



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

Compliance Examination
 For the Two Years Ended June 30, 2020

Release Date: May 11, 2021

FINDINGS THIS AUDIT: 14	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	1	1	2018	20-01	20-08, 20-09	
Category 2:	8	5	13	2016		20-03	
Category 3:	0	0	0	2004		20-02	
TOTAL	8	6	14	1993		20-05	
FINDINGS LAST AUDIT: 14							

SYNOPSIS

- (20-001) The Illinois Department of Financial and Professional Regulation (Department) failed to adhere to provisions of the Fiscal Control and Internal Auditing Act (Act).
- (20-005) The Department did not timely complete employee performance evaluations.
- (20-013) The Department did not maintain adequate internal controls related to its cybersecurity programs and practices.

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.

**DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2020**

EXPENDITURE STATISTICS	2020	2019	2018
Total Expenditures.....	\$ 76,289,000	\$ 76,026,000	\$ 73,278,000
OPERATIONS TOTAL.....	\$ 75,951,000	\$ 75,895,000	\$ 72,837,000
% of Total Expenditures.....	99.6%	99.8%	99.4%
Personal Services.....	32,527,000	35,077,000	33,785,000
Other Payroll Costs (FICA, Retirement).....	26,765,000	27,316,000	26,973,000
All Other Operating Expenditures.....	16,659,000	13,502,000	12,079,000
AWARDS AND GRANTS.....	\$ 290,000	\$ 43,000	\$ 398,000
% of Total Expenditures.....	0.4%	0.1%	0.5%
REFUNDS.....	\$ 48,000	\$ 42,000	\$ 43,000
% of Total Expenditures.....	0.1%	0.1%	0.1%
PERMANENT IMPROVEMENTS.....	\$ -	\$ 46,000	\$ -
% of Total Expenditures.....	0.0%	0.1%	0.0%
Total Receipts.....	\$ 121,676,000	\$ 78,831,000	\$ 111,851,000
Average Number of Employees.....	399	380	400

SECRETARY

During Examination Period: Bryan Schneider (through 1/14/19); Jessica Baer, Acting (1/15/19 - 2/25/19); Deborah Hagan (2/26/19 - 3/31/21)
Currently: Mario Treto Jr, Acting (effective 4/1/21)

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

INADEQUATE INTERNAL AUDIT FUNCTION

The Illinois Department of Financial and Professional Regulation (Department) failed to adhere to provisions of the Fiscal Control and Internal Auditing Act (Act).

During testing, we noted the following:

Internal audit position not filled

- The Department's Secretary has not appointed an individual to fill the Department's chief internal auditor position. This position was vacated on July 1, 2016, 1,460 days prior to the end of the examination period on June 30, 2020.

Governor's approval not obtained for CMS to provide internal audit Services to Department

- The Department and CMS did not obtain the Governor's approval for CMS to provide professional internal auditing services to the Department.

Unable to provide sufficient and appropriate audit evidence related to costs of internal audit functions

- While testing the Expenses and Support Cost section of the intergovernmental agreement, effective April 1, 2018, between the Department and CMS, we requested the Department provide us with sufficient and appropriate audit evidence related to costs of the Department's internal audit function from July 1, 2018, through June 30, 2020. We requested the documentation to substantiate (1) the authorization of CMS to use the Department's appropriation for processing payroll as allowed for under the intergovernmental agreement, and (2) CMS only charged the Department for payroll services of CMS internal auditors who provided internal audit functions to the Department. The Department was unable to provide us with the documentation requested. Specifically, we noted the following:

Internal audit costs not tracked

- In response to our requests, Department management indicated CMS does not bill the Department for its internal audit services and related assistance. The Department's specific costs for its professional internal audit services are not being tracked. As a result, we were unable to audit the cost of the Department's internal audit function to ensure the Department is accurately reimbursing CMS payroll costs as stipulated by the intergovernmental agreement.
- Also, the Department granted CMS authorization through its intergovernmental agreement to charge the Department's appropriations for payroll costs associated with CMS' rendering of professional internal audit services to the Department; however, as indicated by the Department in its response to

Internal control risk of potentially delegating a State's appropriation authority unnecessarily

our requests, it is not the Department's nor CMS' intent to process any vouchers against the Department's appropriations. As a result, we believe there is a significant internal control risk with potentially delegating a State's appropriation authority unnecessarily. Although this did not occur during the examination period, there is still a potential risk that exists due to the intergovernmental agreement not being modified. (Finding 1, pages 13-16)

We recommended:

- The Department's Secretary appoint a chief internal auditor and ensure a full-time program of internal auditing is in place and functioning at the Department.
- If another agency is to be relied upon to supplement internal audit functions at the Department, the Department should obtain written approval of the Governor for these services and ensure such services are provided in accordance with the Act's requirements.
- The Department implement policies and procedures to track internal audit costs, maintain documentation which adequately documents the costs of the Department's internal audit function, and ensure other agencies providing services to the Department are only reimbursed for allowable costs.
- Finally, the Department should not grant another agency the authority to process payroll against the Department's appropriations unnecessarily or without implementing and documenting proper controls.

Department management accepted our recommendation and stated the Department intends to continue its search for a Chief Internal Auditor. Department management also stated that since working with the Department of Central Management Services, the Department has conducted annual Department-wide risk assessments, approved annual audit plans, received annual reports detailing the performance by the internal audit team, and conducted/filed internal control checklists timely.

Department accepted recommendation

EMPLOYEE PERFORMANCE EVALUATIONS NOT TIMELY COMPLETED

The Department of Financial and Professional Regulation (Department) did not timely complete employee performance evaluations.

During our testing of 40 employee personnel files, we noted evaluations were not performed on a timely basis for 32 (80%

employees tested. The evaluations were performed from 1 to 404 days late. (Finding 5, page 23) **This finding has been repeated since 1993.**

We recommended the Department evaluate its procedures for monitoring performance evaluations to ensure completion on a timely basis.

Evaluations not performed timely

Department management accepted our recommendation.

WEAKNESSES IN CYBERSECURITY PROGRAMS AND PRACTICES

Department accepted our recommendation

The Department of Financial and Professional Regulation (Department) did not maintain adequate internal controls related to its cybersecurity programs and practices.

During our examination of the Department's cybersecurity programs and practices, we noted the Department had not:

- Ensured cybersecurity roles and responsibilities were documented.
- Developed a formal, documented project management framework to ensure new applications are implemented to meet management's intentions.
- Performed a comprehensive risk assessment to identify and ensure adequate protection of information (i.e. confidential or personal information) most susceptible to attack.
- Classified its data to identify and ensure adequate protection of information.
- Evaluated and implemented appropriate controls to reduce the risk of attack.
- Developed a formal, comprehensive, adequate, and communicated security program (policies, procedures, and processes) to manage and monitor the regulatory, legal, environmental and operational requirements.

No risk assessment performed

Data not classified to ensure adequate protection

Formal security program not developed or communicated

The Department has the responsibility to ensure confidential and personal information is adequately protected. Specifically, we recommend the Department:

- Establish and communicate the Department's security program (formal and comprehensive policies, procedures, and processes) to manage and monitor the regulatory, legal, environmental, and operational requirements;
- Develop a formal, documented project management framework to ensure new applications are implemented to meet management's intentions;
- Classify its data to identify and ensure adequate protections of information;
- Evaluate and implement appropriate controls to reduce the risk of attack;

- Ensure cybersecurity roles and responsibilities are clearly defined; and,
- Perform a comprehensive risk assessment to identify and ensure adequate protection of information, including confidential and personal information, most susceptible to attack.

Department management accepted our recommendation.

OTHER FINDINGS

The Department had other findings pertaining to understaffed Boards, compliance with the Savings Bank Act, Agency Workforce Reports, inaccurate lump sum payments, failure to perform timely reconciliations, weaknesses in internal controls over travel, deficiencies in management of returned checks, user access reviews, review of service providers, weaknesses in change management, and weaknesses over ERP implementation. We will review the Department's progress towards the implementation of our recommendations in our next compliance examination.

Department accepted our recommendation

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the Department for the two years ended June 30, 2020, as required by the Illinois State Auditing Act. The accountants qualified their report on State compliance for Finding 2020-001. Except for the noncompliance described in this finding, the accountants stated the Agency complied, in all material respects, with the requirements described in the report.

This compliance examination was conducted by Sikich LLP.

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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