,246 (24%) from fiscal year 2007 to 2008 due to the renewal cycle of many professions, with renewals during fiscal year 2008.

Medical licenses and fees increased $11,048,407 (737%) from fiscal year 2007 to 2008 due to the renewal cycle of the medical profession, with renewals during fiscal year 2008.

Dental licenses and fees decreased $4,358,573 (93%) from fiscal year 2007 to 2008 due to the renewal cycle of the dentist and hygienist professions, with renewals during fiscal year 2007.

Nursing licenses and fees increased $7,918,565 (293%) from fiscal year 2007 to 2008 due to the renewal cycles of nursing professions, with renewals during fiscal year 2008.

Pharmacy licenses and fees increased $1,928,783 (79%) from fiscal year 2007 to 2008 due to the renewal cycle of registered pharmacists, with renewals during fiscal year 2008.

Podiatric physician licenses and fees decreased $431,692 (89%) from fiscal year 2007 to 2008 due to renewal cycles for podiatrist profession, with renewals during fiscal year 2007.

CPA licenses and fees decreased $2,756,434 (86%) from fiscal year 2007 to 2008 due to the renewal cycle of the public accountant profession, with renewals during fiscal year 2007 and the new registered designation required for CPA's also during fiscal year 2007.

Optometrics licenses and fees increased $881,969 (713%) from fiscal year 2007 to 2008 due to the renewal cycle of the optometrist profession, with renewals during fiscal year 2008.

Real estate licenses and fees decreased $2,450,933 (29%) from fiscal year 2007 to 2008 due to the renewal cycle of the real estate license profession. Brokers and Salespersons renew on a biennial basis, with approximately 30,000 brokers renewing during fiscal year 2008 and approximately 60,000 salespersons renewing during fiscal year 2007, resulting in more receipts being received in fiscal year 2007.

Home inspector licenses and fees decreased $1,065,008 (89%) from fiscal year 2007 to 2008 due to the renewal cycle of the home inspector profession, with renewals during fiscal year 2007.

Appraisal licenses and fees increased $2,159,806 (458%) from fiscal year 2007 to 2008 due to the renewal cycle of the appraisal profession, with renewals during fiscal year 2008.

Auctioneer licenses and fees increased $565,368 (1,313%) from fiscal year 2007 to 2008 due to the renewal cycle of the auction regulation profession, with renewals during fiscal year 2008.

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

**ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING**
**BY MAJOR OBJECT CODE**

The Department of Financial and Professional Regulation's (Department) analysis of significant lapse period spending, as presented in the Schedule of Appropriations, Expenditures and Lapsed Balances by Major Object Code, for fiscal year 2008 for lapse period expenditures exceeding 20% and $15,000 of total expenditures are detailed below.

Contractual services expenditures of $2,025,785 (24%) during the lapse period resulted from the delay in Facilities Management Revolving Fund billings from the Department of Central Management Services (DCMS). There was also a delay in transferring funds until the appropriate funds were identified which led to numerous bills being paid during the lapse period.

Printing expenditures of $42,434 (22%) during the lapse period resulted from various printing expenses incurred prior to June 30 and paid during the lapse period. There was also a delay in transferring funds until the appropriate funds were identified which led to numerous bills being paid during the lapse period.

Equipment expenditures of $63,318 (47%) during the lapse period resulted from a payment for copiers ordered prior to June 30 and paid during the lapse period. There was also a delay in transferring funds until the appropriate funds were identified which led to numerous bills being paid during the lapse period.

Electronic data processing expenditures of $1,076,376 (29%) during the lapse period resulted from delayed Statistical Services Revolving Fund billings from DCMS. There was also a delay in transferring funds until the appropriate funds were identified which led to numerous bills being paid during the lapse period.

Telecommunications expenditures of $232,208 (20%) during the lapse period resulted from delayed Communications Revolving Fund billings from DCMS. There was also a delay in transferring funds until the appropriate funds were identified which led to numerous bills being paid during the lapse period.

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

### ANALYSIS OF ACCOUNTS RECEIVABLE

An aging schedule of the Department's accounts receivable (expressed in thousands) at June 30, 2008 is presented below:

| Aging Schedule | General Revenue Fund 0001 | Financial Institution Fund 0021 | General Professions Dedicated Fund 0022 | Illinois State Pharmacy Disciplinary Fund 0057 | Illinois State Medical Disciplinary Fund 093 | Registered CPA Administration and Disciplinary Fund 0151 |
|---|---|---|---|---|---|---|
| Current | $ 126 | $ 162 | $ 57 | $ 86 | $ 45 | $ 4 |
| 31-60 | 89 | 70 | 2 | 22 | 3 | - |
| 61-120 | 10 | 28 | 3 | 1 | 3 | - |
| 121-180 | 117 | 156 | 6 | 1 | 9 | - |
| 181-365 | 1,588 | 53 | 9 | 1 | - | - |
| Over 365 | 5,305 | 51 | 52 | 2 | 68 | - |
| Accounts Receivable Gross Balance | 7,235 | 520 | 129 | 113 | 128 | 4 |
| Less: Estimated Uncollectibles | (2,401) | - | - | - | - | - |
| Accounts Receivable Net Balance | $ 4,834 | $ 520 | $ 129 | $ 113 | $ 128 | $ 4 |

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

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

**ANALYSIS OF ACCOUNTS RECEIVABLE**

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| Aging Schedule | Credit Union Fund 0243 | Savings and Residential Finance Regulatory Fund 0244 | Nurse Dedicated and Professional Fund 0258 | Appraisal Administration Fund 0386 | Public Pension Regulation Trust Fund 0546 | Pawnbroker Regulation Fund 0562 | Real Estate Recovery Fund 0629 | Auction Recovery Fund 0643 |
|---|---|---|---|---|---|---|---|---|
| Current | $ 2 | $ 325 | $ 29 | $ - | $ - | $ - | $ - | $ - |
| 31-60 | - | 9 | 2 | - | 353 | - | - | - |
| 61-120 | - | 42 | 1 | - | - | 2 | - | - |
| 121-180 | 2 | 97 | - | - | - | - | - | - |
| 181-365 | - | 61 | - | - | - | - | - | 6 |
| Over 365 | - | 177 | 8 | 33 | - | - | 1,297 | 16 |
| Accounts Receivable Gross Balance | 4 | 711 | 40 | 33 | 353 | 2 | 1,297 | 22 |
| Less: Estimated Uncollectibles | - | - | - | (15) | - | - | (1,109) | - |
| Accounts Receivable Net Balance | $ 4 | $ 711 | $ 40 | $ 18 | $ 353 | $ 2 | $ 188 | $ 22 |

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

**ANALYSIS OF ACCOUNTS RECEIVABLE**

| Aging Schedule | Home Inspector Administration Fund 0746 | Bank and Trust Company Fund 0795 | Illinois State Dental Disciplinary Fund 0823 | Design Professional Administration and Investigation Fund 0888 | Insurance Producers' Administration Fund 0922 | Illinois State Podiatric Disciplinary Fund 0954 | Insurance Financial Regulation Fund 0997 | Total |
|---|---|---|---|---|---|---|---|---|
| Current | $ - | $ 7,588 | $ 15 | $ 2 | $ 168 | $ 3 | $ 18,057 | $ 26,669 |
| 31-60 | - | - | 2 | 3 | 8 | 1 | - | 564 |
| 61-120 | - | - | 40 | - | 1 | - | 4 | 135 |
| 121-180 | - | - | - | 8 | 2 | - | 4 | 402 |
| 181-365 | - | 1 | - | 147 | 1 | - | - | 1,867 |
| Over 365 | 15 | 9 | 108 | 4 | 2 | - | 36 | 7,183 |
| Accounts Receivable Gross Balance | 15 | 7,598 | 165 | 164 | 182 | 4 | 18,101 | 36,820 |
| Less: Estimated Uncollectibles | - | - | - | - | (5) | - | (38) | (3,568) |
| Accounts Receivable Net Balance | $ 15 | $ 7,598 | $ 165 | $ 164 | $ 177 | $ 4 | $ 18,063 | $ 33,252 |

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

**AGENCY FUNCTIONS AND PLANNING PROGRAM**

**For the Year Ended June 30, 2008**

## AGENCY FUNCTIONS

The Department of Financial and Professional Regulation (IDFPR) oversees the regulation and licensure of banks and financial institutions, real estate businesses and professionals, insurance companies and various licensed professions, enforces standards of professional practice and protects the rights of Illinois residents in their transactions with regulated industries.

The mission of the Department is to protect consumers of financial and professional services by ensuring the integrity and standards of regulated industries and professionals through an efficiently consolidated supervisory and enforcement function. Strategic priorities include:

- Maintain safety and soundness of financial services businesses
- Enhance responsiveness of regulatory enforcement
- Improve efficiency and effectiveness of licensure and enforcement functions
- Educate consumers and the public about legal rights and remedies
- Promote economic activity throughout Illinois.

The Department's current initiatives are as follows:

- Continue to consolidate the four predecessor agencies and programs to streamline regulatory bureaucracy and reduce costs by eliminating duplicative functions while at the same time increasing consumer and industry services.

- Create and implement a consolidated, department-wide consumer call center to ensure a more timely response to consumer complaints.

- Improve public knowledge of complaint resolution resources and other consumer protection functions.

- Identify refinements to regulatory statutes and rules to improve efficiency and compliance.

## DEPARTMENT PROGRAMS

### Evaluation and Licensing:

The Department evaluates and acts upon license applications from regulated industries. IDFPR protects consumers by evaluating the safety, soundness and professional integrity of license applicants.

**Investigation and Enforcement:**

The Department safeguards the health and welfare of consumers and the public by investigating illegal activities and consumer complaints and taking enforcement actions when warranted. The Department also adjudicates complaints relating to violations of professional standards of practice.

**Regulation and Supervision:**

The Department conducts ongoing regulatory and supervisory functions of financial services businesses and other professions. IDFPR examiners perform regular examinations and audits of regulated entities and ensure compliance with statutory requirements. Additionally, the Department educates and informs consumers about industries and individuals under its jurisdiction, and receives complaints and inquiries regarding licensees.

**Administration:**

**Legal**

The Legal Unit provides a variety of legal services to the regulatory units of the Department. The Unit 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 Unit staff normally does not represent the agency in matters before the courts, but act as liaison with the Attorney Generals' 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.

**Electronic Data Processing/Information Technology**

This unit provides data processing support for the Department including systems analysis, telecommunications networking, programming, microcomputer support, and user training.

**Legislative Affairs**

This Unit develops the Department's legislative agenda; coordinates IDFPR comments on legislation and develops issue papers, fact sheets and bill reviews; monitors legislation effecting the Department and its regulated industries/entities; negotiates controversial legislation with legislators, Governor's staff and special interest groups; and handles constituent inquiries referred by legislators, legislative staff and the Governor's offices.

**Administrative Services**

This Unit provides general clerical support as needed for IDFPR staff, coordinates activities related to physical facilities and moves, including coordinating and assigning office space allocations, manages telecommunications, delivers materials to staff, sorts, files and distributes internal and external mail, develops, implements and administers policies and procedures for records/document management, monitors supply levels and processes/fills supply orders, manages and administers the vehicle fleet assets and identifies, classifies and processes forms used within the agency through management of the print shop.

**Fiscal Operations**

This Unit is responsible for preparing, implementing and monitoring the Department's annual budget. This Unit serves as the centralized accounting area of the agency. This Unit is responsible for all revenue collections, all appropriation expenditures, the accounts receivable reporting, accounts payable, travel and budget preparation. This Section prepares all financial statements for the Department on a GAAP and statutory accounting basis, maintains an automated cash receipts subsystem, statutory deposit subsystem, and the examiner billing data base. Also, this Section implements all the accounting changes required by GASB, updates the Travel Control Board changes, and adjusts the automated cash receipts subsystem to comply with the Comptroller updates.

## DIVISION OF INSURANCE

The Division of Insurance is charged with monitoring, regulating and protecting the lawful rights of insurance buyers though enforcement of the Illinois Insurance Code and related laws for the regulation of all insurance companies licensed to transact business in Illinois.

The Division of Insurance is also charged with protecting the rights of Illinois citizens in their insurance transactions and monitoring the financial solvency of all regulated entities through effective administration and enforcement of the Illinois Insurance Code (215 ILCS 5/1 through 5/1312), the Illinois Pension Code (40 ILCS 5/1-101 through 5/21-109) and related laws and regulations (Title 50, Illinois Administrative Code).

The Division's mission 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 responsibilities of the Division are allocated between the Consumer-Market Section and the Financial-Corporate Regulatory Section.

## DIVISION OF PROFESSIONAL REGULATION

The Division of Professional Regulation is responsible for maintaining proper standards of competence for the license holder and to protect the public from those who abuse their licenses. This responsibility encompasses licensing individuals either through issuance of an initial license or by license renewal, administering examinations as a requisite to licensure in certain professions, establishing rules for the proper conduct of licensees, performing investigations into complaints filed against licensees, and taking disciplinary action against licensees determined to have violated the laws or rules governing their profession.

The Division's mission is to serve, safeguard, and promote the public welfare by ensuring that licensure qualifications and standards for professional practice are properly evaluated, accurately applied and vigorously enforced.

The responsibilities of the Division are allocated between the Licensing and Testing Section and the Enforcement Section.

## DIVISION OF FINANCIAL INSTITUTIONS

The Division of Financial Institutions is authorized by the Financial Institutions Code (20 ILCS 1205/1) to investigate, examine, license and regulate financial institutions in the State of Illinois including currency exchanges, credit unions, title insurance companies, foreign exchanges and businesses making loans of $25,000 or less.

The Division's mission is to administer and enforce the laws and regulations pertaining to those financial institutions under its jurisdiction and to protect the interests of Illinoisans in their dealings with those industries regulated by the Division of Financial Institutions.

The responsibilities of the Division are allocated among the Consumer Credit Section, the Credit Union Section, and the Currency Exchange Section.

## DIVISION OF BANKING

The Division of Banking oversees the regulation and licensure of State chartered banks, trust companies, ATMs not owned by financial institutions, check printers, pawnbrokers, savings banks and savings and loan associations, mortgage bankers and brokers, auctioneers, home inspectors, leasing agents and time share companies.

The Division's mission is to protect and educate the public and promote confidence in the regulated industries through administration of statutory responsibilities in an efficient, professional, responsive and innovative manner.

The responsibilities of the Division are allocated among the Bureau of Banks and Trust Companies and the Bureau of Residential Finance.

## PLANNING PROGRAM

Department of Financial and Professional Regulation has established a Strategic Plan. The plan includes a summary of the Department's priorities and initiatives. The Divisions' performance metrics are incorporated into the IDFPR Performance Metric Summary, which includes target dates/periods and descriptions of criteria to help the Department and the four Divisions to evaluate their priorities and initiatives. The Department examines key performance metrics quarterly in their Quarterly Management Report to the Governor's Office of Management and Budget (OMB).

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

**AVERAGE NUMBER OF EMPLOYEES**

**For the Years Ended June 30, 2008 and 2007**

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

| Division/Unit | 2008 | 2007 |
|---|---|---|
| Division of Insurance | 202 | 217 |
| Division of Banking | 148 | 170 |
| Division of Professional Regulation | 216 | 217 |
| Division of Financial Institutions | 70 | 61 |
| Executive Office | 4 | 4 |
| Fiscal and Accounting Unit | 28 | 28 |
| Information Technology Unit | 35 | 33 |
| Human Resources Unit | 9 | 12 |
| Legal Unit | 38 | 29 |
| Legislative Affairs Unit | 7 | 6 |
| Administrative Services Unit | 25 | 27 |
| **TOTAL** | 782 | 804 |

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

**ADMINISTRATIVE AND REGULATORY SHARED SERVICES CENTER (ARSSC)**
**Located at the Department of Revenue**

**For the Year Ended June 30, 2008**

Executive Order 2006-6, issued March 31, 2006, ordered the creation of a Division of Shared Services within the Department of Revenue to serve designated “administrative” agencies. The Shared Services Division created at Revenue was called the Administrative and Regulatory Shared Services Center (ARSSC) and combined certain functions of three “administrative” agencies: the Department of Central Management Services (DCMS), Department of Financial and Professional Regulation (DFPR), and Department of Revenue (DOR).

The stated purpose of the Division of Shared Services was to consolidate certain common administrative functions, such as human resources, personnel, payroll, timekeeping, procurement, and financial processes, currently being performed by individual agencies, to improve the ability of all State agencies to share management knowledge and capitalize on synergies and economies of scale.

The first function consolidated in the ARSSC was the human resources operations, which began in October 2007 with the signing of an interagency agreement between DOR, DCMS, and DFPR. Fiscal accounting personnel were transferred from the user agencies on May 1, 2008 and the functions were transferred on August 15, 2008. The total budgeted headcount of the ARSSC at June 30, 2008 was 138 positions.

In fiscal year 2007, the three agencies were appropriated $21.9 million for costs and expenses related to or in support of the ARSSC Shared Services Center; $18.8 million was appropriated in fiscal year 2008. Exhibit 1 summarizes the appropriations and expenditures for the three agencies participating in the ARSSC Shared Services Center in Fiscal Years 2007 and 2008.

**Exhibit 1**
**ARSSC SHARED SERVICES APPROPRIATIONS AND EXPENDITURES**
**Fiscal Years 2007 and 2008**

| | **Fiscal Year 2007** | | **Fiscal Year 2008** | |
|---|---|---|---|---|
| | **Appropriations** | **Expenditures** | **Appropriations** | **Expenditures** |
| **DOR** | $8,508,600 | $8,187,828 | $7,757,543 | $7,656,590 |
| **DCMS** | $9,523,400 | $7,990,639 | $7,891,907 | $3,911,794 |
| **DFPR** | $3,855,600 | $3,724,072 | $3,152,500 | $2,943,857 |
| | | | | |
| **TOTALS** | **$21,887,600** | **$19,902,539** | **$18,801,950** | **$14,512,241** |

Source: OAG from Comptroller data

As part of the development of the Shared Services Program, the Governor's Office of Management and Budget (GOMB) entered into contracts with several firms to perform consulting and professional services to facilitate the reorganization of common functions into Shared Services Centers, as well as provide staffing and organizational analyses.

The amount paid out by the State for these contracts totaled over $9 million over fiscal years 2006, 2007 and 2008. The costs of these contracts were allocated among many of the State agencies designated to participate in the various Shared Services Programs. DFPR paid $30,000 to Deloitte in fiscal year 2006. DFPR did not pay any amounts to consulting and professional services vendors related to the Shared Services Programs during fiscal years 2007 and 2008.

As part of the Auditor General's review of the Shared Services Program statewide, they sent a survey to all agencies that received an appropriation for Shared Services operations in fiscal years 2007 and/or 2008. They also surveyed the Shared Service Centers and asked similar questions of them.

One of the goals of the Shared Services Program was to realize cost savings through consolidation of common functions of several agencies into one location. In its response to the survey, the ARSSC reported savings of $258,197 in fiscal year 2008. These totals are not examined. The ARSSC did not report any savings in fiscal years 2006 or 2007. The savings reported for fiscal year 2008 were attributed to the elimination of 6 staff positions and their associated support costs. The ARSSC detailed the savings by agency as follows: Revenue -- $25,165; DFPR -- $88,682; and CMS -- $144,350.

In response to the survey auditors sent to the user agencies, DFPR reported savings in fiscal year 2007 and fiscal year 2008 were due to turnover and a hiring lag of four positions.

DFPR reported incurring implementation costs totaling $327,232 during fiscal years 2006, 2007, and 2008. The implementation costs reported include payroll and related costs, travel, moving, equipment and furniture acquisitions, temporary employees, telecommunications, and contractual services.

As part of the Auditor General's compliance examinations conducted on agencies for the period ending June 30, 2008, they reviewed expenditures paid from appropriations for Shared Services at selected agencies during fiscal year 2008. At each of the three agencies covered by the ARSSC, expenditure transactions paid from the agency's Shared Services appropriation were sampled to determine whether they were related to the Shared Services Program.

At DFPR, we performed detail testing of 10 payroll vouchers, totaling $451,654, and 20 expenditure vouchers, totaling $158,269, and noted DFPR entered into a contract with a vendor to develop a cost allocation methodology. The contract's total value is $19,975, and DFPR signed an interagency agreement with the Department of Corrections to each pay 50% of the contract amount. The objective of the contract was to assist in the development of an indirect cost methodology and the preparation of a cost allocation plan that is acceptable and consistent with the cost allocation principles contained in OMB Circular A-87.

Our review this year focused on expenditures from the Shared Services Program appropriations and the costs of program implementation to date. While some agencies surveyed reported savings, it was premature to examine asserted savings and programmatic goals achieved at this time.

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

**SERVICE EFFORTS AND ACCOMPLISHMENTS**
**(Not Examined)**
**For the Year Ended June 30, 2008**

The State of Illinois, Department of Financial and Professional Regulation is a state regulatory agency whose mission is to protect consumers of financial and professional services by ensuring the integrity and standards of regulated industries and professionals through an efficiently consolidated supervisory and enforcement function.

The Illinois Department of Financial and Professional Regulation oversees the regulation and licensure of banks and financial institutions, real estate businesses and professionals, insurance companies and various licensed professionals, enforces standards of professional practice and protects the rights of Illinois residents in their transactions with regulated industries.

Evaluating and Licensing

The Department evaluates and acts upon license applications from regulated industries. The Department protects consumers by evaluating the safety, soundness and professional integrity of license applicants.

Investigation and Enforcement

The Department safeguards the health and welfare of consumers and the public by investigating illegal activities and consumer complaints and taking enforcement actions when warranted. The Department also adjudicates complaints relating to violations of professional standards of practice.

Regulation and Supervision

The Department conducts ongoing regulatory and supervisory functions of financial service businesses and other professions. The Department's examiners perform regular examinations and audits of regulated entities and ensure compliance with statutory requirements. Additionally, the Department educates and informs consumers about industries and individuals under its jurisdiction, and receives complaints and inquiries regarding licensees.

Division of Financial Institutions

The Consumer Credit Division protects consumers and ensures that the entities regulated are in compliance with State and Federal statutes.

The Currency Exchange Division ensures that currency exchange services are delivered fairly and, by regulating the industry that provides those services, the public is provided with the protection intended by State law.

The Credit Union Division administers and enforces the laws and regulations pertaining to Illinois State-chartered credit unions and ensures the safety and soundness of these financial institutions; thereby protecting the interest of their members.

ACTIVITIES AND PERFORMANCE

| | FY08 Actual | FY07 Actual | FY06 Actual |
|---|---|---|---|
| Consumer Credit Division | | | |
| Number of licensees | 2,360 | 2,262 | 2,212 |
| Number of exams completed | 2,392 | 2,213 | 2,249 |
| Currency Exchange Division | | | |
| Number of licensed exchanges | 769 | 816 | 830 |
| Number of exams completed | 601 | 681 | 719 |
| Credit Union Division | | | |
| Number of licensees | 324 | 343 | 347 |
| Number of exams completed | 223 | 243 | 242 |

Division of Insurance

The Financial/Corporate and the Consumer Market Divisions 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.

ACTIVITIES AND PERFORMANCE

| | FY08 Actual | FY07 Actual | FY06 Actual |
|---|---|---|---|
| Financial/Corporate Division | | | |
| Financial Statement Analysis Annual | 391 | 440 | 425 |
| Field Financial Examinations | 88 | 57 | 86 |
| Pension Fund Examinations completed | 58 | 47 | 60 |
| Consumer Services Division | | | |
| New/Renewal Licenses Processed | 37,838 | 55,110 | 64,810 |
| Market Conduct Examinations completed | 25 | 28 | 22 |
| Closed Consumer Complaint Files | 10,871 | 10,880 | 11,397 |

Division of Banking

The Bureau of Banks and Trust Companies serves and protects the public by chartering, authorizing, and supervising State-chartered commercial banks, foreign bank offices, and corporate fiduciaries in order to assure the safety and soundness of such institutions in compliance with applicable laws and regulations for the benefit of the public. The Bureau also registers check printers, non-financial institution deployers of ATMs, and licenses pawnbrokers that operate in Illinois.

The Bureau of Residential Finance administers fairly the laws and regulations under its jurisdiction and provides effective and efficient supervision in order to protect the interests of the citizens of the State in their dealings with those industries regulated by the Bureau.

## ACTIVITIES AND PERFORMANCE

| | FY08 Actual | FY07 Actual | FY06 Actual |
|---|---|---|---|
| Bureau of Banks and Trust Companies | | | |
| Number of Domestic Commercial Banks | 440 | 446 | 464 |
| Number of Foreign Bank Offices | 12 | 12 | 13 |
| Number of Domestic Corporate Fiduciaries | 185 | 194 | 196 |
| Number of Financial Information Systems Entities | 191 | 487 | 513 |
| Number of Pawnbroker Licensees | 213 | 209 | 202 |
| Number of Examinations Performed | 499 | 515 | 489 |
| Number of Applications Reviewed | 271 | 335 | 306 |
| Percentage of Newly Chartered Banks That Chose a State vs. National Charter | 100% | 100% | 78% |
| Percentage of Pawnshop Complaints Investigated Within Established Time Frames | 100% | 100% | 100% |
| Bureau of Residential Finance | | | |
| Number of Residential Mortgage Licensees | 1,477 | 2,281 | 2,168 |
| Number of Savings and Loans | 2 | 3 | 4 |
| Number of Savings Banks | 39 | 41 | 40 |
| Number of Service Corporations | 23 | 24 | 24 |
| Number of Thrift Examinations | 27 | 30 | 34 |
| Number of Mortgage Examinations | 598 | 465 | 157 |
| Number of License Applications Processed | 202 | 216 | 288 |

Division of Professional Regulation

The Division of Licensing and Testing completes all licensing services expeditiously and professionally while providing the highest degree of quality and customer service.

The Division of Enforcement provides prompt, efficient, and fair enforcement of the statutes governing licensees for the betterment of all professions and protection of the people of Illinois.

ACTIVITIES AND PERFORMANCE

| | FY08 Actual | FY07 Actual | FY06 Actual |
|---|---|---|---|
| Division of Licensing and Testing | | | |
| Phone Calls Received by Call Center | 163,810 | 195,172 | 252,263 |
| New Licenses Issued | 75,964 | 89,426 | 88,721 |
| License Renewals Received | 444,344 | 233,495 | 335,781 |
| Initial Applications Received | 89,998 | 94,055 | 160,327 |
| Average Call Center Waiting Time (minutes) | 13.0 | 12.5 | 8.2 |
| Percentage of Mail-In Renewals Processed | 27.3% | 48.9% | 55.0% |
| Percentage of E-Batch Renewals Processed | 3.7% | 1.6% | 5.5% |
| Percentage of Touch Tone Renewals Processed | 11% | 10.8% | 6.5% |
| Percentage of Internet Credit Card Renewals Processed | 59.0% | 38.7% | 33.0% |
| Division of Enforcement | | | |
| Complaints Received | 10,912 | 9,498 | 9,682 |
| Complaints Closed | 8,720 | 9,311 | 9,381 |
| Cases Closed at Investigations | 5,154 | 3,361 | 4,937 |
| Cases Referred to Prosecutions | 1,659 | 4,207 | 2,029 |
| Cases Closed at Prosecutions | 1,205 | 1,311 | 1,214 |
| Licensees Placed on Probation | 455 | 344 | 419 |
| Percentage of Complaints Closed | 90.0% | 98.0% | 104.0% |
| Percentage of Complaints to Investigations | 97.0% | 98.0% | 95.0% |
| Percentage of Cases Referred to Closure in Prosecutions | 11.0% | 14.0% | 22.0% |
| Percentage of Child Support Cases Processed | 1.6% | 2.3% | 1.1% |
| Percentage of Illinois Student Assistance Commission Cases Processed | 6.0% | 5.0% | 2.8% |
| Percentage of Revenue Cases Processed | 1.6% | 0.3% | 2.0% |