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OFFICE OF THE AUDITOR GENERAL  
WILLIAM G. HOLLAND

## REPORT DIGEST

**DEPARTMENT OF INSURANCE  
FINANCIAL AND COMPLIANCE AUDIT  
(In accordance with the Single Audit Act of 1984  
and OMB Circular A-128)  
FOR THE TWO YEARS ENDED JUNE 30, 1995**

### SYNOPSIS

- The Department did not maintain adequate controls over fixed asset recordkeeping and reporting.
- The Department did not review all of the Department's systems of internal control as required by statute. This condition has existed since 1989.
- The Department failed to properly maintain and timely file quarterly reports with the federal government for the Senior Health Insurance Program.
- The Department violated federal requirements and the Single Audit Act of 1984 in the administration of the Senior Health Insurance Program grant.

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

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RECYCLED PAPER · SOYBEAN INKS

**DEPARTMENT OF INSURANCE**  
**FINANCIAL AND COMPLIANCE AUDIT**  
**For The Two Years Ended June 30, 1995**

EXPENDITURE STATISTICS	FY 1995	FY 1994	FY 1993
● Total Expenditures (All Funds) . . . . .	\$19,595,170	\$18,511,358	\$17,078,346
<u>OPERATIONS TOTAL</u> . . . . .	\$19,500,490	\$18,386,508	\$17,078,346
% of Total Expenditures . . . . .	99.5%	99.3%	100%
Personal Services . . . . .	\$12,329,497	\$11,565,608	\$10,160,533
% of Operations Expenditures . . . . .	63.2%	62.9%	59%
Average No. of Employees . . . . .	358	344	317
Other Payroll Costs (FICA, Retirement) . . . . .	\$3,507,172	\$3,223,656	\$2,949,019
% of Operations Expenditures . . . . .	18.0%	17.5%	17%
Contractual Services . . . . .	\$1,721,914	\$1,650,710	\$1,456,560
% of Operations Expenditures . . . . .	8.8%	9.0%	9%
All Other Operations Items . . . . .	\$1,941,907	\$1,946,534	\$2,512,234
% of Operations Expenditures . . . . .	10.0%	10.6%	15%
<u>REFUNDS TOTAL</u> . . . . .	\$94,680	\$124,850	*
% of Total Expenditures . . . . .	.5%	.7%	*
● Cost of Property and Equipment . . . . .	\$5,440,000	\$4,626,000	\$3,780,793

SELECTED ACTIVITY MEASURES	FY 1995	FY 1994	FY 1993
● Closed Complaints . . . . .	12,030	12,009	11,454
● Insurance Agency Examinations . . . . .	601	534	701
● Pension Fund Examinations . . . . .	92	80	82
● Field Financial Examinations . . . . .	118	125	127
● Financial Statement Analysis . . . . .	677	660	659

AGENCY DIRECTOR(S)
During Audit Period: Steven Selcke (July 1, 1993 to February 1, 1994) James Schacht, Interim Director (February 2, 1994 to June 30, 1995)
Currently: Mark Boozell

\* Refund information not separately reported for FY 1993.

## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

### FIXED ASSET RECORDS

The Department did not maintain adequate controls over fixed asset recordkeeping and reporting. The Department's reporting of additions, deletions, and transfers to the Department of Central Management Services did not agree with the year-end report to the State Comptroller's Office for June 30, 1994 and June 30, 1995 by \$24,000 and \$267,000, respectively. In addition, for fiscal year 1995, the Department had no quarterly detail listing with which to reconcile the quarterly reports. (Finding 2, page 14)

We recommended the Department implement the necessary controls to ensure that agency fixed asset reporting is accurate and agrees to both the detailed records and year-end summary reports.

The Department responded it has taken the necessary steps to ensure "Agency Report of Fixed Assets" quarterly reports reconcile between Central Management Services, the Department, and the Comptroller's Office. The Department stated the reconciliation of fixed assets has been given top priority in the development of an internal automated system. According to Department officials, testing of this new system should begin in fiscal year 1996 and be fully operable in fiscal year 1997.

### INTERNAL AUDIT COVERAGE

The Department's internal audit unit did not review all of the Department's major systems of internal control as required by statute. **This finding has been repeated since 1989.** Of the Department's eleven major systems, one review was completed, five reviews were partially completed and the remaining five reviews had not been started. (Finding 3, page 15)

We recommended the Department allocate the necessary resources to review all systems of internal control.

The Department agrees with the recommendation. Department officials stated an additional experienced staff position has been requested to direct the internal audit function beginning in fiscal year 1997. (For previous agency responses, see Digest Footnote 1.)

### QUARTERLY FEDERAL GRANT REPORTS

The Department failed to timely file and properly maintain federal quarterly reports for the Senior Health Insurance Program grant. We noted that four of eight "Financial Status Reports" were submitted late. (Finding 6, page 126)

We recommended the Department implement the necessary controls to ensure that reports are filed timely and are properly maintained with all supporting documentation.

The Department responded that four reports were filed late. However, according to Department officials, the federal agency they report to has never indicated a problem with the timeliness of the report filings.

## **FEDERAL GRANT REQUIREMENTS**

The Department failed to implement a drug-awareness program as prescribed by the Drug-Free Workplace Act of 1988. This Act requires grantees to have a drug-awareness program to educate employees on the dangers of drug use in the workplace. (Finding 7, page 127)

The Department also failed to file corrective action plans for the two federal findings in the previous audit report in accordance with the Single Audit Act of 1984. Upon receipt of a letter requesting a corrective action plan for the prior finding regarding cash management, the Department prepared one. However, a corrective action plan was not prepared for the second finding which concerned Federal financial reports. (Finding 8, page 128)

We also noted the Department failed to maintain adequate supporting documentation for payroll charges of employees paid from the Senior Health Insurance Program. We noted two vouchers, each covering a one-half month period, in which attendance records could not be located by the Department. This resulted in \$2,361.67 in questioned costs. (Finding 9, page 129)

We recommended the Department develop and implement a drug-awareness program in accordance with the Drug-Free Workplace Act of 1988. We also recommended the Department file corrective action plans for all material federal findings as required by the Single Audit Act of 1984. In addition, we recommended the Department maintain time and attendance records as required by OMB Circular A-87.

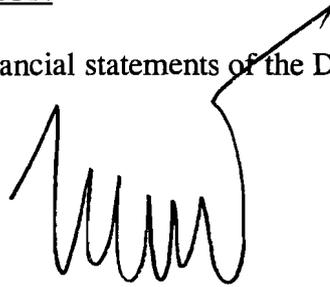
The Department responded that a drug-free workplace training was held in both the Springfield and Chicago Department of Insurance offices in March, 1996. The Department also stated the Internal Audit Unit will be filing a corrective action plan in accordance with the Single Audit Act of 1984 within 30 days of receipt of the final audit report. Department officials further responded that they will comply with the Federal and State attendance records as required by OMB Circular A-87.

## **OTHER FINDINGS**

The remaining findings are less significant and are being given appropriate attention by the Department. We will review progress towards the implementation of our recommendations in our next audit.

## AUDITOR'S OPINION

Our auditors state the June 30, 1995 and 1994 financial statements of the Department are fairly presented.



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WILLIAM G. HOLLAND, Auditor General

WGH:BAR:pp  
April 25, 1996

### SUMMARY OF AUDIT FINDINGS

<u>Number of</u>	<u>This Audit</u>	<u>Prior Audit</u>
Audit Findings	9	5
Repeated Findings	5	1
Prior Recommendations Implemented or Not Repeated	0	9

### SPECIAL ASSISTANT AUDITORS

Our special assistant auditors for this audit were Checkers, Simon & Rosner.

#### DIGEST FOOTNOTES

##### #1 INTERNAL AUDIT COVERAGE - Previous Agency Responses

1993: "The audit plans for the next two fiscal years include limited audits for all of the Department's systems of internal accounting control and internal administrative control. The internal auditor will continue to devote efforts in improving management's annual evaluations of the Department's internal controls.

Assistance will be provided by the electronic data processing section in conducting reviews of their internal controls. The word processing unit will be utilized, if required, to assist the internal auditor in the preparation of audit reports. This will enable the internal auditor to be more timely in the completion of audits.

The internal auditor uses the annual evaluations, prior audits by the Auditor General, and prior internal audits in conducting all new audits. It is anticipated that all major and some minor internal controls will be reviewed for the next evaluation period."

1991: "The Audit Plan for Fiscal Year 92 and Fiscal Year 93 includes limited audits for all of the Department's internal accounting and internal administrative systems. The audits will be directed to the major areas of each system initially, and will be more specific in future years to include minor areas of each control system.

Emphasis has been placed on the annual evaluations of the internal fiscal and administrative controls of the Department conducted by Division Management to show possible weaknesses, and strong points in the various areas. The Internal Auditor uses these reviews, prior audits by the Auditor General, and prior internal audits in conducting all new audits. It is anticipated that all major, and some minor internal controls will be reviewed every two years."

1989: "The Audit Plan for FY 1990 and FY 1991 was revised in November 1989, and approved by the Director. This plan was revised to ensure that audits of major systems of internal accounting and administrative control are conducted on a periodic basis so that all major systems are reviewed at least once every 2 years. Review of the design of major new electronic data processing systems and major modifications of those systems provide for adequate audit trails and accountability. Special audits of operations, procedures, programs, electronic data processing systems and activities will be performed as directed by the Director."