



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF INSURANCE

State Compliance Examination
 For the Two Years Ended June 30, 2022

Release Date: March 23, 2023

FINDINGS THIS AUDIT: 19				AGING SCHEDULE OF REPEATED FINDINGS			
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	3	3	6	2020	1	12, 19	
Category 2:	7	6	13	2018	3	8, 10, 11	
Category 3:	0	0	0	2014		9	
TOTAL	10	9	19	2012	2		
FINDINGS LAST AUDIT: 11							

INTRODUCTION

Because of the significance and pervasiveness of the findings described within the report, we (the accountants) expressed an **adverse opinion** on the Department's compliance with the specified requirements which comprise a State compliance examination. The Codification of Statements on Standards for Attestation Engagements (AT-C § 205.72) states a practitioner "should express an adverse opinion when the practitioner, having obtained sufficient appropriate evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the subject matter."

SYNOPSIS

- (22-01) The Department did not have adequate controls over the reporting and collection of its accounts receivable.
- (22-02) The Department's Public Pension Division did not perform required examinations of police and firefighters pension funds once every three years as required by the Illinois Pension Code.
- (22-04) The Department failed to implement internal controls over users' access.

Category 1:	Findings that are material weaknesses in internal control and/or a qualification on compliance with State laws and regulations (material noncompliance).
Category 2:	Findings that are significant deficiencies in internal control and noncompliance with State laws and regulations.
Category 3:	Findings that have no internal control issues but are in noncompliance with State laws and regulations.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

INADEQUATE CONTROLS OVER ACCOUNTS RECEIVABLES

The Department of Insurance (Department) did not have adequate controls over the reporting and collection of its accounts receivable. Specifically, we noted the following:

Did not track and report cost containment fees, data sales, and public sales accounts receivable

- The Department did not track and ultimately did not report accounts receivables for cost containment fees, data sales, and public sales for Fiscal Years 2021 and 2022 in the Quarterly Summary of Accounts Receivable Reports (C-97, C-98, and C-99 Forms) filed with the Illinois Office of Comptroller (Comptroller). The total billings for such fees amounted to \$2,475,161 and \$2,552,771 for Fiscal Year 2021 and Fiscal Year 2022, respectively.
- For 2 of 25 (8%) June 30, 2022 accounts receivable balances tested (both aged 917 days), the Department had not placed them in the Comptroller's Offset System or referred them to the Debt Collection Bureau of the Illinois Department of Revenue (Bureau). The two accounts receivable balances totaled \$113,000 as of June 30, 2022.
- For 8 of 25 (32%) June 30, 2022 long outstanding accounts receivable balances tested (aged between 1,056 to 3,433 days), we noted the Department did not refer to the Office of the Attorney General for certification of debts' uncollectibility. The 8 accounts receivable balances totaled \$32,418 as of June 30, 2022. (Finding 1, pages 12-14)

Accounts receivable balances not placed into applicable collection systems

We recommended the Department strengthen its controls over accounts receivable by performing thorough reviews and reconciliations of the data it uses to generate the C-97, C-98, and C-99 Forms, having staff already allocated to review and monitor past due accounts also refer them to the Comptroller's Offset System, the Bureau, or to the Office of Attorney General as required by State laws, or hire additional staff to perform the required referrals.

Department agreed with the recommendation

The Department agreed with the recommendation and noted Department staff has contacted the IOC on two separate occasions for guidance on reporting the revenues for Cost Containment, Data Sales and Public Sales. The Department has not received a response from the IOC in regard to procedures and if these funds need to be reported. The Department stated it has also performed initial steps in writing of procedures for placing outstanding accounts receivable into the Illinois Department of Revenue Debt Collection Bureau, and Department staff has contacted the Office of the Illinois Attorney General for procedures for submitting uncollectible debts.

FAILURE TO PERFORM REQUIRED EXAMINATIONS OF POLICE AND FIREFIGHTER PENSION FUNDS

Required examinations of police and firefighter pensions not performed as required

The Department's Public Pension Division did not perform required examinations of the 657 police and firefighters pension funds once every three years as required by the Illinois Pension Code (Code). Specifically, we noted the following:

- One (0.2%) pension fund has been examined on four occasions since it was initially due for examination. Specifically, the Department did not complete three required examinations for the fund since the examination due for 2004.
- 31 (5%) pension funds have been examined on three occasions since they were initially due for examination. Specifically, the Department did not complete four required audits for each of the six pension funds due for examination since 2004, three required audits for each of the 22 pension funds due for examination between 2005-2007, and two required audits for each of the three funds due for examination between 2008-2010.
- 373 (57%) pension funds have been examined on two occasions since they were initially due for examination. Specifically, the Department did not complete five required audits for each of the 57 pension funds due for examination since 2004, four required audits for each of the 131 pension funds due for examination between 2005-2007, three required audits for each of the 166 pension funds due for examination between 2008-2010, and two required audits for each of the 19 funds due for examination between 2011-2013.
- 244 (37%) pension funds have been examined on one occasion since they were initially due for examination. Specifically, the Department did not complete five required audits for each of the three pension funds due for examination between 2005-2007, four required audits for each of the 83 pension funds due for examination between 2008-2010, three required audits for each of the 126 pension funds due for examination between 2011-2013, two required audits for each of the eight funds due for examination between 2014-2016, and one required audit for each of the 22 funds due for examination between 2017-2019. The two pension funds were examined once as required.
- Eight (1%) pension funds were currently under examination as of June 30, 2022. Specifically, the Department did not complete four required audits for one pension fund due for examination between 2005-2007, three required audits for each of the four pension funds due for examination between 2008- 2010, and two required audits for each of the three pension funds due for

examination between 2011-2013. (Finding 2, pages 15-17) **This finding has been reported since 2012.**

We recommended the Department perform the pension fund examinations every three years as required by the Code.

Department agreed with the recommendation

The Department agreed with the recommendation and noted it has taken the following corrective actions to address this finding: (1) continue to use a risk-based examination system to narrow the focus of subsequent examinations; (2) use performance criteria of a fund to select those funds who are under performing for examination; (3) use the current review of the pension funds' annual statements to examine funds on the material data of benefits and contributions and management of the fund and follow-up with further examination if necessary; (4) in the process of obtaining a third-party vendor and adding staff to aid it with completing examinations of Article 3 pension funds in a timely manner; (5) continue to work with interested parties to review whether legislative changes related to the examination cycle are appropriate and to clarify the role of the Department and its requirement to perform examinations of pension funds.

FAILURE TO IMPLEMENT CONTROLS OVER USER ACCESS

The Department failed to implement internal controls over users' access.

As part of its mission in regulating the insurance market, the Department utilizes several applications and maintains confidential data. As part of our examination, we requested the Department provide populations of users with access to the Accounting Management System, Medical Malpractice Claims Reporting System, and the State's Enterprise Resource Planning (ERP) System in order to determine if access was appropriate. However, the Department **did not have** the requested populations.

Did not have User Access populations

In addition, we requested the Department provide populations of users with access to the Central Time and Attendance System (CTAS), eTime, Central Payroll System (CPS), midrange, and mainframe environments in order to determine if access was properly approved and timely disabled. However, the Department **did not have** the requested populations.

Did not have documentation of periodic review of access rights

Further, we requested the Department provide documentation that periodic review of access rights had been conducted. However, the Department **did not have** the requested documentation.

As a result of the Department not providing the above, we could not conduct testing to determine if user rights to the applicable application(s) was appropriate. (Finding 4, pages 20-21)

Department agreed with the recommendation

We recommended the Department work with the Department of Innovation and Technology to obtain an understanding of each of the Departments' roles and responsibilities. Further, we recommended the Department maintain documentation of each applications' users and ensure the users' rights are appropriate.

The Department agreed with the finding and stated it had previously followed DoIT's Policies and Procedures for user access controls. Going forward, the Department will review user access controls and identify any additional controls needed. The Department will then develop its own written policies and procedures for user access controls.

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 State compliance examination.

ACCOUNTANT'S OPINION

The accountants conducted a State compliance examination of the Department for the two years ended June 30, 2022, as required by the Illinois State Auditing Act. Because of the effect of noncompliance described in Finding 2022-001 through 2022-019, the accountants stated the Department did not materially comply with the requirements described in the report.

This State compliance examination was conducted by Adelfia LLC.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

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