



STATE OF ILLINOIS
**OFFICE OF THE
AUDITOR GENERAL**

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

COMPLIANCE EXAMINATION

For the Two Years Ended: June 30, 2010

Release Date: May 12, 2011

Summary of Findings:

Total this audit: 10

Total last audit: *19

Repeated from last audit: 10

*Pursuant to Executive Order 2009-04, on June 1, 2009, the Department of Insurance was re-established. Findings relating to the Department's former Division of Insurance are reported in the compliance examination of the Department of Insurance for the year ended June 30, 2010.

SYNOPSIS

- The Department did not exercise adequate controls over its computer inventory. Various pieces of computer equipment could not be located.
- 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's controls over interagency agreements were deficient.
- Department Boards were not fully staffed.

{Expenditures and Activity Measures are summarized on the reverse page.}

DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2010

EXPENDITURE STATISTICS	2010	2009	2008
Total Expenditures.....	\$ 68,057,312	\$ 122,582,190	\$ 95,121,710
OPERATIONS TOTAL.....	\$ 67,474,850	\$ 94,693,990	\$ 89,859,779
% of Total Expenditures.....	99.1%	77.2%	94.5%
Personal Services.....	\$ 34,505,744	\$ 49,320,203	\$ 47,901,720
Other Payroll Costs (FICA, Retirement, Group Insurance).....	\$ 19,456,360	\$ 24,586,852	\$ 21,810,850
All Other Operating Expenditures.....	\$ 13,512,746	\$ 20,786,935	\$ 20,147,209
AWARDS AND GRANTS.....	\$ 566,589	\$ 27,081,939	\$ 3,355,375
% of Total Expenditures.....	0.8%	22.1%	3.5%
REFUNDS.....	\$ 15,873	\$ 806,261	\$ 1,906,556
% of Total Expenditures.....	0.0%	0.7%	2.0%
Total Receipts.....	\$ 85,221,955	\$ 519,363,930	\$ 495,180,923

SELECTED ACTIVITY MEASURES (Not Examined)	2010	2009	2008
Examinations Completed:			
Financial Institutions.....	2,834	3,192	3,216
Banks and Trust Companies.....	234	483	499
Thrift and Mortgage.....	288	1,072	625
Number of Licenses:			
Financial Institutions.....	3,242	3,341	3,453
Banks and Trust Companies.....	1,307	1,318	1,041
Residential Mortgagee.....	938	1,104	1,477
Professions (New/Renewals Received).....	467,791	370,270	534,342
Enforcement:			
Complaints Received.....	11,159	13,800	10,912
Complaints Closed.....	12,707	11,300	8,720
Cases Closed at Investigations.....	3,815	4,500	5,154
Cases Referred to Prosecution.....	4,944	3,200	1,659
Cases Closed at Prosecution.....	1,302	1,655	1,205

AGENCY DIRECTOR

During Examination Period: Mr. Dean Martinez (until December 2008), Mr. Michael McRaith (acting) (December 2008 to June 2009), Mr. Brent Adams (effective July 2009)

Currently: Mr. Brent Adams

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**INADEQUATE CONTROLS OVER COMPUTER
INVENTORY**

Unable to locate equipment

The Department was not able to locate various pieces of computer equipment during its annual inventories.

In its fiscal year 2009 and 2010 Physical Inventory Reports submitted to CMS, the Department reported it was unable to locate 59 of 3,129 (2%) items totaling \$91,852 and 75 of 1,815 (4%) items tested totaling \$147,586, respectively.

**Missing items consisted of laptop
and desktop computers**

- During fiscal year 2009, the missing equipment consisted of approximately 25 laptop computers, 7 desktop computers, and other peripheral items.
- During fiscal year 2010, the missing equipment consisted of approximately 21 laptop computers, 5 desktop computers, and other peripheral items.

**Department unsure if confidential
information was on the missing
computers**

The Department was unable to produce property transfer records or locate the missing computer equipment. The Department had not performed an assessment and was unsure how much, if any, confidential information was on the missing computers. (Finding 1, pages 13-14)

We recommended the Department evaluate procedures in place over the security of equipment. We also recommended the Department perform a detailed assessment to determine if any of the missing computers contained confidential information.

Department agrees with auditors

Department officials agreed with our recommendation and stated they have conducted an internal audit of inventory procedures and implemented recommendations of that audit. The Department further stated they have improved the inventory procedure to better track the internal movement of computer equipment.

**NEED TO IMPROVE TIMELINESS AND
DOCUMENTATION OF ENFORCEMENT ACTIVITIES**

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

**Failure to 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.

Some of the deficiencies noted in our review of 25 investigation files follows:

Investigative Reports completed late

- In 3 of 25 (12%) case files reviewed, the Investigative Reports were not generated in a timely manner of the investigative activity. The completion of the investigative reports ranged from 526 to 1,171 days after the investigative activity.
- In 4 out of 25 (16%) case files reviewed, we noted that the Investigator did not interview the complaining witness in a timely manner from the date assigned to the case.

Investigative Reports and Summary Reports were not in files

- In 1 out of 25 (4%) case files reviewed, an Investigative Report was not included in the file.
- In 1 out of 25 (4%) case files reviewed, an Investigative Summary Report was not included in the file.
- In 2 out of 25 (8%) case files reviewed, the file did not contain a complaint intake form, internet complaint intake form, complaint report, letter stating a claim, or an e-mail letter stating a claim.

Some of the deficiencies noted in our review of 25 probation files follow:

Files did not contain complaint forms or claims

- In 2 out of 25 (8%) case files reviewed, a copy of the original contact letter was not included in the file.
- In 1 out of 25 (4%) case files reviewed, an Investigative Report was not included in the file.

Files did not include original contact letters or Investigative Reports

- In 1 out of 25 (4%) case files reviewed, an Integrated Licensing and Enforcement System (ILES) discipline page was not included in the file.

We reviewed 25 prosecution files and noted the following deficiency:

Investigative Reports were not signed by the supervisor

- In 2 out of 25 (8%) case files reviewed, the Investigative Report was not signed by the supervisor. (Finding 2, pages 15-17) **This finding was first reported in 2004.**

We recommended the Department comply with the State Records Act and maintain the documentation required within its Enforcement Unit files. Further, we recommended 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 agrees with auditors

Department officials concurred with our recommendation and stated they are reallocating resources and implementing new procedures in order to ensure that documentation is maintained in accordance with the State Records Act and all applicable internal policies. In order to ensure that all activities are performed in a timely manner and that all necessary documentation is maintained in case files, the Department is in the process of upgrading both the case review and oversight procedures. Through more detailed supervisory review and also through the addition of reviews by the Department's new internal audit group, they will be able to identify and address issues in a timely manner – thereby enabling the Department to better comply with all relevant mandates and guidelines. (For previous Department response, see Digest Footnote #1.)

NEED TO IMPROVE CONTROLS OVER INTERAGENCY AGREEMENTS

The Department's controls over interagency agreements were deficient.

During our examination of seven interagency agreements (three between the Department and the Governor's Office of Management and Budget, two between the Department and the Governor's Office of Management and Budget and the Department of Labor, one between the Department and the Department of Central Management Services, and one between the Department and the Department of Insurance) during fiscal years 2009 and 2010, the following deficiencies were noted:

Employees were paid in excess of the salaries noted in agreements

- In 4 of 7 (57%) interagency agreements tested pertaining to employee's salaries, employees were paid in excess of the salaries noted in the agreements. Employees were paid \$1,800, \$36,151, \$13,195, and \$25,662 more than the amount specified in the applicable agreements.

Interagency agreements were not signed before the effective date

- 5 out of 7 (71%) interagency agreements tested, totaling \$344,680, were not signed by all necessary parties before the effective date. Four of the 5 agreements were signed 13 to 80 days late while 1 agreement was not signed by one of the parties.

Methodology for the allocation of the billing of shared costs was not maintained

- 3 out of 7 (43%) interagency agreements tested pertaining to legal and administrative services

(between the Department and the Governor's Office of Management and Budget), totaling \$213,032, 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.

Unable to demonstrate that an employee paid from multiple agencies was working on Department related activities

- In 2 of 7 (29%) interagency agreements totaling \$131,658, 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. 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. (Finding 3, pages 18-19) **This finding was first reported in 2006.**

We recommended the Department ensure all interagency agreements are signed by all parties prior to the effective date of the agreement and employees are not paid more than the maximum amount specified in the agreement. Further, the Department should require all interagency agreements include methodology supporting the percent allocation.

Department agrees with auditors

Department officials concurred with our recommendation and stated that administration of payroll is a responsibility of Administrative and Regulatory Shared Services Center (Shared Services). Shared Services routinely monitors personal services contracts (PSCs) with respect to projected overpayments. The Department has requested Shared Services similarly monitor intergovernmental agreements (IGAs). When an overpayment is forecasted by Shared Services, the Department will execute an appropriate amendment to the IGA. The Department further stated they will endeavor to determine if there is a feasible methodology to monitor parties' assumption of payment obligations. If no methodology is appropriate, the Department will determine the feasibility of these types of IGAs going forward. The Department will endeavor to approve all IGAs prior to the performance of services there under. (For previous Department response, see Digest Footnote # 2)

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.

Board of Nursing

- The Secretary of the Department did not appoint 2 members to the Board of Nursing in order to fill vacancies.

State Board of Pharmacy

- 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 six of nine (67%) positions (licensed pharmacist) were held by individuals with terms that expired in April 2007 (2 positions), April 2009 (2 positions), and April 2010 (2 positions).

Board of Orthotics, Prosthetics, and Pedorthics

- 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.

Board of Currency Exchanges

- 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 five out of seven (71%) board positions were vacant. We noted that two positions have been vacant since January 1998, and three positions have been vacant since January 1999.

Real Estate Administration and Disciplinary Board

- 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 nine (11%) positions (public member) has been vacant since March 2002. Additionally, two of nine (22%) positions were held by individuals with terms that expired in October 2006 and October 2007, respectively.

Real Estate Education Advisory Council

- 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 4 of 5 (80%) positions were held by individuals with terms that expired in October 2003, October 2006, October 2007, and October 2009.

Board of Dentistry

- 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 4 of 11 (36%) positions (2 dentists, 1 dental hygienist, and 1 public member) were held by individuals with terms that expired in March 2008, July 2008, January 2010, and February 2010.

Occupational Therapy Licensure Board

- The Secretary of the Department did not appoint members to the Illinois Occupational Therapy Licensure Board (Board). During our testing, we noted that 2 of 7 (29%) positions (1 Occupational Therapist Assistant and 1 physician) have been vacant since January 2004 and April 1999, respectively. We also noted that 3 of 7 (43%) positions were held by individuals with terms that expired in January 2007 (2 positions) and January 2006 (1 position).

Real Estate Appraisal Administration and Disciplinary Board

- The Department's Division of Professional Regulation was not in compliance with the provisions of the Real Estate Appraiser Licensing Act (Act) (225 ILCS 458/25-10) regarding the Real Estate Appraisal Administration and Disciplinary Board (Board). During our testing, we noted that 1 of 10 (10%) positions has been vacant since June 2006.

Barber, Cosmetology, Esthetics, and Nail Technology Board

- The Secretary of the Department did not appoint members to the Barber, Cosmetology, Esthetics, and Nail Technology Board (Board). During our testing, we noted that 1 of 11 (9%) positions (salon owner) has been vacant since July 2003. We also noted that 6 of 11 (55%) positions were held by individuals with terms that expired in October 2002, September 2003, October 2004, May 2005, June 2005, and May 2006. (Finding 9, pages 28-32) **This finding was first reported in 2004.**

We recommended 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 recommended the Department work with the Governor's Office to fill Board vacancies by appointing qualified members to the Boards.

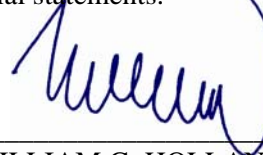
Department officials concurred with our recommendation and stated the Department has made substantial progress in filling board vacancies, and they are engaging in an ongoing process of filling vacancies as terms expire. In addition, the Department stated they have been proactive in the recruitment of new board members to fill vacancies by outreach to community leaders and organizations. (For previous Department response, see Digest Footnote # 3.)

OTHER FINDINGS

The remaining findings are reportedly being given attention by the Department. We will review the Department's progress towards the implementation of our recommendations in our next engagement.

AUDITORS' OPINION

We conducted a compliance examination of the Department as required by the Illinois State Auditing Act. The Department has no funds that require an audit leading to an opinion of financial statements.



WILLIAM G. HOLLAND
Auditor General

WGH:PH:pp

SPECIAL ASSISTANT AUDITORS

Sikich LLP was our special assistant auditors for this engagement.

DIGEST FOOTNOTES

#1 – NEED TO IMPROVE TIMELINESS AND DOCUMENTATION OF ENFORCEMENT ACTIVITIES

2008: The Department concurred 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. Department officials stated they believed the facts presented in the audit finding showed that the Department had significantly improved its performance in this area. They further stated they had 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 continued 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.

**#2 – NEED TO IMPROVE CONTROLS OVER
INTERAGENCY AGREEMENTS**

2008: The Department concurred with the recommendation and stated they would clarify the methodology for the parties' assumption of payment obligations in all interagency agreements to which the Department is a party. Further, the Department stated they would endeavor to approve all such agreements prior to any performance of services thereunder.

#3 – DEPARTMENT BOARDS NOT FULLY STAFFED

2008: Department officials concurred with the recommendation regarding insufficiencies in staffing certain advisory boards. They further stated 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 had explicitly signaled that it would constructively support Department efforts so that vacancies would be filled expeditiously.