

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE**

**COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016**

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

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016**

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AGENCY OFFICIALS

Director

Through January 11, 2015	Andrew Boron
January 12, 2015 to June 30, 2015	James Stephens, Acting
July 1, 2015 to present	Anne Melissa Dowling, Acting

Chief Deputy Director

Through August 4, 2014	Michele Oshman
August 5, 2014 to January 31, 2015	Lysa Saran, Acting
February 1, 2015 to July 1, 2015	Vacant
July 2, 2015 to present	James Stephens

Chief Fiscal Officer

Jane Bachman

Chief Legal Counsel

Through July 27, 2014	Mary L. Smith
July 28, 2014 to January 31, 2015	Amanda Kimble
February 1, 2015 to April 26, 2015	Vacant
April 27, 2015 to October 30, 2015	Cynthia Lamar
October 31, 2015 to December 6, 2015	Vacant
December 7, 2015 to present	Amy Condo

Deputy Director, Financial Corporate Regulatory

Through January 31, 2015	Cynthia Bordelon
February 1, 2015 to August 15, 2015	Vacant
August 16, 2015 to present	Kevin Fry

Deputy Director, Producer Regulatory/P&C Products

Through July 1, 2015	James Stephens
July 2, 2015 to August 15, 2015	Vacant
August 16, 2015 to present	Brett Gerger

Deputy Director, Health Products

Through August 25, 2015	Yvonne Clearwater, Acting
August 25, 2015 to present	Paulette Dove

Deputy Director, Life and Annuities Products

Through January 31, 2015	Cindy Colonius, Acting
February 1, 2015 to present	Michael Chrysler

**STATE OF ILLINOIS
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AGENCY OFFICIALS (Continued)

Deputy Director, Public Pension

Through June 15, 2015	Travis March
June 16, 2015 to December 15, 2015	Vacant
December 16, 2015 to present	Mary Jane Adkins

Deputy Director, Information Technology

Through February 6, 2015	Jon Skinner
February 7, 2015 to September 7, 2015	Vacant
September 8, 2015 to August 15, 2016	Steve Buche
August 16, 2016 to November 30, 2016	Vacant
December 1, 2016 to present	Greg Doerfler

Deputy Director, Legislative Affairs

Through January 31, 2015	Brianna Lantz
February 1, 2015 to present	Jeffery Scott

Chief Internal Auditor

Through December 5, 2014	Jennifer Boen
December 6, 2014 to November 15, 2015	Vacant
November 16, 2015 to present	Thaddeus Huskey

Deputy Director, Consumer Education & Protection

Through January 31, 2015	Lysa Saran
February 1, 2015 to February 8, 2015	Vacant
February 9, 2015 to present	Michael Rohan

Deputy Director, Investigations

Bill Blumthal

Executive Director, Get Covered Illinois

Through February 15, 2015	Jennifer Koehler
February 16, 2015 to March 9, 2015	Vacant
March 10, 2015 to August 11, 2015	Karin Zosel
August 12, 2015 to January 10, 2016	Mark Chudzinski, Acting
January 11, 2016 to present	Karen Woods

Agency offices are located at:

320 West Washington Street
Springfield, IL 62767

122 South Michigan Avenue, 19th Floor
Chicago, IL 60603



Illinois Department of Insurance

BRUCE RAUNER
Governor

ANNE MELISSA DOWLING
Acting Director

STATE COMPLIANCE EXAMINATION

MANAGEMENT ASSERTION LETTER

December 22, 2016

E.C. Ortiz & Co., LLP
333 S. Des Plaines Street, Suite 2-N
Chicago, Illinois 60661

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 State of Illinois, Department of Insurance (Department). 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 Department's compliance with the following assertions during the two-year period ended June 30, 2016. Based on this evaluation, and to the best of our knowledge and belief, and except as otherwise disclosed to you during the course of your examination, we assert that during the years ended June 30, 2016 and June 30, 2015, the Department has materially complied with the assertions below.

- A. The Department 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 Department 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 Department has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations, except as identified by auditors in the Statewide Single Audit for the Fiscal Year Ended June 30, 2015 and the State Compliance Examination for the Two Fiscal Years Ended June 30, 2016.
- D. State revenues and receipts collected by the Department 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 Department on behalf of the State or held in trust by the Department have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours truly,

Illinois Department of Insurance

SIGNED ORIGINAL ON FILE

Anne Melissa Dowling
Acting Director

SIGNED ORIGINAL ON FILE

Amy Condo
General Counsel

SIGNED ORIGINAL ON FILE

Jane Bachman
Chief Financial Officer

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016**

COMPLIANCE REPORT

SUMMARY

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

ACCOUNTANT'S REPORT

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

SUMMARY OF FINDINGS

<u>Number of</u>	<u>Current</u>	<u>Prior</u>
Findings	<u>Report</u>	<u>Report</u>
Repeated findings	5	9
Prior recommendations implemented or not repeated	4	5
	5	5

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS (STATE COMPLIANCE)			
2016-001	10	Noncompliance with the requirements of the Workers' Compensation Act	Significant deficiency and Noncompliance
2016-002	12	Noncompliance with the requirements of the Illinois Pension Code	Significant deficiency and Noncompliance
2016-003	15	Noncompliance with the requirements of the Illinois Insurance Code	Significant deficiency and Noncompliance
2016-004	19	Required reports not filed accurately	Significant deficiency and Noncompliance

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
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For the Two Years Ended June 30, 2016**

SCHEDULE OF FINDINGS (Continued)

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
2016-005	22	Noncompliance with the requirements of the Managed Care Reform and Patient Rights Act	Significant deficiency and Noncompliance

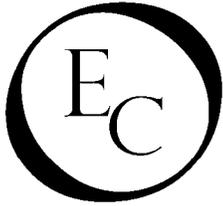
PRIOR FINDINGS NOT REPEATED

A	24	Failure to perform employee performance evaluations in a timely manner	
B	24	Lack of segregation of duties over processing of insurance privilege tax refunds	
C	24	Noncompliance with the Fiscal Control and Internal Auditing Act	
D	25	Issues during scoring proposals	
E	25	Lack of controls over expenditures	

EXIT CONFERENCE

The Department waived having an exit conference in a letter dated December 6, 2016, from the Department's Chief Internal Auditor, Mr. Thaddeus Huskey.

Responses to the recommendations were provided by Mr. Thaddeus Huskey in a letter dated December 21, 2016.



INDEPENDENT ACCOUNTANT'S REPORT ON STATE COMPLIANCE,
ON INTERNAL CONTROL OVER COMPLIANCE, AND ON
SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

Honorable Frank J. Mautino
Auditor General
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois, Department of Insurance's compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the two years ended June 30, 2016. The management of the State of Illinois, Department of Insurance is responsible for compliance with these requirements. Our responsibility is to express an opinion on the State of Illinois, Department of Insurance's compliance based on our examination.

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

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the

United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the State of Illinois, Department of Insurance's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the State of Illinois, Department of Insurance's compliance with specified requirements.

In our opinion, the State of Illinois, Department of Insurance complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the two years ended June 30, 2016. However, the results of our procedures disclosed instances of noncompliance with the requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as items 2016-001 to 2016-005.

Internal Control

Management of the State of Illinois, Department of Insurance is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the State of Illinois, Department of Insurance's internal control over compliance with the requirements listed in the first paragraph of this report to determine the examination procedures that are appropriate in the circumstances 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 Insurance's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Department of Insurance's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements listed in the first paragraph of this report on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be

material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings as items 2016-001 to 2016-005, that we consider to be significant deficiencies.

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

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

Supplementary Information for State Compliance Purposes

Our examination was conducted for the purpose of forming an opinion on compliance with the requirements listed in the first paragraph of this report. The accompanying supplementary information for the years ended June 30, 2016 and June 30, 2015 in Schedules 1 through 13 and the Analysis of Operations Section 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 June 30, 2016 and June 30, 2015 accompanying supplementary information in Schedules 1 through 13. However, we do not express an opinion on the accompanying supplementary information.

We have not applied procedures to the June 30, 2014 accompanying supplementary information in Schedules 3 through 8, 10, and 11 and in the Analysis of Operations Section, and accordingly, we do not express an opinion or provide any assurance on it.

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

SIGNED ORIGINAL ON FILE

Chicago, Illinois
December 22, 2016

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF FINDINGS
FOR THE TWO YEARS ENDED JUNE 30, 2016**

CURRENT FINDINGS – STATE COMPLIANCE

2016-001. **FINDING** (Noncompliance with the Requirements of the Workers’ Compensation Act)

The Department of Insurance (Department) did not fully comply with the requirements of the Workers’ Compensation Act.

The Workers’ Compensation Act (Act) (820 ILCS 305/25.5(e-5)) requires the fraud and insurance non-compliance unit to procure and implement a system utilizing advanced analytics inclusive of predictive modeling, data mining, social network analysis, and scoring algorithms for the detection and prevention of fraud, waste, and abuse on or before January 1, 2012.

Auditors noted during their testing that the Workers’ Compensation Fraud Unit (WCFU) still has not procured and implemented a system utilizing advanced analytics inclusive of predictive modeling, data mining, social network analysis, and scoring algorithms for the detection and prevention of fraud, waste, and abuse. In the prior finding response, Department management stated they issued a Request for Information (RFI) in 2012 regarding an advanced analytics system. However, the responses to the RFI did not assist the Department in procuring the advanced analytics system. It was further stated that the Department has again analyzed the viability of such a system given the near complete lack of information available to the Department for analysis by such an advanced analytics system. Moreover, the Department recommended in the Workers’ Compensation Fraud Unit’s 2013 and 2014 Annual Reports that were submitted to the Governor, General Assembly, Attorney General, and others, that the advanced analytics system requirement be removed from Section 25.5(e-5) of the Illinois Workers’ Compensation Act. Current year’s testing showed the Department has proposed to the Governor’s Office the repeal of that provision of the Act.

Department management stated that no system for the detection and prevention of fraud waste and abuse has been procured because no appropriation has been made specifically for this purpose and the Department does not collect the type of claims and medical data necessary to perform data mining or predictive modeling required by the Act.

Failure to procure and implement the advanced analytics system is noncompliance with a statutory requirement and hinders the Department’s ability in the detection and prevention of fraud, waste, and abuse. (Finding Code No. 2016-001, 2014-001, 12-1)

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF FINDINGS
FOR THE TWO YEARS ENDED JUNE 30, 2016**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

RECOMMENDATION

We recommend the Department either procure and implement a system utilizing advanced analytics or seek a legislative change.

DEPARTMENT RESPONSE

The Department accepts this finding, but notes compliance challenges caused by the General Assembly's failure to provide for the necessary appropriation. Despite the fact that this has always been an unfunded mandate, the Department issued a Request for Information (RFI) regarding a system utilizing advanced analytics, inclusive of predictive modeling, data mining, social network analysis, and scoring algorithms for the detection and prevention of fraud, waste, and abuse (advanced analytics system) in 2012. The responses to the RFI did not assist the Department in procuring the advanced analytics system. In 2015, the Department again analyzed the viability of such a system in light of the data available for analysis. The Department concluded that it does not have the data necessary to develop and utilize the data analytics system required by the Act. In the 2016 Annual Report, the Workers' Compensation Fraud Unit recommended that Section 25.5(e-5) of the Workers' Compensation Act, which contains the advanced analytics system requirement, be repealed. The Department continues to propose this course of action to the Governor's Office.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF FINDINGS
FOR THE TWO YEARS ENDED JUNE 30, 2016**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

2016-002. **FINDING** (Noncompliance with the Requirements of the Illinois Pension Code)

The Department of Insurance (Department) did not fully comply with the requirements of the Illinois Pension Code.

During testing, auditors noted the Public Pension Division did not perform required examinations of police and firefighters pension funds once every three years as required.

As of June 30, 2016, there were 654 police and firefighters pension funds that are required to be examined once every three years. As a result of testing, auditors noted:

- Three (1%) have been examined on three occasions since 2004. The third examination occurred 8 years after the second examination.
- 217 (33%) have been examined on two occasions since 2004. The second examination occurred between 3 and 10 years after the first examination.
- 396 (61%) have been examined on one occasion since 2004.
- 18 (3%) pension funds were currently under examination as of the audit period. The 18 pension funds were second examinations since 2004.
- 18 (3%) pension funds eligible for an examination have never been examined. The 18 pension funds were formed between January 2008 and July 2012.

During testing of 11 pension fund examinations completed by the Public Pension Division during fiscal years 2015 and 2016, auditors noted 10 (91%) of the examination reports were not submitted to the Chief Executive Officer (CEO) of the municipality or the Fire Protection District as required by the Code. Upon bringing this to the Department's attention, the Department subsequently submitted a copy of the examination report to the CEO of the municipality or Fire Protection District.

In the prior finding response, Department management stated they would continue to seek legislation to either provide the resources needed to fully implement the three-year compliance audit cycle or modify the examination requirement as contained in 40 ILCS 5/1A-104(b). Current year's testing disclosed the Department has proposed legislation amending the language of the statute per House Bill 4660 to require that audits be performed periodically based on a risk-review of the funds therefore removing the 3-year examination requirement.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF FINDINGS
FOR THE TWO YEARS ENDED JUNE 30, 2016**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

The Illinois Pension Code (Code) 40 ILCS 5/1A-104(a) states that the Public Pension Division shall make periodic examinations and investigations of all pension funds. Section 1A-104(b) of the Code states that the Public Pension Division shall examine or investigate each pension fund established under Article 3 (Police) or Article 4 (Firefighters) of this Code once every 3 years. The Code also requires that a copy of the report of examination or investigation as prepared by the Public Pension Division be submitted to the secretary of the board of trustees of the pension fund examined or investigated and to the CEO of the municipality or Fire Protection District.

Department management stated the noncompliance with the three audit cycle requirements of the Pension Code was due to the Public Pension Division operating with inadequate staff resources due to insufficient funding for personnel. Department management also stated the failure to submit copies of examination reports to all required parties was due to oversight by new staff in the Division as a result of significant staff turnover.

Failure to perform the required examination of a pension fund every three years may result in the Department not being able to fully monitor that pension funds are in compliance with the Illinois Pension Code. Failure to submit a copy of the examination reports to the CEO of the municipality or the Fire Protection District is noncompliance with the Illinois Pension Code. (Finding Code No. 2016-002, 2014-002, 12-2)

RECOMMENDATION

We recommend the Department allocate sufficient resources to perform the pension fund examinations every three years as required by the Illinois Pension Code or continue to seek a legislative change. We also recommend the Department ensure examination reports are submitted to the CEO of the municipality or the Fire Protection District to comply with the Illinois Pension Code.

DEPARTMENT RESPONSE

The Department accepts the finding. Regarding the failure to meet the three (3) year audit cycle mandate, the Department has filed legislation to amend Section 1A-104 of the Illinois Pension Code to shift to a risk-review audit process requiring an audit of each pension fund every five years. This legislation, HB4660, is pending in Committee, and the Department is continuing to work toward passage.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF FINDINGS
FOR THE TWO YEARS ENDED JUNE 30, 2016**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

Regarding the failure to submit a copy of the Report of Examination (the Report) to the CEO of the municipality, the Department would like to note that once the auditors notified the Department of this issue, the Department took corrective action to submit a copy of the Reports to the CEO of the municipalities. Further, the Pension Division has taken steps to properly train all Audit Group employees on the requirements of Section 1A-104 of the Illinois Pension Code to ensure that this requirement is not missed in the future. The Audit Manager and Deputy Director have ensured that the Division's written instructions for the audit closing process have been clarified and reflect the requirement to submit a copy of the Report to the CEO of the municipality. The tracking sheet used to monitor all audits has been updated to include tracking for the submission of the Report to the CEOs of the municipality. Lastly, the Audit Manager has added an additional step of review of the closed audits to ensure that a copy of the Report was properly submitted.

Additionally, the Department has hired three employees and is working to fill another vacancy. The Department has also taken steps to implement electronic audit workpaper software that will increase productivity of the Audit Group and streamline the audit process.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF FINDINGS
FOR THE TWO YEARS ENDED JUNE 30, 2016**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

2016-003. **FINDING** (Noncompliance with the Requirements of the Illinois Insurance Code)

The Department of Insurance (Department) did not fully comply with certain requirements of the Illinois Insurance Code. Specifically auditors noted the following:

- During testing of 40 life, accident and health policy forms filed with the Department through the System for Electronic Rate and Form Filing, auditors noted 23 (58%) policy forms tested were not approved or disapproved within 60 days after submission. The Department approved the policies between 7 to 140 days later than the required 60 day timeline. Two of the policy forms were still under Department review and pending review as of the testing date, thus waiting for approval.

The Illinois Insurance Code (Code) (215 ILCS 5/143(1)) requires the Director to approve or disapprove life, accident and health policy forms within 60 days after submission unless the Director extends by not more than an additional 30 days the period within which the Director shall approve or disapprove any such form by giving written notice to the insurer of such extension before expiration of the initial 60 day period.

Management stated that filings were not approved within the 60 day statutory timeline due to various circumstances that arise that may warrant the Department to request additional documentation from the insurers or may require actuarial review.

- During testing of 40 surplus line producer semi-annual tax statements, auditors noted the following:
 - The Department failed to issue the penalty invoice for late filing for 3 (8%) surplus line producer semi-annual tax statements amounting to \$1,396.
 - The Department did not correctly assess the penalty for 2 (5%) tax returns. The penalty for one return was understated by \$1,293 and the other return was overstated by \$19,242.

For certain returns the Code (215 ILCS 5/412(2)) requires the Department to add as a penalty \$400 or 10% of the amount of such tax, whichever is greater, for each month or part of a month of failure to file, the entire penalty not to exceed \$2,000 or 50% of the tax due, whichever is greater. The surplus line producer semi-annual tax statement form indicated the following penalties: (a) penalty for failure to file tax statement (\$400/month or 10% of tax, whichever is greater), (b)

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF FINDINGS
FOR THE TWO YEARS ENDED JUNE 30, 2016**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

penalty for failure to pay tax (10% of tax due) and (c) interest on tax paid after due date (Current IRS rate: Minimum rate 12% per annum).

Management stated the issues noted were due to human error in the calculation and assessment of the penalty and/or interest assessment.

- During testing of 40 Health Maintenance Organization (HMO) filings of group contract, evidence of coverage, endorsement, rider, bylaw or other policy forms, auditors noted 34 (85%) HMO policy filings were not approved or disapproved within 60 days after submission. The Department approved or denied the policies between 9 to 153 days later than the required 60 day timeline.

The Code (215 ILCS 125/4-13) requires the Director to approve or disapprove an HMO group contract, evidence of coverage, endorsement, rider, bylaw, or other matter incorporated by reference or an application blank within 60 days after submission unless the Director extends by not more than additional 30 days the period within which the Director shall approve or disapprove any such form by giving written notice to the insurer of such extension before expiration of the initial 60 day-period.

Management stated that filings were not approved within the 60 day statutory timeline due to various circumstances that arise that may warrant the Department to request additional documentation from the insurers or may require actuarial review.

- During testing of 40 annual financial regulation fees, auditors noted 8 (20%) companies paid the fees 30 days after the date of the invoice. The Department failed to assess penalties for these late payments which were estimated at \$23,200.

During fiscal years 2015 and 2016, the auditors noted the Department sent the annual invoices to applicable companies on June 26, 2015 and June 27, 2016, respectively, which resulted in the payments not being received by the Department by June 30 as required by the Code. The invoices sent by the Department indicated the fee is due upon receipt and invoices unpaid after 30 days from the invoice date are subject to the penalty per 215 ILCS 5/412.

The Code (215 ILCS 5/408(8)) requires the invoice to be paid upon receipt and must be paid no later than June 30 of each calendar year. The Code (215 ILCS 5/412(7)) stated when an insurance company or domesticated affiliated group failed to pay the full amount of any fee of \$200 or more under Section 408 of the

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF FINDINGS
FOR THE TWO YEARS ENDED JUNE 30, 2016**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

Code, there shall be added to the amount due as a penalty the greater of \$100 or an amount equal to 10% of the deficiency for each month or part of a month that deficiency remains unpaid.

Management stated the issues noted were due to the need for human calculation and assessment of the penalty and/or interest assessment.

By not approving or disapproving life, accident, or health insurance policy forms in a timely manner as required by the Illinois Insurance Code, insurance companies' distribution of their products to the market may be delayed. Failure to invoice and correctly assess penalties on late filing of tax returns and late payment of financial regulation fees results in a loss of State revenue as well as under utilizing a tool to enforce prompt filing. In addition, failure to timely send financial regulation fee invoices delays the timely payment by June 30 as required by the Code. (Finding Code No. 2016-003, 2014-003, 12-3, 10-1, DFPR 08-15, DFPR 07-14, DFPR 06-24)

RECOMMENDATION

We recommend the Department comply with the statutory requirements of the Insurance Code.

DEPARTMENT RESPONSE

The Department accepts the finding. While the statutory requirement to approve product filings within 60 days is important for efficient marketplace regulation, both the insurance industry and regulators agree that thorough reviews of product filings need to occur before they are presented to Illinois consumers. Currently, if a product filing is delayed beyond 60 days, Department staff keeps the filing active rather than reject the filing. This is for any multitude of reasons, but primary reasons are that the filings are being scrutinized by Actuarial or Legal Units. Another issue is that if a filing is rejected, the filing entity would need to resubmit a filing fee, unnecessarily driving up their costs, which would likely be passed on to consumers. Also, the timelines for Affordable Care Act compliant health policies are set by the Centers for Medicare and Medicaid Services (CMS) and are generally 150 days long – the Department cannot approve such policies prior to certification by CMS. A legislative proposal has been presented for consideration which would modify the statute to allow an entity making the filing to request a time extension for the Department's review rather than receive a rejected filing.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF FINDINGS
FOR THE TWO YEARS ENDED JUNE 30, 2016**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

The Department accepts the finding related to the failure to correctly assess the penalty on surplus lines tax. In response to the failure to assess the penalty in its entirety, the Department did not assess the penalty because the tax statement was never received. Historically, penalties have been manually assessed once a statement has been received. When a statement is not received, a penalty can be partially assessed through a manual process, but as additional time passes without the statement being filed, the penalty continues to accrue. The understatement of assessed penalty noted was due to the partial assessment without additional penalty amounts being manually applied. The overstatement of assessed penalty noted was due to a change in the statutory penalty amount between the two fiscal years under examination. The penalty invoice was correctly adjusted in the taxpayer's favor.

An Excel spreadsheet was created by the Division to calculate the penalty amount given the due date, date filed, tax liability, and tax paid by the due date. To further improve the process of penalty assessment, this process has been automated in the Department's cash receipts system to automatically assess the penalty as the tax statements are processed. Late filed statements will have the correct penalty calculated and automatically applied upon processing the receipt of the tax statement. For taxpayers who fail to file a statement altogether, a penalty accrual of \$400 per portion of a month can be assessed against the taxpayer up to the maximum cap of \$2,000. This penalty accrual assumes the taxpayer's liability is \$0, which is the most likely outcome, but would have to be recalculated in the event the tax liability is greater than \$0.

The Department accepts the finding related to the failure to correctly assess the Financial Regulation Fee failure to pay penalty. Due to processing delays, the Department untimely mailed the Financial Regulation Fee invoices making the collection by June 30th nearly impossible. To correct the deficiency, the Department will create and mail the invoices more timely allowing the companies at least 30 days to pay.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF FINDINGS
FOR THE TWO YEARS ENDED JUNE 30, 2016**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

2016-004. **FINDING** (Required Reports not Filed Accurately)

The Department of Insurance (Department) did not accurately file two statutorily required reports.

During testing, the following exceptions were noted:

- The amount of fees reported on the Agency Fee Imposition Report for fiscal year 2016 did not agree with the Department’s records. One of 14 (7%) fees reported did not agree with Department’s records. The effect of the difference resulted in the Department understating reported fees for fiscal year 2016 by \$9,200.

The State Comptroller Act (15 ILCS 405/16.2(a)) requires a State agency that imposes fees to file the Agency Fee Imposition Report with the Office of the Comptroller.

Statewide Accounting Management System (SAMS) (Procedure 33.16.10) states the Agency Fee Imposition Report Form shall provide for the reporting by State agencies of the amount of revenue generated, among others. In addition, good internal controls require an agency to review all reports prepared from internal records for accuracy before submission.

- The Department reported amounts on its Fiscal Years 2014 and 2015 Agency Workforce Reports (Report) which did not agree to supporting documentation provided to auditors. Discrepancies were noted in the data and statistical percentages presented for 4 of 14 (29%) employee groups within the 2014 Report and for 3 of 14 (21%) employee groups within the 2015 Report. The Department subsequently submitted the corrected Fiscal Years 2014 and 2015 Reports to the Office of the Secretary of State and Office of the Governor.

During the prior examination, the Department did not accurately report the information on persons employed within the agency work force as professionals in the Fiscal Years 2013 and 2012 Agency Workforce Reports. The Department failed to submit the corrected 2013 and 2012 Reports within 30 days after release of the audit by the Auditor General as required by the Illinois State Auditing Act. The Department submitted the corrected Fiscal Years 2013 and 2012 Agency Workforce Reports to the Office of the Secretary of State and Office of the Governor on November 17, 2016.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF FINDINGS
FOR THE TWO YEARS ENDED JUNE 30, 2016**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

The State Employment Records Act (5 ILCS 410/15(a)(v)) requires State agencies to report the information on the total number of persons employed within the agency work force as professionals, and the number and percentage of minorities, women, and physically disabled persons employed within the agency work force as professional employees.

The Illinois State Auditing Act (30 ILCS 5/3-2.2(b)) requires a State agency that has materially failed to comply with the requirements of the State Employment Records Act, within 30 days after release of the audit by the Auditor General, shall prepare and file with the Office of the Governor and the Office of the Secretary of State corrected reports covering the periods affected by the noncompliance.

Department management stated the inaccuracy in the Agency Imposition Report was due to oversight. Department management stated the errors in the Agency Workforce Reports were due to incorrectly copying information from support documentation to the report form.

Failure to accurately submit statutorily required reports prevents the appropriate oversight authorities from receiving relevant feedback and monitoring on programs and can have an effect on future decisions. (Finding Code No. 2016-004, 2014-006)

RECOMMENDATION

We recommend the Department strengthen its controls over reviewing data to ensure required reports are completed accurately.

DEPARTMENT RESPONSE

The Department accepts the finding related to the Agency Workforce Reports and will implement a review process to ensure that reports are reviewed for accuracy prior to submission.

The Department accepts the finding related to the error noted in the Agency Fee Imposition Report for Fiscal Year 2016. The understatement noted is not a material amount relative to the total fees of \$85.8 million collected by the Department during Fiscal Year 2016 and was the result of two days of policy form filing fees not being manually entered into the Department's receipt records prior to preparing the Agency Fee Imposition Report. To prevent this error from occurring in future reports, the Department will ensure that all manual entries

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF FINDINGS
FOR THE TWO YEARS ENDED JUNE 30, 2016**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

have occurred prior to preparing the Agency Fee Imposition Report. The Department will also explore the option of automating the process of posting policy form filing fees collected by the Treasurer, which would eliminate the need for manual entries.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF FINDINGS
FOR THE TWO YEARS ENDED JUNE 30, 2016**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

2016-005. **FINDING** (Noncompliance with the Requirements of the Managed Care Reform and Patient Rights Act)

The Department of Insurance (Department) did not fully comply with the requirements of the Managed Care Reform and Patients Rights Act.

Auditors noted during testing that the Department did not update the list of accreditors from which utilization organizations may receive accreditation and qualify for reduced registration and renewal fees. There was a statutory amendment effective January 1, 2016 that added one additional accreditation eligible for discount. The Department did not include the Accreditation Association for Ambulatory Health Care in the list of accreditors on the following forms and documents posted on the Department’s web site:

- Utilization Review Organization (URO) Registration Guidelines
- Application for Registration of a URO
- Cover letter of the URO Renewal Application
- Health Care/Workers’ Compensation Utilization Review Renewal Registration Form.

In addition, the Department did not update the Illinois Administrative Code (50 Ill. Admin. Code 5430.130(b)) *Registration of Utilization Review Organizations* to include the Accreditation Association for Ambulatory Health Care as one of the accreditors from which a URO may receive accreditation and would pay a reduced application or renewal fee of \$1,500 instead of the \$3,000 regular registration or renewal fee. Testing disclosed the Department has not received any applications with an accreditation designation of Accreditation Association for Ambulatory Health Care since the effective date of the statute.

The Managed Care Reform and Patient Rights Act (Act) (215 ILCS 134/85(b-5)) states that beginning January 1, 2016, the Department shall recognize the Accreditation Association for Ambulatory Health Care among the list of accreditors from which utilization organizations may receive accreditation and qualify for reduced registration and renewal fees.

Department management stated the required changes of Public Act 99-111 were not implemented due to competing priorities and significant staff turnover in the Health Products Division.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF FINDINGS
FOR THE TWO YEARS ENDED JUNE 30, 2016**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

Failure to include the Accreditation Association for Ambulatory Health Care as one of the accreditors from which a URO may receive accreditation and qualify for reduced application and renewal fee may result in a URO being overcharged for the registration or renewal fee. (Finding Code No. 2016-005)

RECOMMENDATION

We recommend the Department update the forms, guidelines and the Illinois Administrative Code to include Accreditation Association for Ambulatory Health Care as one of the accreditors from which utilization organizations may receive accreditation and qualify for reduced registration and renewal fees to comply with the Act.

DEPARTMENT RESPONSE

The Department accepts the finding. Public Act 99-111 was signed into law on July 23, 2015 with an effective date of January 1, 2016. The requirements of the statute were inadvertently overlooked by the Health Products Division as there was a change in management of the Division and critical focus was on bringing 2017 marketplace health policies into compliance with federal and State laws, and preparing for Open Enrollment. The Department would like to note that no Utilization Review Organizations were overcharged as a result of the issues noted as there were no organizations who registered/renewed who were accredited by the Accreditation Association for Ambulatory Health Care (AAAHC). To correct the finding, the Department has drafted administrative rules, which are currently on the January 2017 Regulatory Agenda. The Department is also updating the necessary forms and documents to include the AAAHC in the list of accreditors.

Further, the Department's Legislative Division has updated and implemented a more aggressive process for alerting requisite divisions of the Department when a new law is passed and is set for enactment. The Legislative Division has also specifically fashioned a process by which other divisions within the Department are notified when a new law offers the promulgation of new administrative rules.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF FINDINGS
FOR THE TWO YEARS ENDED JUNE 30, 2016**

PRIOR FINDINGS NOT REPEATED

- A. **FINDING** (Failure to Perform Employee Performance Evaluations in a Timely Manner)

During the prior examination, auditors noted the Department did not perform and submit employee performance evaluations in a timely manner.

During the current examination, auditors tested a sample of employee performance evaluations and noted there were still some instances of untimely submission and nonperformance of employee evaluations however, significant improvements were noted. This issue has been included in the report of immaterial findings as Finding Code No. IM2016-003. (Finding Code No. 2014-004, 12-6, 10-2)

- B. **FINDING** (Lack of Segregation of Duties Over Processing of Insurance Privilege Tax Refunds)

During the prior examination, auditors noted the Department did not have proper segregation of duties over processing of insurance tax refunds. Auditors noted there was only one employee who received the requests for insurance privilege tax refunds, reviewed and prepared the refund authorization memo, and approved the refund for payment. The same employee also maintained and updated the Department records on insurance privilege taxes.

During the current examination, auditors noted the Department allocated additional staff to review and approve tax refunds. (Finding Code No. 2014-005, 12-9)

- C. **FINDING** (Noncompliance with the Fiscal Control and Internal Auditing Act)

During the prior examination, auditors noted the Department had no formal approved internal audit plan in Fiscal Year 2013, thus no audits were performed. During Fiscal Year 2014, only three of the nine proposed audits were completed. In addition, there were no audits relating to internal accounting and administrative controls for grants received or made by the Agency completed during the last two years and there were also no reviews of the design of major new electronic data processing systems and major modifications of those systems completed.

During the current examination, auditors tested 12 completed internal audits and noted the Department implemented their Fiscal Year 2016 audit plan. In addition, the Department complied with the Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/2003) which required that each designated agency ensure the internal auditing program includes audits relating to internal accounting and administrative controls for grants received or made by the Agency and reviews of the design of major new electronic data processing systems and major

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF FINDINGS
FOR THE TWO YEARS ENDED JUNE 30, 2016**

PRIOR FINDINGS NOT REPEATED (Continued)

modifications of those systems before their installation to ensure the systems provide for adequate audit trails and accountability. (Finding Code No. 2014-007)

D. **FINDING** (Issues During Scoring Proposals)

During the prior examination, auditors noted several issues during the scoring of the proposals of the Illinois Health Insurance Marketplace marketing and outreach campaign. The issues noted pertained to the evaluation committee meetings, reference checks, scoring tabulation, and pricing component.

During the current examination, there were no proposals related to the Illinois Health Insurance Marketplace marketing and outreach campaign. The issues noted in the prior finding were related specifically to the review of proposals for the Illinois Health Insurance Marketplace marketing and outreach campaign, therefore this finding is not repeated. (Finding Code No. 2014-008)

E. **FINDING** (Lack of Controls Over Expenditures)

During the prior examination, the Department did not exercise adequate controls over expenditures for the contract of the Illinois Health Insurance Marketplace marketing and outreach campaign. The auditors noted travel and other related expenditures were paid which were not allowed in the Request for Proposal, there was no supporting documentation to indicate that all direct costs were pre-approved as required in the contract, and the contract lacked controls over which individuals could charge at the various hourly rates.

During the current examination, the auditors tested a sample of expenditures for the Illinois Health Insurance Marketplace marketing and outreach campaign contract and noted the Department did not fully exercise controls over expenditures, however instances of noncompliance were significantly less. This issue has been included in the report of immaterial findings as Finding Code No. IM2016-004. (Finding Code No. 2014-009)

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016**

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 Appropriations, Expenditures and Lapsed Balances FY 2016
- Schedule of Appropriations, Expenditures and Lapsed Balances FY 2015
- Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances By Fund
- Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances By Object Code
- Comparative Schedule of Receipts, Disbursements and Fund Balance - Locally Held Funds
- Schedule of Changes in State Property
- Comparative Schedule of Cash Receipts by Fund
- Comparative Schedule of Cash Receipts by Category
- Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller
- Analysis of Significant Variations in Expenditures
- Analysis of Significant Variations in Receipts
- Analysis of Significant Lapse Period Spending
- Analysis of Accounts Receivable

- Analysis of Operations (Not Examined):

- Agency Functions and Planning Program (Not Examined)
- Budget Impasse Disclosures (Not Examined)
- Alternative Financing in Lieu of Appropriations and Programs to Address Untimely Payments to Vendors (Not Examined)
- Interest Costs on Fiscal Year 2016 Invoices (Not Examined)
- Average Number of Employees (Not Examined)
- Service Efforts and Accomplishments (Not Examined)

The accountant's 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 to the June 30, 2016 and June 30, 2015 accompanying supplementary information in Schedules 1 through 13. However, the accountants do not express an opinion on the supplementary information. The accountant's report also states that they have not applied procedures to the Analysis of Operations Section, and accordingly, they do not express an opinion or provide any assurance on it.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Expenditure Authority for Fiscal Year 2016**

For the Fourteen Months Ended August 31, 2016

<u>Public Act 99-0524 and Court- Ordered Expenditures</u> <u>FISCAL YEAR 2016</u>	Expenditure Authority (Net of Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to August 31	Total Expenditures 14 Months Ended August 31	Balances Lapsed August 31
<u>APPROPRIATED FUNDS</u>					
<u>Illinois Workers' Compensation Commission Operations Fund - 0534</u>					
Lump sums and other purposes	\$ 950,000	\$ 633,390	\$ 49,170	\$ 682,560	\$ 267,440
<u>Public Pension Regulation Trust Fund - 0546</u>					
Personal services	1,000,000	658,578	4,812	663,390	336,610
Retirement - employer contribution	446,000	300,471	2,194	302,665	143,335
Social security	76,500	48,417	368	48,785	27,715
Group insurance	360,000	221,663	-	221,663	138,337
Contractual services	25,000	-	2,737	2,737	22,263
Travel	30,000	-	8,621	8,621	21,379
Commodities	2,500	-	48	48	2,452
Printing	2,500	-	-	-	2,500
Equipment	5,000	-	-	-	5,000
Telecommunications	2,500	-	-	-	2,500
Lump sums and other purposes	500,000	-	374,008	374,008	125,992
Total - Public Pension Regulation Trust Fund - 0546	<u>2,450,000</u>	<u>1,229,129</u>	<u>392,788</u>	<u>1,621,917</u>	<u>828,083</u>

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Expenditure Authority for Fiscal Year 2016

For the Fourteen Months Ended August 31, 2016

	Expenditure Authority (Net of Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to August 31	Total Expenditures 14 Months Ended August 31	Balances Lapsed August 31
<u>Insurance Producer Administration Fund - 0922</u>					
Personal services	10,000,000	8,288,801	17,420	8,306,221	1,693,779
Retirement - employer contribution	4,684,200	3,776,976	7,943	3,784,919	899,281
Social security	765,000	603,236	1,333	604,569	160,431
Group insurance	3,408,000	2,467,433	5,461	2,472,894	935,106
Contractual services	1,850,000	17,943	1,099,882	1,117,825	732,175
Travel	125,000	-	17,919	17,919	107,081
Commodities	20,000	-	2,313	2,313	17,687
Printing	20,000	-	3,624	3,624	16,376
Equipment	60,000	-	27,704	27,704	32,296
Electronic data processing	500,000	-	165,703	165,703	334,297
Telecommunications	230,000	-	139,496	139,496	90,504
Operation of automotive equipment	5,000	-	518	518	4,482
Lump sums and other purposes - Shared services center	500,000	331,382	35,318	366,700	133,300
Lump sums and other purposes - Get Covered Illinois	1,000,000	-	27,886	27,886	972,114
Lump sums and other purposes - Operational costs & expenses	750,000	-	272,685	272,685	477,315
Refunds	100,000	-	6,800	6,800	93,200
Total - Insurance Producer Administration Fund - 0922	24,017,200	15,485,771	1,832,005	17,317,776	6,699,424

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Expenditure Authority for Fiscal Year 2016

For the Fourteen Months Ended August 31, 2016

	Expenditure Authority (Net of Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to August 31	Total Expenditures 14 Months Ended August 31	Balances Lapsed August 31
<u>Insurance Financial Regulation Fund - 0997</u>					
Personal services	11,100,000	9,400,617	44,440	9,445,057	1,654,943
Retirement - employer contribution	4,947,000	4,297,757	21,073	4,318,830	628,170
Social security	849,000	685,879	3,535	689,414	159,586
Group insurance	3,288,000	2,548,911	16,571	2,565,482	722,518
Contractual services	1,850,000	-	1,130,211	1,130,211	719,789
Travel	150,000	-	33,118	33,118	116,882
Commodities	20,000	-	1,337	1,337	18,663
Printing	20,000	-	-	-	20,000
Equipment	60,000	-	29,223	29,223	30,777
Electronic data processing	500,000	-	59,066	59,066	440,934
Telecommunications	215,000	-	169,801	169,801	45,199
Operation of automotive equipment	5,000	-	437	437	4,563
Lump sums and other purposes - Operational costs & expenses	250,000	-	3,459	3,459	246,541
Refunds	49,000	-	40,359	40,359	8,641
Total - Insurance Financial Regulation Fund - 0997	<u>23,303,000</u>	<u>16,933,164</u>	<u>1,552,630</u>	<u>18,485,794</u>	<u>4,817,206</u>
TOTALS - APPROPRIATED FUNDS	<u>\$ 50,720,200</u>	<u>\$ 34,281,454</u>	<u>\$ 3,826,593</u>	<u>\$ 38,108,047</u>	<u>\$ 12,612,153</u>

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Expenditure Authority for Fiscal Year 2016

For the Fourteen Months Ended August 31, 2016

	Expenditure Authority (Net of Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to August 31	Total Expenditures 14 Months Ended August 31	Balances Lapsed August 31
<u>NON-APPROPRIATED FUNDS</u>					
<u>Insurance Premium Tax Refund Fund - 0378</u>					
Refunds		2,301,688	-	2,301,688	
<u>Department of Insurance Federal Trust Fund - 0673</u>					
Cooperative Agreement to Support Establishment of Affordable Care Act Health Insurance Exchange - Stage 4		2,572,827	487,414	3,060,241	
Illinois Health Insurance Exchange Project Grant		2,956,361	130,329	3,086,690	
Consumer Assistance Program Grant Cycle II		164,603	6,205	170,808	
Patient Protection and Affordable Care Act		6,216,294	-	6,216,294	
Grant to States Health Insurance Rate Review Cycle - II		524,008	51,680	575,688	
Total - Department of Insurance Federal Trust Fund - 0673		<u>12,434,093</u>	<u>675,628</u>	<u>13,109,721</u>	
<u>Group Workers' Compensation Pool Insolvency Fund - 0739</u>					
Awards and Grants Per P.A. 91-0757		16,050	-	16,050	
TOTALS - NON-APPROPRIATED FUNDS		<u>14,751,831</u>	<u>675,628</u>	<u>15,427,459</u>	
GRAND TOTAL - ALL FUNDS		<u>\$ 49,033,285</u>	<u>\$ 4,502,221</u>	<u>\$ 53,535,506</u>	

Note 1: Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the Department records as of September 30, 2016, and have been reconciled to State Comptroller records.

Note 2: Expenditure amounts are vouchers approved for payment by the Department and submitted to the State Comptroller for payment to the vendor.

Note 3: During Fiscal Year 2016, the Department operated without enacted appropriations until Public Act 99-0524 was signed into law on June 30, 2016. During the impasse, the Circuit Court of St. Clair County in *AFSCME Council 31 v. Munger* (15 CH 475) ordered the State Comptroller, in the absence of enacted annual appropriations, to "draw and issue warrants accomplishing payment of wages [for all State employees] at their normal rates of pay." As such, the Department's court-ordered payroll payments were merged into the enacted appropriation for Fund 534, Fund 546, Fund 922 and Fund 997. Further, the Department incurred non-payroll obligations within Fund 534, Fund 546, Fund 922 and Fund 997, which the Department was unable to pay until the passage of Public Act 99-0524.

Note 4: Public Act 99-0524 authorizes the Department to pay Fiscal Year 2016 costs using its Fiscal Year 2017 appropriations for non-payroll expenditures. The Analysis of Operations section of this report at page 62 indicated the Department did not have any outstanding invoices from Fiscal Year 2016 unpaid after the closure of the Fiscal Year 2016 Lapse Period on August 31, 2016. Therefore, the Department did not use its Fiscal Year 2017 appropriations to pay its Fiscal Years 2016 costs.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Appropriations for Fiscal Year 2015**

For the Fourteen Months Ended August 31, 2015

<u>Public Act 98-0679 FISCAL YEAR 2015</u>	<u>Appropriations (Net of Transfers)</u>	<u>Expenditures Through June 30</u>	<u>Lapse Period Expenditures July 1 to August 31</u>	<u>Total Expenditures 14 Months Ended August 31</u>	<u>Balances Lapsed August 31</u>
<u>APPROPRIATED FUNDS</u>					
<u>Illinois Workers' Compensation Commission Operations Fund - 0534</u>					
Lump sums and other purposes	\$ 950,000	\$ 527,023	\$ 39,161	\$ 566,184	\$ 383,816
<u>Public Pension Regulation Trust Fund - 0546</u>					
Personal services	1,075,000	888,564	35,641	924,205	150,795
Retirement - employer contribution	455,200	376,543	15,105	391,648	63,552
Social security	82,200	65,134	2,626	67,760	14,440
Group insurance	345,000	246,236	10,804	257,040	87,960
Contractual services	25,000	2,153	-	2,153	22,847
Travel	50,000	12,644	1,918	14,562	35,438
Commodities	5,000	86	-	86	4,914
Printing	5,000	-	-	-	5,000
Equipment	5,000	2,480	-	2,480	2,520
Telecommunications	5,000	-	-	-	5,000
Lump sums and other purposes	500,000	315,718	31,300	347,018	152,982
Total - Public Pension Regulation Trust Fund - 0546	<u>2,552,400</u>	<u>1,909,558</u>	<u>97,394</u>	<u>2,006,952</u>	<u>545,448</u>

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Appropriations for Fiscal Year 2015

For the Fourteen Months Ended August 31, 2015

	Appropriations (Net of Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to August 31	Total Expenditures 14 Months Ended August 31	Balances Lapsed August 31
<u>Insurance Producer Administration Fund - 0922</u>					
Personal services	11,192,000	7,962,891	419,148	8,382,039	2,809,961
Retirement - employer contribution	4,738,600	3,377,206	177,743	3,554,949	1,183,651
Social security	856,200	583,857	30,953	614,810	241,390
Group insurance	3,611,000	2,085,861	92,294	2,178,155	1,432,845
Contractual services	1,850,000	1,125,824	79,579	1,205,403	644,597
Travel	145,000	60,271	3,404	63,675	81,325
Commodities	23,400	4,214	-	4,214	19,186
Printing	34,800	10,187	1,435	11,622	23,178
Equipment	88,800	30,356	7,250	37,606	51,194
Electronic data processing	500,000	318,409	35,206	353,615	146,385
Telecommunications	231,300	142,852	26,097	168,949	62,351
Operation of automotive equipment	9,000	361	-	361	8,639
Lump sums and other purposes - Shared services center	700,000	402,725	15,702	418,427	281,573
Lump sums and other purposes - Operational costs & expenses	750,000	93,112	245,894	339,006	410,994
Refunds	200,000	31,765	-	31,765	168,235
Total - Insurance Producer Administration Fund - 0922	<u>24,930,100</u>	<u>16,229,891</u>	<u>1,134,705</u>	<u>17,364,596</u>	<u>7,565,504</u>

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Appropriations for Fiscal Year 2015

For the Fourteen Months Ended August 31, 2015

	Appropriations (Net of Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to August 31	Total Expenditures 14 Months Ended August 31	Balances Lapsed August 31
<u>Insurance Financial Regulation Fund - 0997</u>					
Personal services	13,589,200	9,007,807	404,146	9,411,953	4,177,247
Retirement - employer contribution	5,753,500	3,823,439	171,528	3,994,967	1,758,533
Social security	1,039,600	657,608	29,594	687,202	352,398
Group insurance	3,841,000	2,098,880	98,561	2,197,441	1,643,559
Contractual services	1,850,000	1,186,659	353,254	1,539,913	310,087
Travel	300,000	65,184	8,713	73,897	226,103
Commodities	23,400	2,730	9,380	12,110	11,290
Printing	34,700	10,146	859	11,005	23,695
Equipment	65,700	9,352	9,629	18,981	46,719
Electronic data processing	500,000	483,760	15,900	499,660	340
Telecommunications	218,500	108,450	31,768	140,218	78,282
Operation of automotive equipment	9,200	429	69	498	8,702
Lump sums and other purposes - Operational costs & expenses	250,000	79,105	132,926	212,031	37,969
Refunds	49,000	35,491	2,439	37,930	11,070
Total - Insurance Financial Regulation Fund - 0997	<u>27,523,800</u>	<u>17,569,040</u>	<u>1,268,766</u>	<u>18,837,806</u>	<u>8,685,994</u>
TOTALS - APPROPRIATED FUNDS	<u>\$ 55,956,300</u>	<u>36,235,512</u>	<u>2,540,026</u>	<u>38,775,538</u>	<u>\$ 17,180,762</u>

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Appropriations for Fiscal Year 2015

For the Fourteen Months Ended August 31, 2015

	Appropriations (Net of Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to August 31	Total Expenditures 14 Months Ended August 31	Balances Lapsed August 31
<u>NON-APPROPRIATED FUNDS</u>					
<u>Insurance Premium Tax Refund Fund - 0378</u>					
Refunds		2,652,453	-	2,652,453	
<u>Department of Insurance Federal Trust Fund - 0673</u>					
Illinois Health Insurance Exchange Project Grant		16,163,020	2,130,461	18,293,481	
Consumer Assistance Program Grant Cycle II		268,185	16,265	284,450	
Patient Protection and Affordable Care Act		12,115,241	2,433,989	14,549,230	
Grant to States Health Insurance Rate Review Cycle - II		116,056	31,455	147,511	
Total - Department of Insurance Federal Trust Fund - 0673		<u>28,662,502</u>	<u>4,612,170</u>	<u>33,274,672</u>	
<u>Group Workers' Compensation Pool Insolvency Fund - 0739</u>					
Awards and Grants Per P.A. 91-0757		17,518	-	17,518	
TOTALS - NON-APPROPRIATED FUNDS		<u>31,332,473</u>	<u>4,612,170</u>	<u>35,944,643</u>	
GRAND TOTAL - ALL FUNDS		<u>\$ 67,567,985</u>	<u>\$ 7,152,196</u>	<u>\$ 74,720,181</u>	

Notes: The data contained in this schedule was taken directly from the Department records which have been reconciled to those of the State Comptroller. Expenditure amounts are vouchers approved for payment by the Department and submitted to the State Comptroller for payment to the vendor.

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,
EXPENDITURES AND LAPSED BALANCES BY FUND
For the Fiscal Years Ended June 30, 2016, 2015 and 2014

	Fiscal Year		
	2016 PA 99-0524	2015 PA 98-0679	2014 PA 98-0064
Illinois Workers' Compensation Commission Operations Fund - 0534			
<u>Appropriation (Net of Transfers)</u>	\$ 950,000	\$ 950,000	\$ 950,000
<u>Expenditures</u>			
Lump sums and other purposes	682,560	566,184	370,326
Total Expenditures	<u>682,560</u>	<u>566,184</u>	<u>370,326</u>
<u>Lapsed Balances</u>	<u>267,440</u>	<u>383,816</u>	<u>579,674</u>
Public Pension Regulation Trust Fund - 0546			
<u>Appropriation (Net of Transfers)</u>	2,450,000	2,552,400	4,204,500
<u>Expenditures</u>			
Personal services	663,390	924,205	653,442
Retirement - employer contribution	302,665	391,648	263,715
Social security	48,785	67,760	47,667
Group insurance	221,663	257,040	196,062
Contractual services	2,737	2,153	11,627
Travel	8,621	14,562	20,015
Commodities	48	86	-
Equipment	-	2,480	1,495
Lump sums and other purposes	374,008	347,018	387,050
Total Expenditures	<u>1,621,917</u>	<u>2,006,952</u>	<u>1,581,073</u>
<u>Lapsed Balances</u>	<u>828,083</u>	<u>545,448</u>	<u>2,623,427</u>

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,
EXPENDITURES AND LAPSED BALANCES BY FUND
For the Fiscal Years Ended June 30, 2016, 2015 and 2014**

	Fiscal Year		
	2016 PA 99-0524	2015 PA 98-0679	2014 PA 98-0064
Insurance Producer Administration Fund - 0922			
<u>Appropriation (Net of Transfers)</u>	24,017,200	24,930,100	22,804,500
<u>Expenditures</u>			
Personal services	8,306,221	8,382,039	8,195,851
Retirement - employer contribution	3,784,919	3,554,949	3,309,597
Social security	604,569	614,810	606,725
Group insurance	2,472,894	2,178,155	2,350,070
Contractual services	1,117,825	1,205,403	1,652,872
Travel	17,919	63,675	81,839
Commodities	2,313	4,214	4,238
Printing	3,624	11,622	8,696
Equipment	27,704	37,606	45,149
Electronic data processing	165,703	353,615	433,479
Telecommunications	139,496	168,949	231,061
Operation of automotive equipment	518	361	2,115
Lump sums and other purposes - Shared services center	366,700	418,427	515,828
Lump sums and other purposes - Get Covered Illinois	27,886	-	-
Lump sums and other purposes - Operational costs & expenses	272,685	339,006	252,296
Refunds	6,800	31,765	22,017
Total Expenditures	<u>17,317,776</u>	<u>17,364,596</u>	<u>17,711,833</u>
<u>Lapsed Balances</u>	<u>6,699,424</u>	<u>7,565,504</u>	<u>5,092,667</u>
Insurance Financial Regulation Fund - 0997			
<u>Appropriation (Net of Transfers)</u>	23,303,000	27,523,800	25,664,500
<u>Expenditures</u>			
Personal services	9,445,057	9,411,953	9,603,871
Retirement - employer contribution	4,318,830	3,994,967	3,881,545
Social security	689,414	687,202	698,283
Group insurance	2,565,482	2,197,441	2,451,418
Contractual services	1,130,211	1,539,913	1,254,503
Travel	33,118	73,897	76,015
Commodities	1,337	12,110	11,354
Printing	-	11,005	10,980
Equipment	29,223	18,981	25,904
Electronic data processing	59,066	499,660	433,959
Telecommunications	169,801	140,218	207,483
Operation of automotive equipment	437	498	1,109
Lump sums and other purposes - Shared services center	-	-	128,284
Lump sums and other purposes - Operational costs & expenses	3,459	212,031	91,920
Refunds	40,359	37,930	41,407
Total Expenditures	<u>18,485,794</u>	<u>18,837,806</u>	<u>18,918,035</u>
<u>Lapsed Balances</u>	<u>4,817,206</u>	<u>8,685,994</u>	<u>6,746,465</u>

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,
EXPENDITURES AND LAPSED BALANCES BY FUND
For the Fiscal Years Ended June 30, 2016, 2015 and 2014

	Fiscal Year		
	2016 PA 99-0524	2015 PA 98-0679	2014 PA 98-0064
Grand Total - All Appropriated Funds			
Appropriations (Net of Transfers)	\$ 50,720,200	\$ 55,956,300	\$ 53,623,500
Total Expenditures	38,108,047	38,775,538	38,581,267
Lapsed Balances	12,612,153	17,180,762	15,042,233
<u>Non-Appropriated Funds</u>			
<u>Expenditures</u>			
Insurance Premium Tax Refund Fund - 0378	2,301,688	2,652,453	2,006,220
Department of Insurance Federal Trust Fund - 0673	13,109,721	33,274,672	42,819,636
Group Workers' Compensation Pool Insolvency Fund - 0739	16,050	17,518	254,299
Total Expenditures - Non-Appropriated Funds	15,427,459	35,944,643	45,080,155
Total Expenditures - All Appropriated and Non-Appropriated Funds	\$ 53,535,506	\$ 74,720,181	\$ 83,661,422
State Officers' Salaries			
<u>Appropriation</u>	\$ 135,100	\$ 135,100	\$ 135,100
<u>Expenditures</u>	135,081	71,981	135,081
<u>Lapsed Balances</u>	\$ 19	\$ 63,119	\$ 19

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,
EXPENDITURES AND LAPSED BALANCES BY OBJECT CODE
For the Fiscal Years Ended June 30, 2016, 2015 and 2014

	Fiscal Year		
	2016	2015	2014
	PA 99-0524	PA 98-0679	PA 98-0064
APPROPRIATED FUNDS			
APPROPRIATIONS (net of Transfers)	\$ 50,720,200	\$ 55,956,300	\$ 53,623,500
Expenditures			
Personal Services	\$ 19,023,765	\$ 19,364,726	\$ 19,154,821
State Contributions to State Employees' Retirement System	8,635,058	8,133,512	7,645,018
State Contribution to Social Security / Medicare	1,387,784	1,417,992	1,397,699
Employer Contributions to Group Insurance	5,375,713	4,725,790	5,113,618
Contractual Services	3,134,148	4,398,727	4,398,528
Travel	59,779	153,345	178,425
Printing	3,445	22,701	19,676
Commodities	3,586	16,953	16,178
Equipment	57,333	93,689	74,641
Electronic Data Processing	2,543	8,099	27,045
Telecommunications	312,079	367,424	483,443
Operation of Automotive Equipment	2,123	2,858	8,751
Interest - Prompt Payment Act	63,532	9	-
Refunds	47,159	69,713	63,424
Total Appropriated Expenditures	<u>38,108,047</u>	<u>38,775,538</u>	<u>38,581,267</u>
Lapsed Balances	<u>12,612,153</u>	<u>17,180,762</u>	<u>15,042,233</u>
NON-APPROPRIATED FUNDS			
Expenditures			
Personal Services	\$ 832,202	\$ 1,640,837	\$ 1,642,996
State Contributions to State Employees' Retirement System	216,917	562,541	511,260
State Contribution to Social Security / Medicare	60,655	117,307	118,198
Employer Contributions to Group Insurance	64,765	315,423	323,162
Contractual Services	11,904,154	30,604,270	40,161,259
Travel	5,747	25,541	43,220
Printing	12,304	104	-
Commodities	105	1,079	10,331
Equipment	-	210	110
Electronic Data Processing	12,873	858	1,874
Telecommunications	-	5,329	7,196
Operation of Automotive Equipment	-	1,173	30
Awards and Grants	16,050	17,518	254,299
Refunds	2,301,687	2,652,453	2,006,220
Total Non-Appropriated Expenditures	<u>15,427,459</u>	<u>35,944,643</u>	<u>45,080,155</u>
Total Appropriated and Non-Appropriated Expenditures	<u>\$ 53,535,506</u>	<u>\$ 74,720,181</u>	<u>\$ 83,661,422</u>

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPARATIVE SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE -
LOCALLY-HELD FUNDS
For Fiscal Years 2016, 2015 and 2014

	FISCAL YEAR		
	2016	2015	2014
Balance per Department, Beginning	\$ 959,983,879	952,055,347	\$ 930,355,445
Receipts	348,868,295	218,303,146	344,444,220
Disbursements	<u>(242,016,944)</u>	<u>(210,374,614)</u>	<u>(322,744,318)</u>
Balance per Department, Ending	<u><u>\$ 1,066,835,230</u></u>	<u><u>\$ 959,983,879</u></u>	<u><u>\$ 952,055,347</u></u>

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

Fund 1109 is reported using the economic resources measurement focus and the accrual basis of accounting.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF CHANGES IN STATE PROPERTY
For the Two Years Ended June 30, 2016**

Year Ended June 30, 2015

Balance per Department, Beginning	\$ 2,339,693
Additions	118,119
Deletions	(23,997)
Net transfers	<u>(228,169)</u>
Balance per Department, Ending	<u><u>\$ 2,205,646</u></u>

Year Ended June 30, 2016

Balance per Department, Beginning	\$ 2,205,646
Additions	160,626
Deletions	(36,491)
Net transfers	<u>(188,055)</u>
Balance per Department, Ending	<u><u>\$ 2,141,726</u></u>

The above balances consist of equipment and capital lease equipment.

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

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPARATIVE SCHEDULE OF CASH RECEIPTS BY FUND
For Fiscal Years 2016, 2015 and 2014

	FISCAL YEAR		
	2016	2015	2014
General Revenue Fund - 0001	\$ 394,025,523	\$ 356,030,305	\$ 333,304,502
Fire Prevention Fund - 0047	27,577,766	26,939,049	25,441,523
Insurance Premium Tax Refund Fund - 0378	2,417,000	1,815,000	1,922,725
Protest Fund - 0401	-	5,586	28,685
Illinois Workers' Compensation Commission Operations Fund - 0534	27,814,505	27,154,347	26,185,038
Public Pension Regulation Trust Fund - 0546	2,017,060	2,069,243	2,008,343
Federal Trust Fund - 0673	17,103,209	48,121,107	28,660,637
Group Workers' Compensation Pool Insolvency Fund - 0739	114,033	137,925	130,736
Insurance Producer Administration Fund - 0922	31,857,558	30,479,721	31,868,955
Insurance Financial Regulation Fund - 0997	23,946,078	24,258,786	22,157,314
	<u>\$ 526,872,732</u>	<u>\$ 517,011,069</u>	<u>\$ 471,708,458</u>
Total - All Funds			

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPARATIVE SCHEDULE OF CASH RECEIPTS BY CATEGORY
For Fiscal Years 2016, 2015 and 2014

	FISCAL YEAR		
	2016	2015	2014
Privilege insurance tax	\$ 175,629,371	\$ 183,517,260	\$ 171,390,832
Retaliatory tax	163,597,436	129,656,278	122,934,263
Surplus line tax	50,049,566	43,349,898	40,162,423
Independent Procurement Tax	6,990,291	723,579	-
Licenses fees and registration:			
Industrial Commission Operations Fund surcharges	27,814,505	27,154,348	26,185,038
Insurance producer licenses and fees	28,780,011	27,736,585	26,474,094
Regulatory insurance licenses and fees	23,777,463	24,169,462	22,074,833
Pensions filing fees	2,016,937	2,069,243	2,008,283
Insurance performance examination fees	885,289	757,035	424,986
Total licenses fees and registration	<u>83,274,205</u>	<u>81,886,673</u>	<u>77,167,234</u>
Protest fees	-	5,586	13,069
Fire marshal tax	27,577,766	26,939,049	25,441,523
Federal government grant	17,103,209	48,121,076	28,660,637
Surety bonds	114,033	137,925	130,736
Fines, penalties, interest	1,856,204	2,001,561	5,226,797
Miscellaneous	<u>680,651</u>	<u>672,184</u>	<u>580,944</u>
	<u>\$ 526,872,732</u>	<u>\$ 517,011,069</u>	<u>\$ 471,708,458</u>

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
RECONCILIATION SCHEDULE OF CASH RECEIPTS TO DEPOSITS REMITTED TO THE STATE COMPTROLLER
For the Two Years Ended June 30, 2016**

43

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
Year Ended June 30, 2016					
General Revenue Fund - 0001	\$ 394,025,523	\$ 3,547,962	\$ (921)	\$ -	\$ 397,572,564
Fire Prevention Fund - 0047	27,577,766	3,010	-	-	27,580,776
Insurance Premium Tax Refund Fund - 0378	2,417,000	-	-	-	2,417,000
Protest Fund - 0401	-	5,586	-	5,912	11,498
Illinois Workers' Compensation Commission Operations Fund - 0534	27,814,505	-	-	-	27,814,505
Public Pension Regulation Trust Fund - 0546	2,017,060	198,174	(116,543)	(5,912)	2,092,779
Federal Trust Fund - 0673	17,103,209	-	-	-	17,103,209
Group Workers' Compensation Pool Insolvency Fund - 0739	114,033	-	-	-	114,033
Insurance Producers' Administration Fund - 0922	31,857,558	817,760	(645,180)	-	32,030,138
Insurance Financial Regulation Fund - 0997	23,946,078	1,615,054	(28,357)	-	25,532,775
Reconciliation Totals	\$ 526,872,732	\$ 6,187,546	\$ (791,001)	\$ -	\$ 532,269,277
Year Ended June 30, 2015					
General Revenue Fund - 0001	\$ 356,030,305	\$ 940,292	\$ (3,547,962)	\$ -	\$ 353,422,635
Fire Prevention Fund - 0047	26,939,049	14	(3,010)	-	26,936,053
Insurance Premium Tax Refund Fund - 0378	1,815,000	-	-	-	1,815,000
Protest Fund - 0401	5,586	-	(5,586)	-	-
Illinois Workers' Compensation Commission Operations Fund - 0534	27,154,347	-	-	-	27,154,347
Public Pension Regulation Trust Fund - 0546	2,069,243	300,009	(198,174)	-	2,171,078
Federal Trust Fund - 0673	48,121,107	-	-	-	48,121,107
Group Workers' Compensation Pool Insolvency Fund - 0739	137,925	-	-	-	137,925
Insurance Producer Administration Fund - 0922	30,479,721	662,105	(817,760)	-	30,324,066
Insurance Financial Regulation Fund - 0997	24,258,786	1,754,362	(1,615,054)	-	24,398,094
Reconciliation Totals	\$ 517,011,069	\$ 3,656,782	\$ (6,187,546)	\$ -	\$ 514,480,305

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016**

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES

A comparative schedule of net appropriations, expenditures and lapsed balances is presented on pages 35 through 37. We considered fluctuations in excess of \$100,000 and 20% in expenditures to be significant. Explanations of significant expenditures fluctuations are as follows:

FY 2016

Illinois Workers' Compensation Commission Operations Fund – 0534

Lump sums, operations - The expenditures increased by \$116,376 or 21% due to additional staff employed during the fiscal year for this fund. Though the average employee headcount did not change from the prior fiscal year, the number of staff is higher throughout Fiscal Year 2016 because the additional staff was hired during the last quarter of Fiscal Year 2015.

Public Pension Regulation Trust Fund – 0546

Personal services - The expenditures decreased by \$260,815 or 28% due to the decrease in the average headcount within Fund 546 from 13 during Fiscal Year 2015 to 9 during Fiscal Year 2016 because of retirement and attrition of personnel.

Insurance Producer Administration Fund – 0922

Electronic data processing - The expenditures decreased by \$187,912 or 53% due to the budget impasse and lack of appropriation during Fiscal Year 2016.

Insurance Financial Regulation Fund – 0997

Contractual services - The expenditures decreased by \$409,702 or 27% due to the budget impasse and lack of appropriation during Fiscal Year 2016.

Electronic data processing - The expenditures decreased by \$440,594 or 88% due to the budget impasse and lack of appropriation during Fiscal Year 2016.

Lump sums, operations - The expenditures decreased by \$208,572 or 98% due to the budget impasse and lack of appropriation during Fiscal Year 2016.

Department of Insurance Federal Trust Fund – 0673

The expenditures decreased by \$20,164,951 or 61% due to the ending of the implementation of the Illinois Health Insurance Marketplace on June 30, 2015.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016**

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES (Continued)

FY 2015

Illinois Workers' Compensation Commission Operations Fund – 0534

Lump sum, operations - The expenditures increased by \$195,858 or 53% due to increase in the average headcount from 2 during Fiscal Year 2014 to 4 during Fiscal Year 2015.

Public Pension Regulation Trust Fund – 0546

Personal services - The expenditures increased by \$270,763 or 41% due to the increase in the average headcount within Fund 546 from 10 in Fiscal Year 2014 to 13 in Fiscal Year 2015.

Retirement, employer contribution - The expenditures increased by \$127,933 or 49% due to the increase in the average headcount within Fund 546 along with an increase in the retirement contribution rate from 40.312% in Fiscal Year 2014 to 42.339% in Fiscal Year 2015.

Insurance Producer Administration Fund – 0922

Contractual services - The expenditures decreased by \$447,469 or 27%. The Fiscal Year 2014 contractual services expenditures were higher due to legal and consulting service fees for complainant appeals to denials of health benefits and litigation against the Department.

Insurance Financial Regulation Fund – 0997

Contractual services - The expenditures increased by \$285,410 or 23% due to a large contractual payment to an insurance company and legal fees associated with a court settlement in Fiscal Year 2015.

Lump sums, shared services center – The expenditures decreased by \$128,284 or 100%. Starting Fiscal Year 2015, the shared services center function is solely appropriated from Fund 922.

Lump sums, operations – The expenditures increased by \$120,111 or 131% due to funds spent during Fiscal Year 2015 for various operating expenditures associated with legal fees, contractual services and office equipment purchases.

Insurance Premium Tax Refund Fund – 0378

The expenditures increased by \$646,233 or 32%. This fund is used to pay tax refunds. Expenditures will vary year to year depending upon the total amount of tax paid and total refunds issued within the fiscal year. Though the number of refunds requested and processed decreased from 35 during Fiscal Year 2014 to 25 during Fiscal Year 2015, the dollar value of the individual refunds during Fiscal Year 2015 was higher.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016**

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES (Continued)

Department of Insurance Federal Trust Fund – 0673

The expenditures decreased by \$9,544,964 or 22%. The Fiscal Year 2014 expenditures were higher due to the first year of implementation of the Illinois Health Insurance Marketplace awarded to the Department.

Group Workers Compensation Pool Insolvency – 0739

The expenditures decreased by \$236,781 or 93%. This fund is used to pay Workers Compensation claims unpaid due to the insolvency of a pool. Expenditures will vary year to year as the actual payments depend upon the result of a court decision within the fiscal year.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016**

ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS

A comparative schedule of cash receipts by fund is presented on page 41. We considered fluctuations in excess of \$100,000 and 20% to be significant. Explanations of significant receipts fluctuations are as follows:

FY 2016

Insurance Premium Tax Refund Fund – 0378

The receipts increased by \$602,000 or 33%. The receipts vary from year to year depending on the transfer of collections from the General Revenue Fund which was based upon a percentage of the annual premium tax collections calculated as the preceding calendar year's ratio of refunds to taxes collected or 5% of the amount collected in the preceding calendar year if no refunds were paid in the previous calendar year.

Department of Insurance Federal Trust Fund – 0673

The receipts decreased by \$31,017,898 or 64%. The decrease was due to the ending of the Illinois Health Insurance Exchange Project grant on June 30, 2015.

FY 2015

Department of Insurance Federal Trust Fund – 0673

The receipts increased by \$19,460,470 or 68%. The increase was due to the federal monies received for the second year of implementation of the Illinois Health Insurance Exchange.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016**

ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING

The schedule of net appropriations, expenditures and lapsed balances by fund is presented on pages 27 through 34. We considered spending of \$100,000 and 15% or more of total expenditures to be significant. Explanations of significant lapsed period spending are as follows:

FY 2016

Public Pension Regulation Trust Fund – 0546

Lump sums, operations - Lapse period expenditures were \$374,008 or 100% of total expenditures. Due to the Fiscal Year 2016 budget impasse, all of the billings payable to the enrolled actuarial services were unpaid until the appropriation was enacted and established during the lapsed period.

Insurance Producer Administration Fund – 0922

Contractual services – Lapse period expenditures were \$1,099,882 or 98% of total expenditures. Due to the Fiscal Year 2016 budget impasse, all of the invoices payable throughout the fiscal year were unpaid until the appropriation was enacted and established during the lapsed period.

Electronic data processing – Lapse period expenditures were \$165,703 or 100% of total expenditures. Due to the Fiscal Year 2016 budget impasse, all of the invoices payable throughout the fiscal year were unpaid until the appropriation was enacted and established during the lapsed period.

Telecommunications – Lapse period expenditures were \$139,496 or 100% of total expenditures. Due to the Fiscal Year 2016 budget impasse, all of the invoices payable throughout the fiscal year were unpaid until the appropriation was enacted and established during the lapsed period.

Lump sum, operations - Lapse period expenditures were \$272,685 or 100% of total expenditures. Due to the Fiscal Year 2016 budget impasse, all of the invoices payable throughout the fiscal year were unpaid until the appropriation was enacted and established during the lapsed period.

Insurance Financial Regulation Fund - 0997

Contractual services - Lapse period expenditures were \$1,130,211 or 100% of total expenditures. Due to the Fiscal Year 2016 budget impasse, all of the invoices payable throughout the fiscal year were unpaid until the appropriation was enacted and established during the lapsed period.

Telecommunications – Lapse period expenditures were \$169,801 or 100% of total expenditures. Due to the Fiscal Year 2016 budget impasse, all of the invoices payable throughout the fiscal year were unpaid until the appropriation was enacted and established during the lapsed period.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016**

ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING (Continued)

Department of Insurance Federal Trust Fund – 0673

Lapse period expenditures were \$487,414 or 16% of total expenditures. These lapse payments were made to five vendors for contractual expenditures. Lapse spending occurred due to timing of billings and subsequent payment of vouchers for contractual services rendered in relation to the Cooperative Agreement to Support Establishment of Affordable Care Act Health Insurance Exchange.

FY 2015

Insurance Producer Administration Fund – 0922

Lump sums, operations - Lapse period expenditures were \$245,894 or 73% of total expenditures. The lapse period spending was a result of the timing and subsequent payments to the Communication Revolving Fund and several vendors for contractual and consulting services.

Insurance Financial Regulation Fund - 0997

Contractual services - Lapse period expenditures were \$353,254 or 23% of total expenditures. This lapse spending occurred due to timing of billings and subsequent payments to the Facilities Management Services Revolving Fund and to an insurance company as a result of a legal settlement award.

Lump sums, operations - Lapse period expenditures were \$132,926 or 63% of total expenditures. The lapse period spending was a result of the timing and subsequent payment to a vendor for actuarial consulting services.

Department of Insurance Federal Trust Fund – 0673

Lapse period expenditures were \$2,433,989 or 17% of total expenditures. This lapse spending occurred due to timing of billings and subsequent payment of vouchers to two vendors for contractual services rendered in relation to the Patient Protection and Affordable Care Act.

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
ANALYSIS OF ACCOUNTS RECEIVABLE
For the Two Years Ended June 30, 2016

Receivables of the Department consist mainly of licenses, fees, taxes, interest and penalties. The aging schedule of the Department's receivables (expressed in thousands) at June 30, 2016 is presented below:

Aging Schedule	General Revenue Fund 0001	Fire Prevention Fund 0047	Public Pension Regulation Trust Fund 0546	Insurance Producers' Administration Fund 0922	Insurance Financial Regulation Fund 0997	Total
Current	\$ 1,491	\$ 133	\$ 9	\$ 25	\$ 18,176	\$ 19,834
31-60	-	-	146	32	1	179
61-120	199	20	-	1	1	221
121-180	322	-	-	16	2	340
181-365	239	-	-	159	1	399
Over 365	1,116	18	-	2,994	26	4,154
Accounts Receivable Gross Balance	<u>3,367</u>	<u>171</u>	<u>155</u>	<u>3,227</u>	<u>18,207</u>	<u>25,127</u>
Less: Estimated Uncollectibles	<u>(686)</u>	<u>(17)</u>	<u>-</u>	<u>(329)</u>	<u>(6)</u>	<u>(1,038)</u>
Accounts Receivable Net Balance	<u>\$ 2,681</u>	<u>\$ 154</u>	<u>\$ 155</u>	<u>\$ 2,898</u>	<u>\$ 18,201</u>	<u>\$ 24,089</u>

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
ANALYSIS OF ACCOUNTS RECEIVABLE
For the Two Years Ended June 30, 2016

Receivables of the Department consist mainly of licenses, fees, taxes, interest and penalties. The aging schedule of the Department's receivables (expressed in thousands) at June 30, 2015 is presented below:

Aging Schedule	General Revenue Fund 0001	Fire Prevention Fund 0047	Public Pension Regulation Trust Fund 0546	Insurance Producers' Administration Fund 0922	Insurance Financial Regulation Fund 0997	Total
Current	\$ 246	\$ -	\$ -	\$ 139	\$ 18,233	\$ 18,618
31-60	1,063	91	94	16	1	1,265
61-120	66	10	-	45	-	121
121-180	48	-	-	31	-	79
181-365	90	-	-	434	1	525
Over 365	923	18	-	2,534	25	3,500
Accounts Receivable Gross Balance	2,436	119	94	3,199	18,260	24,108
Less: Estimated Uncollectibles	(689)	(17)	-	(330)	(6)	(1,042)
Accounts Receivable Net Balance	\$ 1,747	\$ 102	\$ 94	\$ 2,869	\$ 18,254	\$ 23,066

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016**

**AGENCY FUNCTIONS AND PLANNING PROGRAM
(Not Examined)**

The Department of Insurance (Department) was re-established on June 1, 2009 by Executive Order 2009-04 of the Governor. The Department was previously a part of the Department of Financial and Professional Regulation as the Division of Insurance. The Department is located at 320 West Washington Street, Springfield, Illinois, and at 122 South Michigan Avenue, 19th Floor, Chicago, Illinois. Mr. Andrew Boron served as the Director from June 2011 until January 2015. Mr. James Stephens became Acting Director in January 2015 until Ms. Anne Melissa Dowling's appointment as Acting Director on July 1, 2015.

Agency Functions

The mission of the Department is to protect consumers by providing assistance and information, by efficiently regulating the insurance industry's market behavior and financial solvency, and by fostering a competitive insurance marketplace.

The Department carries out this mission through effective administration and enforcement of the Illinois Insurance Code (215 ILCS 5/1 et seq.), the Illinois Pension Code (40 ILCS 5/1-101 et seq.), and related laws and regulations, including Title 50 of the Illinois Administrative Code. The Department has 13 Divisions. Each Division is described below:

Legal Affairs Division

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

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

Legislative Affairs Division

The Legislative Affairs Division performs the following duties within the Department:

- Develops the Department's legislative agenda;
- Coordinates the Department's comments on insurance legislation;
- Develops issue papers, fact sheets and bill reviews;
- Monitors legislation effecting the Department and the insurance industry;
- 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 office.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016**

**AGENCY FUNCTIONS AND PLANNING PROGRAM (Continued)
(Not Examined)**

Internal Audit Division

The Internal Audit Division's purpose within the Department is to provide an independent, objective assurance and consulting activity designed to add value and improve the Department's operations. It helps the Department accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The Internal Audit Division is an integral part of the Department because it provides an independent evaluation of the process through which the Department's overall goals and objectives are established, communicated, and monitored to ensure accountability. Through assurance and non-audit/consulting services, internal auditors determine whether fiscal, administrative and information system controls are functioning properly; policies, procedures, laws, and regulations are followed; established standards are met; resources are used efficiently; and the Department's objectives are being achieved.

Finance and Administration Division

The Finance and Administration Division provides support services to the entire Department and is responsible for revenue collections and fiscal functions.

Property and Casualty Products Division

Compliance Section

The Compliance Section reviews the manuals of rules and rates filed for those lines of insurance required by statute and oversees the operations of the Illinois Mine Subsidence Fund and the State's involuntary insurance markets: the Illinois Automobile Insurance Plan, the Illinois FAIR Plan Association and the Illinois Workers Compensation Assigned Risk Plan.

Consumer Section

The Consumer Section investigates and resolves property and casualty consumer complaints involving insurers, public adjusters, and agents.

Market Analysis Section

The Market Analysis Section performs data calls for various divisions and compiles numbers for reports to management, General Assembly, and the Governor's office whether they be statutory or upon request.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016**

**AGENCY FUNCTIONS AND PLANNING PROGRAM (Continued)
(Not Examined)**

Continuing Education Section

The Continuing Education Section reviews and approves continuing education and pre-licensing materials for the various license types issued in the State of Illinois. The Section also ensures compliance with statutes and rules regarding continuing education and pre-licensing.

Licensing Section

The Licensing Section licenses over 200,000 individuals and entities in the various lines of insurance that Illinois allows by either rule or regulation. The Section ensures licenses are issued accurately and timely and that licenses are accurately reflected in State Based Systems licensing database.

Life and Annuities Products Division

The Life and Annuities Compliance Unit reviews company product, advertising and other informational filings to verify compliance with all applicable Illinois laws and regulations. Products are approved only after they have been found compliant with Illinois laws and regulations. Products found deficient of these standards are denied approval.

The Life and Annuities Consumer Protection Unit receives consumer complaints and then initiates dialogue with companies to ensure compliance with applicable Illinois laws and regulations. Consumers are notified when investigations are resolved. Company actions in violation of Illinois guidelines are required to take corrective action on behalf of Illinois consumers.

Health Products Division

The Health Products Division reviews forms and rates filed by health insurance companies. The Division also handles consumer inquiries and complaints related to health insurance coverage. External Reviews are processed by the external review staff within the Office of Consumer Health Insurance. In addition, the Division registers and oversees preferred provider administrators and utilization review organizations.

Get Covered Illinois

Get Covered Illinois is also part of the Health Products Division and serves as the primary resource in Illinois for enrollment, health care information, health insurance literacy and support for the Affordable Care Act. Our mission is to ensure security, stability and affordable health coverage for all Illinois residents. Our program operates with the following guiding principles:

1. promotion of a Statewide culture of coverage;
2. empowerment of community based organizations and stakeholders;
3. measurement of enrollment;

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016**

**AGENCY FUNCTIONS AND PLANNING PROGRAM (Continued)
(Not Examined)**

4. building of a strong and trusted reputation among all residents; and
5. educating Illinois residents into selecting the correct coverage.

Financial/Corporate Regulatory Division

Financial Regulation Section

The Financial Regulation Section is responsible for analyzing and monitoring the financial condition and statutory compliance for insurance companies, health maintenance organizations, and other regulated insurance risk bearing entities domiciled or licensed in Illinois. Annual and quarterly financial analysis reviews are completed for all companies domiciled in Illinois. The Section also completes annual reviews of the holding company registration statement for each group which includes all significant transactions, relationships and other information for those Illinois insurers which are part of a holding company group. Analysis techniques are based on the prospective risks for each entity or group as identified by the collaboration of the financial analysis and financial examination sections and are based on the NAIC techniques and guidance that are required for the Department to maintain its accreditation. The Section also works with the Actuarial, Market Conduct, Legal, Corporate, Consumer, and Producer Licensing units of the Department in the risk identification process. Appropriate regulatory actions are taken when potential solvency-related problems are identified. Beginning in 2015, the Section began a new analysis procedures for the review of Enterprise Risk Management and Own Risk and Solvency Assessment reports filed by affected companies and groups.

The Section participates in supervisory or regional colleges with other U.S. and foreign insurance regulators for those insurance groups with international operations or operational issues. Several insurance groups that are eligible for supervisory or regional college supervision are domiciled in Illinois. The Section shares analysis information with other State, federal and non-US insurance regulators under confidentiality agreements between the parties.

The Section is responsible for oversight of the corporate governance and management operations of Illinois domiciled insurers because, by law, many financial transactions such as the acquisition of an Illinois domestic insurer, entering agency, reinsurance or other agreements, paying dividends, and other items require the prior approval of the Department. The Section also reviews other agreements that are required to be filed with the Department prior to being entered into between affiliated parties to ensure the terms meet the applicable statutory thresholds.

The Section works closely with entities exhibiting distressed financial conditions. In these instances, the Section must devote greater staff resources to ensure a more continuous regulatory process is maintained. In these circumstances, staff have more contact with company representatives in the form of face-to-face or teleconference meetings and other correspondence. Detailed review of expanded analytical data is often required in these situations. In many cases, staff must also coordinate the analysis process with other insurance regulators.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016**

**AGENCY FUNCTIONS AND PLANNING PROGRAM (Continued)
(Not Examined)**

Casualty Actuarial Section

The Casualty Actuarial Section's ongoing responsibilities include providing technical actuarial support to the financial and consumer market areas. The core actuarial analyses performed with respect to the financial solvency of insurance entities include reviewing Statements of Actuarial Opinion and analyzing work papers supporting them, performing loss reserve analyses of Annual Statement loss data, and participating in financial examinations of insurance companies. In conjunction with the Financial Examination Section, staff conduct risk-focused examinations, which includes evaluation of pricing risk.

The Casualty Actuarial Section continues to oversee production of the Illinois Property and Casualty Insurance Market Share Report. Staff also evaluate the Actuarial Opinion Summary of all domestic property and casualty companies, perform technical analyses of reinsurance agreements for transfer of risk, evaluate all extraordinary dividend notifications and monitor carried asbestos and environmental reserve amounts.

In support of the consumer services area, actuarial staff review actuarial information supporting rate filings, such as the Illinois FAIR Plan, the Illinois Mine Subsidence Insurance Fund, the Illinois Automobile Insurance Plan, and the National Council on Compensation Insurance. Staff also oversee the actuarial evaluation of all medical malpractice rate filings; and, are responsible for monitoring medical malpractice historical data and the Illinois Medical Professional Liability Insurance Uniform Claims Reporting (IMPLIUCR) data submitted by companies.

Life Actuarial Section

The Life Actuarial Section has financial and consumer responsibilities related to life, annuity, and health insurance. On the financial side, review of the reserve Actuarial Opinion and Regulatory Asset Adequacy Issues Summary of each Illinois domestic insurer is a critical task performed annually. These reviews are done to determine regulatory compliance, but more importantly to assess the risk of aggregate reserve understatement under what are considered moderately adverse interest rate scenarios and policyholder behavior assumptions. Results are compared with other Illinois domestic insurers and follow-up is initiated where outlier results raise concerns.

The Examination Unit performs more in-depth analyses of reserves as part of periodic risk-focused, on-site financial exams. Planning memos for each exam are produced and reviewed by a life actuary to assure issues being discussed nationally at the NAIC are given appropriate emphasis.

Actuarial support is provided to the Financial Analysis Unit, and inquiries from the industry are researched and answered. Examples include analysis of reinsurance treaties for appropriate risk transfer, troubled company issues such as asset modeling, and the effect of Affordable Care Act (ACA) provisions on health insurers.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016**

**AGENCY FUNCTIONS AND PLANNING PROGRAM (Continued)
(Not Examined)**

The Section became members of a select number of the NAIC groups and continued its participation as a nonmember in a wide array of actuarial-related groups at the NAIC. Significant emphasis was given to the Life Actuarial Task Force, as well as to groups involved in the development of Principles Based Reserves and required changes to the regulatory structure. This paradigm shift in calculating reserves for certain types of newly issued life insurance products is on the horizon, and a significant amount of work is being done to lay the groundwork.

On the consumer side, rate increases for long-term care insurance policies continued to be a major concern in 2014. Although contractually allowed within certain parameters, large premium increases can be a hardship to seniors on fixed incomes, and significant effort has been made in search of appropriate measures to reduce the impact on policyholders. In late 2012, the Department engaged a consulting firm to assist in reviewing the large number of filings. The contract was recently successfully rebid. The Section has also actively participated in and monitored the NAIC's various long-term care working groups as states work to collectively resolve the issues.

Since September 2011, the Section has reviewed rate filings for comprehensive major medical insurance for compliance with requirements established by the Federal Affordable Care Act. Results of these reviews are sent to the Department of Health and Human Services. The Section also coordinates with actuarial consultants to review the Qualified Health Plan (QHP) rates for health plans to be sold in the ACA Health Insurance Exchange in Illinois.

The Life Actuarial Section reviewed rate filings for Medicare supplement, credit life and credit disability insurance; as well as monitoring compliance with the Small Employer Health Insurance Rating Act.

Financial Examinations Section

Illinois law requires the examination of the financial condition of insurance companies domiciled in Illinois not less than once every five years. On-site financial examinations of companies provide for a detailed review of the company's operations, financial condition, compliance with Illinois laws and regulations, and the reliability of financial statements. The information obtained during an examination may be the basis for timely and appropriate regulatory action.

Under a national regulatory accreditation program administered by the NAIC, financial examinations of multistate insurers must be adopted within 18 months of the end of the year being examined.

The Financial Examination Section utilizes the electronic work paper software known as "Teammate." This software is used throughout most of the country by State insurance regulators and increases the efficiency and effectiveness of examinations. The Financial Examination Section also utilizes four outside consultants/vendors to provide various levels of financial examination services to assist in the financial examination of Illinois domestic companies.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016**

**AGENCY FUNCTIONS AND PLANNING PROGRAM (Continued)
(Not Examined)**

In addition to performing financial examinations, the Financial Examination Section annually values the life insurance in force of domestic companies. Reserve liabilities associated with these in-force amounts are certified as meeting applicable minimum standards. Three of these valuations were completed during the year.

Corporate Regulations Section

The Corporate Regulation Section is responsible for the incorporation, formation, licensing, and registration of insurance entities and approval of other corporate transactions. As of 2015 year end, 590 Life, Accident & Health and 1,150 Property & Casualty insurance companies were licensed in Illinois. Other registered entities include:

- 556 purchasing groups (organized to purchase commercial liability for the members);
- 111 foreign registered risk retention groups (insurance companies organized to write commercial liability insurance on behalf of their owner-members).

As of December 31, 2015, 1,008 resident and 1,786 non-resident surplus line producers were licensed. Those individuals may, under limited circumstances, negotiate insurance contracts with unauthorized insurers not protected by the Illinois Insurance Guaranty Fund. Pursuant to statutory authority, the Director has declared 114 unauthorized insurers ineligible for surplus line producers.

Public Pension Division

The Division regulates the suburban and downstate police and fire fighter pension systems and enforces the provisions of the Illinois Pension Code. The Division's duties are outlined in Article 1A of the Code. The Division reviews and maintains vital information from all pension funds in the State, in the form of annual statements (suburban and downstate police and fire funds) and annual independent audits (State-wide, State financed and Cook County and Chicago funds). The Division performs compliance examinations of all Article 3 and 4 pension funds, which are firefighter and police pension funds from state governmental units with populations under 500,000, to ensure compliance with the provisions of Articles 1, 3 and 4 of the Illinois Pension Code. The Division also drafts rules for regulations affecting Article 3 and 4 pension funds. The Division provides advisory services, in the form of a 1-800 hotline, a general inquiry inbox, conference and training presentations, and informal and formal written advisory opinions. The Division performs actuarial valuations and true cost calculations for all Article 3 and 4 pension funds. Lastly, the Division issues Orders and Notices of Noncompliance to pension funds and/or municipalities as its main enforcement mechanism to enforce compliance with the provisions of the Illinois Pension Code.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016**

**AGENCY FUNCTIONS AND PLANNING PROGRAM (Continued)
(Not Examined)**

Information Technology Division

The Division's mission is to provide solutions through the use of technology which enhance business outcomes and supports the mission of the Department of Insurance and the State of Illinois, as a whole. The vision is to create a progressive and nimble team of innovators who are empowered to utilize technology, encouraged to exercise creative thinking and expected to collaborate with their contemporaries to provide first class solutions which reflect the IT Division's core values.

The Division's core values consist of 7 principles: Collaboration, Continuous Improvement, Innovation, People, Security, Service and Transparency.

Consumer Education and Protection Division

The Division is responsible for consumer protection and education programs and non-financial regulatory functions. The Division conducts market analysis on the Illinois insurance industry and examines companies' market conduct related to claims, underwriting, forms, licensing and other areas. The Division issues corrective orders and civil forfeitures to companies to remedy any violations of Illinois law or Department rules.

Investigations Division

The Investigations Division consists of two units: the Workers' Compensation Fraud Unit and the Producer Regulatory Unit.

Workers' Compensation Fraud Unit

The Workers' Compensation Fraud Unit is charged with investigating allegations of workers' compensation fraud. Section 25.5(c) of the Illinois Workers' Compensation Act specifically provides that it "shall be the duty of the Division to determine the identity of insurance carriers, employers, employees, or other persons or entities that have violated the fraud and insurance non-compliance provisions of this Section." The Workers' Compensation Fraud Unit reports violations of the Act to the Attorney General or appropriate State's Attorney for prosecution.

Producer Regulatory Unit

The Producer Regulatory Unit conducts regulatory investigations of licensed insurance producers, limited lines representatives, business entities, public adjusters, third party administrators and other licensed entities. These investigations originate from complaints submitted by consumers, insurers, producers, and other entities regarding their solicitation, servicing, marketing, and other insurance-related activities and methods. Such investigations may result in the issuance of a Director's Order

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016**

**AGENCY FUNCTIONS AND PLANNING PROGRAM (Continued)
(Not Examined)**

to the licensed individual or entity. The Producer Regulatory Unit also conducts investigations regarding individuals applying for various licenses regulated by the Department. The Director of the Department of Insurance may place on probation, suspend, revoke, or refuse to issue or renew an insurance producer's license and may assess civil penalties based on violations of the insurance code or regulations.

Associated Organizations

The Department has three associated organizations. Each organization is described below:

Office of the Special Deputy (OSD)

The Office of the Special Deputy Receiver assists the Director in carrying out his or her responsibilities as the statutory conservator, rehabilitator or liquidator of insurance companies that are declared insolvent or are otherwise impaired from managing their own affairs. No State funds are involved in the OSD's operation. OSD operations are funded out of the assets of insurers placed in receivership. All expenditures, including the payment of policyholder claims, are reported and subject to the approval of a Supervising Court in the Circuit Court of Cook County, Illinois. Every receivership estate possessing assets in excess of \$500,000 is also subject to an annual audit by an independent CPA qualified to conduct audits under the Illinois State Auditing Act. Certain insurers domiciled and licensed in Illinois that are placed into receivership, may trigger one of four state insurance guaranty associations that provided limited coverage for certain lines of insurance. The scope and the limits of guaranty association coverage are determined by statute.

Comprehensive Health Insurance Plan (CHIP)

The Comprehensive Health Insurance Plan is a State program which offers health insurance to a limited number of Illinois residents who can afford, but historically were unable to find adequate health insurance coverage in the private market because of their medical or physical condition. The plan also serves as the State's alternative mechanism for HIPAA portability requirements. CHIP is subject to its own enabling law and is governed by a Board of Directors which is chaired by the Director of Insurance or their designee. CHIP has a small staff which works for the Board of Directors. Claims are administered for CHIP by a third party administrator.

National Association of Insurance Commissioners (NAIC)

The National Association of Insurance Commissioners is a central organization of the chief insurance regulatory officials of the 50 states, the District of Columbia and four U.S. territories. The primary objective of this body is to strengthen and improve State regulation through the formulation of common goals and uniform policies.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016**

**AGENCY FUNCTIONS AND PLANNING PROGRAM (Continued)
(Not Examined)**

The Illinois Department of Insurance maintains an active presence in the NAIC and was one of the first four states to become formally accredited as meeting the financial regulatory standards established by the NAIC.

Planning Program

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

The following is a partial list of those programs:

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

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

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016**

**BUDGET IMPASSE DISCLOSURES
(Not Examined)**

Payment of Fiscal Year 2016 Costs in Future Fiscal Years

Article 74 of Public Act 99-0524 authorized the Illinois Department of Insurance (Department) to pay Fiscal Year 2016 costs using the Illinois Department of Insurance's (Department) Fiscal Year 2017 appropriations for non-payroll expenditures. The Department did not have any outstanding invoices from Fiscal Year 2016 unpaid after the closure of the Fiscal Year 2016 Lapse Period on August 31, 2016. Therefore, the Department did not use its Fiscal Year 2017 appropriations to pay its Fiscal Year 2016 costs.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016**

**ALTERNATIVE FINANCING IN LIEU OF APPROPRIATION AND
PROGRAMS TO ADDRESS UNTIMELY PAYMENTS TO VENDORS
(Not Examined)**

Transactions Involving the Illinois Finance Authority

The Illinois Department of Insurance (Department) and its vendors did not participate in alternative financing in lieu of enacted appropriations involving the Illinois Finance Authority during Fiscal Year 2016.

Transactions Involving the Vendor Payment Program and Vendor Support Initiative Program

Vendor Payment Program (VPP)

In 2011, the State of Illinois (State) created the voluntary VPP in response to delays in payments for goods and services provided by the State's vendors arising from the State's cash flow deficit. The Department of Central Management Services (CMS) approved third party financing entities to act as "qualified purchasers" of accounts receivable from "participating vendors" who had submitted invoices which had not been paid by the State.

A participating vendor's accounts receivable is eligible for the VPP if it is from an invoice unpaid by the State that is (1) not for medical assistance payments (2) where 90 days have passed since the proper bill date, which is (3) entitled to interest under the State Prompt Payment Act (Act) (30 ILCS 540) and (4) free of any liens or encumbrances. Under the terms of an agreement between a qualified purchaser and the participating vendor, the participating vendor receives payment for 90% of the receivable balance. The participating vendor, in turn, assigns its rights to the interest due under the Act to the qualified purchaser. When the State Comptroller ultimately pays the invoice, the participating vendor receives the remaining 10% due (less any offsets).

Notably, while CMS approved the qualified purchasers and provided information to vendors about VPP, neither CMS nor the State are parties to the assignment agreements.

During Fiscal Year 2015 and Fiscal Year 2016, none of the Department's vendors participated in the Vendor Payment Program (VPP).

Vendor Support Initiative Program (VSI)

During Fiscal Year 2016, the State created the voluntary VSI as an alternative to the Vendor Payment Program (VPP) for cases where the Department lacked an enacted appropriation or other legal expenditure authority to present invoices to the State Comptroller for payment. The VSI operated similarly to the VPP, although the Department was required to determine a participating vendor's invoice (1) would have met the requirements of the VPP and (2) provided the proper bill date of invoice prior to the qualified purchaser and participating vendor entering into an agreement where the participating vendor received payment for 90% of the receivable balance. The participating vendor, in turn, assigned its rights to the interest due under the Act to the qualified

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016**

**ALTERNATIVE FINANCING IN LIEU OF APPROPRIATION AND
PROGRAMS TO ADDRESS UNTIMELY PAYMENTS TO VENDORS (Continued)
(Not Examined)**

purchaser. After the State Comptroller ultimately paid the invoice after the Department received appropriations or other legal expenditure authority to pay the invoice, the participating vendor received the remaining 10% due (less any offsets).

During Fiscal Year 2016, the Department had 5 vendors participate in VSI for 102 invoices, totaling \$116,176. A summary of the amount of transaction by qualified purchaser follows:

Transaction By Qualified Purchaser

Qualified Purchaser	Total
VAP Funding Master Note	\$116,176

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016**

**INTEREST COSTS ON FISCAL YEAR 2016 INVOICES
(Not Examined)**

Prompt Payment Interest Costs

The Illinois Department of Insurance (Department) calculated prompt payment interest due to vendors under the State Prompt Payment Act (Act) (30 ILCS 540) using the vendor's proper bill date through the date the State Comptroller issued a warrant to the vendor, regardless of when and if an enacted appropriation existed during Fiscal Year 2016. The Act (30 ILCS 540/3-2) and the Illinois Administrative Code (74 Ill. Admin. Code 900.100) require interest to be paid under a daily simple interest rate of .033% (1% over a 30-day period) for every day elapsed following the 90th day after a vendor submits an eligible proper bill to the Department. The following chart shows the Department's prompt payment interest incurred related to Fiscal Year 2016 invoices, calculated on the accrual basis of accounting, by fund:

**Prompt Payment Interest Incurred
Year Ended June 30, 2016**

Fund #	Fund Name	Invoices	Vendors*	Dollar Value
534	Worker's Compensation Commission Operations Fund	48	7	\$ 1,001
546	Public Pension Regulation Trust Fund	28	11	13,652
922	Insurance Producer Administration Fund	215	54	25,187
997	Insurance Financial Regulation Fund	175	55	13,625
Interest accrued as of June 30, 2016		466	105	\$ 53,465
Additional interest accrued during lapsed period until invoices were paid				10,067
Prompt payment interest expense paid by Department for Fiscal Year 2016				\$ 63,532

*information includes the same vendor being paid from more than one fund

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**AVERAGE NUMBER OF EMPLOYEES
(Not Examined)**

The following information was prepared from Department records and presents the average number of employees for fiscal years ended June 30:

<u>Division/Unit</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Illinois Workers' Compensation Commission Operations	4	4	2
Public Pension Regulatory	9	13	10
Affordable Care Act Operation	4	1	3
Insurance Producer Administration	121	118	122
Insurance Financial Regulation	<u>115</u>	<u>115</u>	<u>118</u>
TOTAL	<u><u>253</u></u>	<u><u>251</u></u>	<u><u>255</u></u>

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**SERVICE EFFORTS AND ACCOMPLISHMENTS
(Not Examined)**

Department of Insurance, Consumer Market Activities

Mission Statement: To protect consumers by monitoring and ensuring the solvency of Illinois-based insurance companies; to make certain that insurance companies and producers adhere to state insurance laws and regulations; and to work with insurance regulators from other states to maintain and enhance the efficiency of state based insurance regulation.

Program Goals:

Objectives:

1. Ensure that insurance-related complaints and inquiries are handled in a timely and accurate manner.
 - a. To maintain the average number of days required to investigate and close a life, accident, and health (LA&H) insurance complaint at 60 days.
 - b. To maintain the average number of days required to investigate and close a property and casualty (P&C) insurance complaint at 35 days.
 - c. To handle external review requests within time-frames required by law, i.e. one business day for standard requests and immediately for expedited requests.
2. Ensure that regulated entities comply with applicable laws, regulations, and their policy contracts.
 - a. To protect Illinois insurance consumers by conducting examinations on insurers whose complaint volume suggests possible non-compliance with laws, regulations, and their policy contracts.
 - b. To schedule and complete follow-up market conduct examinations on insurers whose prior exams resulted in orders requiring corrective action to determine if the insurers have complied.
 - c. To schedule and complete targeted exams to determine market practices on issues of interest to the executive or legislative branches.
3. Enforce licensing and continuing education requirements for individuals and other licensed entities, determining, by investigation, that entities are in compliance with laws and regulations.
 - a. To process 100% of all new online license requests within one working day of the date on which the National Insurance Producer Registry (NIPR) receives the information. Depending on volume, licensing needs and other circumstances, process approximately 98% of the new paper applications received within 30 working days.
 - b. To process 100% of all renewed online license requests within one working day of the date on which the NIPR receives the information. Depending on volume, licensing needs and other circumstances, process approximately 98% of the renewal paper applications received within 30 working days.

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**SERVICE EFFORTS AND ACCOMPLISHMENTS (Continued)
(Not Examined)**

- c. To respond to potential licensing violations committed by applicants and licensees through investigations and examinations of selected insurance producers and other entities. Depending on complaint volume, regulatory needs and other circumstances, approximately 200 investigations and examinations will be conducted each year.
- 4. Protect consumers by providing information needed to make decisions on a broad range of insurance issues and assisting consumers with specific concerns pertaining to coverage, claims, underwriting and other consumer financial issues.
 - a. To provide specialized assistance during disasters by providing, within 24 hours of a declaration of the disaster, contact with necessary parties, and when necessary, on-site consumer education and information at all sites declared as state disaster areas in the fiscal year.
 - b. To attend Department of Commerce and Economic Opportunity Rapid Response meetings when called and provide laid-off or soon-to-be unemployed consumers with information regarding the importance of understanding Credit History and Scoring as used in insurance, options regarding 401K accounts, along with information regarding other financial decisions made by these consumers.
 - c. To make presentations at educational seminars conducted by trade groups, associations, labor unions and business organizations regarding the functions and duties of the Department of Insurance relating to insurance and financial issues.
 - d. To act as the Department's Outreach contact with communities, insurance companies, insurance trade associations and other entities seeking educational information or assistance from the Department of Insurance.

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**SERVICE EFFORTS AND ACCOMPLISHMENTS (Continued)
(Not Examined)**

**Fund: Insurance Producer Administration Fund
Statutory Authority: 215 ILCS 5/500-135**

	<u>Fiscal Year 2014 Actual</u>	<u>Fiscal Year 2015 Actual</u>	<u>Fiscal Year 2016 Target /Projected</u>	<u>Fiscal Year 2016 Actual</u>	<u>Fiscal Year 2017 Target /Projected</u>
<u>Input Indicators</u>					
• Total expenditures – all sources (in thousands)	\$17,694.4	\$17,364.6	\$24,017.2	\$17,317.8	\$23,790
• Total expenditures – state appropriated funds (in thousands)	\$17,694.4	\$17,364.6	\$24,017.2	\$17,317.8	\$23,790
• Average monthly full-time equivalents	118.0	124.0	142.0	120.0	132.0
<u>Output Indicators</u>					
• Number of LA&H & P&C consumer complaints closed	8,965	9,269	9,300	9,785	10,300
• Number of written inquiries responded to (oral, written, internet) also includes Chicago	51,275	85,458	89,700	97,740	100,240
• Number of LA&H and P&C market conduct exams completed	46.0	33.0	60.0	48.0	75.0
• Number of market conduct corrective orders issued	42.0	13.0	40.0	26.0	40.0
• Number of new/renewal licenses processed by Producer Licensing Section	89,563	99,947	100,000	107,266	110,000
• Number of LA&H and P&C form and rate filings processed	42,721	36,722	38,138	38,550	39,515
• Cost Containment – Civil penalties collected (in dollars)	-	-	-	-	-
• Utilization Review Applications Processed (URO renewals are based upon a two year cycle)	132.0	110.0	120.0	131.0	144.0
• PPO Annual Renewal Applications processed	123.0	95.0	115.0	170.0	175.0
• HMO complaints closed	448.0	605.0	660.0	798.0	860.0
• HMO policy form filings processed	288.0	293.0	290.0	133.0	133.0

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**SERVICE EFFORTS AND ACCOMPLISHMENTS (Continued)
(Not Examined)**

	<u>Fiscal Year 2014 Actual</u>	<u>Fiscal Year 2015 Actual</u>	<u>Fiscal Year 2016 Target /Projected</u>	<u>Fiscal Year 2016 Actual</u>	<u>Fiscal Year 2017 Target /Projected</u>
<u>Output Indicators</u> (Continued)					
• Number of people reached by Outreach's radio presentations	250,000	-	-	-	-
• Number of Fact Sheets available on Department Internet Site	108.0	110.0	114.0	118.0	120.0
• Number of other and senior citizens presentations by Outreach Unit	72.0	-	-	-	-
• Number of External Reviews closed	1,525	1,522	1,900	2,316	2,550
<u>Outcome Indicators</u>					
• Reduction in number of P&C companies with over 5 complaints closed, whose average consumer complaint response time is greater than 21 days	3.0	2.0	2.0	8.0	5.0
• Reduction in number of LA&H companies with over 5 complaints closed, whose average consumer complaint response time is greater than 21 days	2.0	3.0	3.0	28.0	20.0
• Percentage of auto/homeowners insurers complying with prompt payment standards	95%	95%	95%	95%	95%
• Percentage reduction in companies not in compliance with previous market conduct examination orders	0%	0%	0%	0%	0%
• Additional claim dollars paid to consumers (in dollars)	\$110,000	\$102,053	\$120,000	\$59,070	\$100,000
• Premium overcharges returned to consumers (in dollars)	\$900	\$1,032	\$1,000	\$55,391	\$10,000

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**SERVICE EFFORTS AND ACCOMPLISHMENTS (Continued)
(Not Examined)**

	<u>Fiscal Year 2014 Actual</u>	<u>Fiscal Year 2015 Actual</u>	<u>Fiscal Year 2016 Target /Projected</u>	<u>Fiscal Year 2016 Actual</u>	<u>Fiscal Year 2017 Target /Projected</u>
<u>Efficiency/Cost-Effectiveness</u>					
• Percentage of new license applications processed electronically, within one working day	100%	100%	100%	100%	100%
• Percentage of renewal license applications processed electronically, within one working day	100%	100%	100%	100%	100%
• Percentage of new paper license applications processed electronically, within one working day	98%	98%	98%	98%	98%
• Percentage of renewal paper license applications processed electronically, within one working day	98%	98%	98%	98%	98%

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**SERVICE EFFORTS AND ACCOMPLISHMENTS (Continued)
(Not Examined)**

Department of Insurance, Financial/Corporate Regulatory Division

Mission Statement: To protect consumers by monitoring and ensuring the solvency of Illinois-based insurance companies; to make certain that insurance companies and producers adhere to state insurance laws and regulations; and to work with insurance regulators from other states to maintain and enhance the efficiency of state based insurance regulation.

Program Goals:

Objectives:

1. Conduct periodic financial examinations, identify and work with companies on solvency problems and, when warranted, take corrective regulatory action.
 - a. To conduct financial examinations pursuant to a schedule which ensures that all domestic insurance companies are examined not less frequently than every five years as required by Illinois law and National Association of Insurance Commissioners (NAIC) Financial Regulation Accreditation Standards.
 - b. To conduct more frequent financial examinations of domestic insurance companies identified as priorities.
2. Ensure that regulated entities conduct business according to the incorporation, licensing, registration, and transaction approval requirements specified by applicable law and regulation.
 - a. To renew by July of each year certificates of authority for all authorized foreign and alien companies operating in Illinois, and all approved/accredited foreign and alien insurers operating in Illinois by September 1 of each year.
 - b. To review and process all transactions (e.g., new requests for incorporation, requests for corporate changes) within thirty (30) days of the date on which all information necessary to act on the request is available.
3. Provide advisory services to Illinois public pension funds, retirement systems and their participants and assess compliance with applicable law and regulation.
 - a. To conduct more frequent examinations of public pension funds in order to achieve a decrease in the time interval between examinations.
 - b. To process all annual financial statements from public pension funds and retirement systems within ten (10) days of receipt of the annual statement.

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**SERVICE EFFORTS AND ACCOMPLISHMENTS (Continued)
(Not Examined)**

**Funds: Public Pension Regulation Fund, Insurance Financial Regulation Fund
Statutory Authority: 215 ILCS 5/408.3; 30 ILCS 105/8f**

	<u>Fiscal Year 2014 Actual</u>	<u>Fiscal Year 2015 Actual</u>	<u>Fiscal Year 2016 Target /Projected</u>	<u>Fiscal Year 2016 Actual</u>	<u>Fiscal Year 2017 Target /Projected</u>
<u>Input Indicators</u>					
• Total expenditures - all sources (in thousands)	\$20,499.1	\$20,844.7	\$25,753.0	\$20,107.7	\$25,753.0
• Total expenditures - state appropriated funds (in thousands)	\$20,499.1	\$20,844.7	\$25,753.0	\$20,107.7	\$25,753.0
• Average monthly full-time equivalents	130.0	126.0	152.0	120.0	142.0
<u>Output Indicators</u>					
• LA&H and P&C financial exams started	119.0	65.0	60.0	59.0	77.0
• LA&H, P&C & HMO annual financial statements reviewed	357.0	353.0	357.0	349.0	353.0
• LA&H, P&C & HMO quarterly financial statements reviewed	833.0	879.0	865.0	933.0	881.0
• Corrective orders, stipulation and consent orders, and notices of impairment issued	2.0	2.0	2.0	4.0	3.0
• Certificates of authority renewed	1,414	1,426	1,430	1,401	1,414
• Cease and desist and consent orders issued	2.0	2.0	2.0	1.0	2.0
• Pension fund exams started	94.0	127.0	127.0	53.0	42.0
• Pension fund exams completed	71.0	127.0	127.0	81.0	75.0
• Pension fund annual statements reviewed	767.0	975.0	910.0	1,018	887.0
• LA&H/HMO/P&C limited exams started	5.0	7.0	6.0	7.0	7.0
• Service contract provider registrations - new & renewal	211.0	211.0	215.0	234.0	219.0
• Risk retention groups registered	106.0	111.0	115.0	111.0	109.0
• LA&H/HMO/P&C exams scheduled	52.0	60.0	60.0	77.0	77.0
• LA&H/HMO/P&C limited exams scheduled	7.0	6.0	6.0	7.0	7.0
• LA&H/P&C annual financial statements received	357.0	370.0	374.0	362.0	363.0

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**SERVICE EFFORTS AND ACCOMPLISHMENTS (Continued)
(Not Examined)**

	<u>Fiscal Year 2014 Actual</u>	<u>Fiscal Year 2015 Actual</u>	<u>Fiscal Year 2016 Target /Projected</u>	<u>Fiscal Year 2016 Actual</u>	<u>Fiscal Year 2017 Target /Projected</u>
<u>Output Indicators</u> (Continued)					
• LA&H/P&C/HMO quarterly financial statements received	907.0	900.0	900.0	897.0	901.0
• Pension Fund annual statements received	671.00	975.0	910.0	975.0	975.0
• Number of company transaction requests reviewed	957.0	939.0	930.0	912.0	936.0
• Number of certification transactions processed annually	7,361	7,934	8,000	7,313	7,536
• Number of corporate change transactions processed annually	524.0	453.0	500.0	394.0	457.0
• Number of surplus lines producers - licensing - new and renewal	1,864	2,092	2,100	3,009	2,321
• Number of summons issued - for service of process on foreign and alien insurers	1,983	1,915	1,975	2,063	1,987
• Number of purchasing group registrations	20.0	22.0	20.0	18.0	20.0
<u>Outcome Indicators</u>					
• Percentage of financial analysis issues resolved	100%	100%	100%	100%	100%
• Ten (10) year rolling average of LA&H companies in receivership	1%	1%	1%	1%	1%
• Ten (10) year rolling average of P&C companies in receivership	1.5%	1.5%	1.5%	1.5%	1.5%
• Ten (10) year rolling average HMOs in receivership	0%	0%	0%	0%	0%
• Percentage of LA&H companies operating compared to previous year	99%	98%	98%	99%	99%
• Percentage of P&C companies operating compared to previous year	99%	100%	100%	99%	99%
• Percentage of HMOs operating compared to previous year	102%	105%	105%	108%	105%
<u>External Benchmarks</u>					
• National Association of Insurance Commissioners Accreditation Awarded	Yes	Yes	Yes	Yes	Yes