STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Year Ended June 30, 2005

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

Sikich LLP
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Year Ended June 30, 2005

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STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

AGENCY OFFICIALS

Secretary:	
July 2004 to September 2005	Mr. Fernando E. Grillo
September 2005 to present	Mr. Dean Martinez
Chief of Staff:	
July 2004 to September 2005	Mr. Dean Martinez
September 2005 to present	Mr. Andrew Fox (acting)
Chief Fiscal Officer:	
July 2004 to present	Mr. Travis March (acting)
Chief Legal Counsel:	
July 2004 to present	Mr. Patrick Hughes (acting)
Director of Human Resources:	
July 2004 to present	Mr. Richard Foxman
Director of Administrative Services:	
July 2004 to February 2005	Ms. Elizabeth Diaz
February 2005 to September 2005	Mr. Mike Leslie (acting)
September 2005 to present	Mr. James Marron
Director of Information Technology:	
July 2004 to present	Mr. Dom Greco (acting)
Director of Legislative Affairs:	
July 2004 to December 2005	Ms. Mindy Kolaz, (acting)
December 2005 to present	Ms. Heather Wright
Director of the Division of Professional Regulation:	
July 2004 to present	Mr. Dan Bluthardt
Director of the Division of Financial Institutions:	
July 2004 to November 2005	Ms. Michele Latz
November 2005 to present	Ms. Gina DeCiani (acting)
Director of the Division of Insurance:	
July 2004 to April 2005	Ms. Deirdre Manna (acting)
April 2005 to present	Mr. Michael McRaith

Director of the Division of Banks and Real Estate:

July 2004 to present	Mr. D. Lorenzo Padron

Agency offices are located at:

320 West Washington Street 3rd Floor Springfield, IL 62786	James R. Thompson Center 100 West Randolph, 9th Floor Chicago, IL 60601
500 East Monroe Street Springfield, IL 62701	310 South Michigan Avenue, Suite 2130 Chicago, IL 60604

Illinois Department of Financial and Professional Regulation

Office of the Secretary

ROD R. BLAGOJEVICH
Governor

DEAN MARTINEZ
Secretary

MANAGEMENT ASSERTION LETTER

February 24, 2006

Sikich LLP
Certified Public Accountants & Advisors
1000 Churchill Road
Springfield, IL 62702

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grants that could have a material effect on the operations of the Agency. 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 Agency's compliance with the following assertions during the year ended June 30, 2005. Based on this evaluation, we assert that during the year ended June 30, 2005, the Agency has materially complied with the assertions below.

A. The agency 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 agency 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 agency has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. The State revenues and receipts collected by the agency 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. The money or negotiable securities or similar assets handled by the agency on behalf of the State or held in trust by the agency have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

Department of Financial and Professional Regulation

Dean Martinez, Secretary

Travis March, Fiscal Officer

Patrick Hughes, Legal Counsel

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

COMPLIANCE REPORT

SUMMARY

Effective July 1, 2004, Executive Order Number 6 (2004) abolished the Department of Professional Regulation (DPR), Department of Insurance (DOI), Department of Financial Institutions (DFI) and Office of Banks and Real Estate (BRE) and transferred all the rights, powers and duties vested in these Agencies to the newly created Department of Financial and Professional Regulation.

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

AUDITORS' REPORTS

The Independent Accountants' 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

Number of	This Report	Prior DPR	Prior DOI	Prior DFI	Prior BRE
Findings	34	22	3	2	16
Repeated findings	32	12	-	-	2
Prior recommendations implemented or not repeated	11	7	2	4	4

Details of findings are presented in a separately tabbed report section.

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EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on May 3, 2006. Attending were:

DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

Dean Martinez	Secretary
Andrew Fox	Acting Chief of Staff
Travis March	Acting Chief Fiscal Officer
Brian Chumley	Fiscal Operations

OFFICE OF THE AUDITOR GENERAL

Jon Fox, CPA	Audit Manager

SIKICH LLP

Nick Appelbaum, CPA	Partner
Laura Scott, CPA	Manager

Responses to the recommendations were provided by Brian Chumley in a letter dated May 8, 2006.

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

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois, Department of Financial and Professional Regulation'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 year ended June 30, 2005. The management of the State of Illinois, Department of Financial and Professional Regulation is responsible for compliance with these requirements. Our responsibility is to express an opinion on the State of Illinois, Department of Financial and Professional Regulation's compliance based on our examination.

A. The State of Illinois, Department of Financial and Professional Regulation 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 Financial and Professional Regulation 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 Financial and Professional Regulation has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. The State revenues and receipts collected by the State of Illinois, Department of Financial and Professional Regulation 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 Financial and Professional Regulation on behalf of the State or held in trust by the State of Illinois, Department of Financial and Professional Regulation 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 Financial and Professional Regulation's compliance with those requirements 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 Financial and Professional Regulation's compliance with specified requirements.

In our opinion, the State of Illinois, Department of Financial and Professional Regulation complied, in all material respects, with the aforementioned requirements during the year ended June 30, 2005. However, the results of our procedures disclosed instances of noncompliance with those 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 State findings as findings 05-1, 05-2, 05-3, 05-6, 05-9, 05-11, 05-12, 05-13, 05-14, 05-17, 05-21, 05-22, 05-23, 05-24, 05-25, 05-26, 05-27, 05-28, 05-29, 05-30, 05-31, 05-32, 05-33, and 05-34.

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

Internal Control

The management of the State of Illinois, Department of Financial and Professional Regulation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations. In planning and performing our examination, we considered the State of Illinois, Department of Financial and Professional Regulation's internal control over compliance with the aforementioned requirements in order to determine our examination procedures 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.

Our consideration of internal control over compliance with the aforementioned requirements would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to one or more of the aforementioned requirements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance that we consider to be material weaknesses. However, the results of our procedures disclosed other matters involving internal control 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 State findings as findings 05-2, 05-4, 05-5, 05-6, 05-7, 05-8, 05-9, 05-10, 05-11, 05-13, 05-14, 05-15, 05-16, 05-18, 05-19, 05-20, 05-21, and 05-34.

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

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 as listed in the table of contents as Supplementary Information for State Compliance Purposes 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 2005 Supplementary Information for State Compliance purposes, except for information on Service Efforts and Accomplishments on which we did not perform any procedures. However, we do not express an opinion on the supplementary information.

We have not applied procedures to the 2004 Supplementary Information for State Compliance Purposes, and accordingly, we do not express an opinion thereon.

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

Sikich LLP

Springfield, Illinois
February 24, 2006

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the Security Deposit Fund – 1109 of the State of Illinois, Department of Financial and Professional Regulation, as of June 30, 2005, and have issued our report thereon dated November 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Illinois, Department of Financial and Professional Regulation's internal control over financial reporting of the Security Deposit Fund – 1109 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the Security Deposit Fund – 1109's financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Department of Financial and Professional Regulation's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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

Sikich LLP

Springfield, Illinois
November 30, 2005

05-1 **<u>FINDING</u>:** (Administrative processes not fully consolidated)

The Department has not consolidated many aspects of its administrative processes as intended by Governor's Executive Order Number 6 (2004) (Executive Order).

The Department of Financial and Professional Regulation was established on July 1, 2004 when the functions of the former Department of Professional Regulation, Department of Financial Institutions, Department of Insurance and Office of Banks and Real Estate, referred to here as "legacy agencies", were merged in accordance with the Executive Order.

The Executive Order states, "…substantial benefits can be achieved by the transfer of all functions…" and consolidating agencies "…provides for opportunities to increase operational efficiency and effectiveness, eliminate redundancies in functions and costs, increase accessibility by consumers and industry, increase accountability, simplify the organizational structure of the Executive Branch, increase leverage of specialized expertise, facilities and technology, promote a more effective sharing of best practices and realize significant economies of scale, among other things… ."

During our examination, we noted many of the operational and administrative processes had not been consolidated, but continued to be performed in a decentralized manner by each legacy agency. Lack of consolidation, standardized controls and consistent department-wide procedures were the cause of many of the findings in this report. Specific problems noted were as follows:

- The Department did not have an approved organization chart during fiscal year 2005. As a result, consolidations and reorganization of the Department were not adequately documented.

- During our review and documentation of internal controls, we noted several of the accounting, receipt and expenditure systems maintained by the four legacy agencies were not consolidated. Property control records continue to be maintained by legacy agency.

- The Department's annual GAAP reporting packages submitted to the Illinois Office of the Comptroller were prepared separately by each legacy agency. Two legacy agency's staff prepared their reporting packages, while the remaining two were prepared by contractors. Basic annual financial reporting should be standardized and coordinated on a department-wide basis.

- Receipts processing is not consolidated. Reconciliations to Comptroller receipt records were still performed by each legacy agency resulting in inaccurate and untimely reconciliations (finding 7). Inadequate controls over receipt processing were noted at the Division of Banks and Real Estate due to the decentralized nature of the system (finding 8). There were errors in the Agency Fee Imposition Report, which was compiled separately by each legacy agency (finding 9).

- Reconciliations to Comptroller expenditure and fund records were performed separately by each legacy agency, resulting in inaccurate and untimely reconciliations (finding 10).

- Four separate legacy aging policies and procedures were followed for employee performance evaluations during the examination period (finding 13).

- There were inconsistent requirements for documenting employee automobile license and liability among the four legacy agencies resulting in inadequate documentation (finding 14).

- The Department did not maintain adequate controls over vehicle reporting and operation of automotive equipment expenditures. Policies and procedures for the four legacy agencies had not been standardized (finding 16).

- The Department's computer disaster contingency plans are not standardized and consist of the four legacy agency plans. Three of these plans are not current. There is no overall comprehensive disaster contingency plan that covers all significant computer systems (finding 19).

The Executive Order was issued by the Governor on March 31, 2004 and gave the four legacy agencies only three months to plan the consolidation. However, many of the weaknesses noted above did not just occur during the examination period, but were still ongoing during our examination fieldwork, several months after the end of fiscal year 2005.

In a report to the Governor and General Assembly dated January 10, 2005, in accordance with the Executive Reorganization Implementation Act (15 ILCS 15/11), the Department stated specific key benefits and economies achieved by Department consolidation activities included streamlining and improvement of the following: human resources structure and functions, fiscal and accounting structure and processes, and administrative services function. However, as noted above, several of these processes have not been consolidated.

The Department entered into a multi-year agreement with a consultant at a cost of $699,880 ($200,000 in fiscal year 2005 and $499,880 in fiscal year 2006) to assist and support the consolidation. However, an assessment of the current state organization structure, business process and technology infrastructure of legacy agencies was not due until June 30, 2005 and; recommendations for "should be" processes for the consolidated agency are not due until June 30, 2006. Based on the timetable, the Department will be well into its third or fourth year of existence until recommendations can be implemented.

Department management stated that consolidation efforts were impacted due to the ten month period needed to complete close-out audits of the legacy agencies and the changeover to a one-year audit cycle from the previous two-year legacy cycles. Additional barriers include the need to consolidate legacy agency networks, multiple agency receipt systems, and physical location considerations.

Management further stated that the agency had a limited amount of time to address past year findings as the legacy close-out audit process was not complete until May, 2005.

Failure to timely consolidate administrative functions does not comply with the intent of the Executive Order and has resulted in a lack of standardized controls and policies and procedures throughout the Department. (Finding Code No. 05-1)

RECOMMENDATION:

We recommend the Department continue its consolidation efforts including an overall standardization of business practices throughout the Department. Further, the Department should accelerate its efforts to standardize business practices to comply with the Executive Order.

DEPARTMENT RESPONSE:

Concur. The DFPR consolidation initiated by Governor Blagojevich has resulted in $9.5 million in ongoing annual savings to the citizens of Illinois and has eliminated duplicative administrative staff. Among the immediate benefits to Illinois taxpayers and consumers have been the change in the Department's vision and mission toward representing people as the consumer protection agency within the executive branch of government.

The agency recognizes that a number of contributing factors have impacted the pace of consolidation, including the following:

- **Legacy Close-Out Audits.** Final audits were conducted on the Department of Insurance, Department of Financial Institutions, Department of Professional Regulation and the Office of Banks and Real Estate. This close-out process was not completed until May, 2005.

- **Physical Location.** A space request is pending with CMS that would merge legacy Office of Banks and Real Estate personnel into a shared facility with remaining DFPR staff in Springfield. Their current separate location has been a limiting factor in completing the full integration of all administrative functions.

- **Network Issues.** One legacy department was operating on a token ring network that could not communicate with the compatible Ethernet local area network (LAN) in use by the other legacy departments. Migration to the LAN is nearly complete and will remove a barrier to consolidation.

- **Multiple Legacy Systems.** The most significant barrier to full consolidation is the multiple licensing, enforcement, and cash receipt systems utilized by the agency. A feasibility study is underway to determine the most effective method of consolidating these systems into a new DFPR system. This task has been delayed due to the implementation of the Illinois Licensing and Enforcement System (ILES), an upgrade to the legacy Department of Professional Regulation Registration and Enforcement System (RAES) that was in progress at the time the consolidation was enacted. When this system is fully implemented in October 2006, development work will begin on a common platform for DFPR.

- **Audit Frequency.** The four legacy agencies (DOI, DFI, DPR, and OBRE) were audited on a two-year compliance cycle. DFPR will have compliance audits on a yearly basis.

While we agree that much work is left to accomplish, the first phase of consolidation has resulted in a new mind-set within the Department that encourages each division to look beyond its own resources and taps into best practices of the legacy agencies. DFPR has made significant consolidation progress during FY 06 to date and will continue to implement improvements on an ongoing basis.

05-2 FINDING: (Incorrect calculation of credit to State banks and foreign banking corporations)

Refund credits to State banks and foreign banking corporations were incorrectly calculated, resulting in an understatement of the credit of $1,205,000 as of June 30, 2005.

The Illinois Banking Act (Act) (205 ILCS 5) allows for adequate funds to be available in the Bank and Trust Company Fund to permit the timely payment of administration expenses. Section 48 of the Act (205 ILCS 5/48(3)(d-1)) states, "In each fiscal year the total administration expenses shall be deducted from the total fees collected by the Commissioner and the remainder transferred into the Cash Flow Reserve Account, unless the balance of the Cash Flow Reserve Account prior to the transfer equals or exceeds one-fourth of the total initial appropriations from the Bank and Trust Company Fund for the subsequent year, in which case the remainder shall be credited to State banks and foreign banking corporations and applied against their fees for the subsequent year."

During our testing, we noted that the Department incorrectly calculated the credit due to banks as of June 30, 2005, understating the credit by $1,205,000. This error was due to transfers-out amounts included in the fiscal year 2004 calculation, but occurring during fiscal year 2005, and erroneously included within the fiscal year 2005 calculation.

Department officials stated the error in the credit calculation was due to administrative changes in the refund calculation during the previous fiscal year, resulting in certain transfers occurring during the lapse period that were included in both fiscal years' calculations. (Finding Code No. 05-2)

RECOMMENDATION:

We recommend the Department apply the additional $1,205,000 in credit due to the State banks and foreign banking corporations during fiscal year 2005 and revise procedures for calculating the credit to ensure no errors will occur in the future.

DEPARTMENT RESPONSE:

Concur. The incorrect calculation was due to the assumption of a state operating cost transfer (30 ILCS 105/8h) against FY 2004 revenues that was not processed until FY 2005. The transfer, which was anticipated in the FY 2004 calculation was also included as an actual expense in the FY 2005 calculation, resulting in an understatement. Procedures are in place to ensure such an error does not occur again.

05-3 **<u>FINDING</u>:** (Transfers to General Revenue Fund not in accordance with State law)

Transfers were made to the General Revenue Fund (GRF) totaling $399,000 in fiscal year 2005 from the Illinois State Medical Disciplinary Fund and the Professions Indirect Cost Fund which were not in accordance with State law.

The State Finance Act (Act) (30 ILCS 105/8h) authorized the Director of the Governor's Office of Management and Budget (GOMB) to direct the State Treasurer and Comptroller to transfer a specified sum from any fund held by the State Treasurer to the GRF in order to help defray the State's operating costs. Public Act 93-0032 (30 ILCS 105/8h) states, "The total transfer under this Section from any fund in any fiscal year shall not exceed the lesser of (i) 8% of the revenues to be deposited into the fund during that fiscal year or (ii) an amount that leaves a remaining fund balance of 25% of the July 1 fund balance of that fiscal year."

We noted transfers to the General Revenue Fund exceeded allowable amounts for the Illinois State Medical Disciplinary Fund. For this fund, 8% of revenue was less than 25% of the beginning balance in the fund, so the revenue calculation was used. Calculated transfers based upon actual revenues should have resulted in a maximum transfer of $811,000, while $868,000 was actually transferred. This resulted in excess transfers to the General Revenue Fund totaling $57,000.

We noted GOMB transferred $342,000 from the Professions Indirect Cost Fund to the GRF. The purpose of the fund is to receive transfers from various special revenue funds of specific professions. The transfers are used to pay for indirect costs associated with regulating the various professions. Since there were no revenues, the fund could not transfer funds to the GRF in accordance with 30 ILCS 105/8h, and all $342,000 of transfers were unallowable.

Department officials stated GOMB made these transfers from the Illinois State Medical Disciplinary Fund based upon estimated revenue calculations that were in excess of actual revenues and transfers from the Professions Indirect Cost Fund were based upon revenues that included transfers from other funds. (Finding Code No. 05-3)

<u>RECOMMENDATION</u>:

We recommend the Department work with GOMB to return these transfers to the Illinois State Medical Disciplinary Fund and the Professions Indirect Cost Fund. Further, the Department should work with GOMB to ensure future transfers do not violate State law.

<u>DEPARTMENT RESPONSE</u>:

Do not concur. The State Finance Act (30 ILCS 105/8h) authorizes the Governor to direct the State Treasurer and the State Comptroller to transfer a specified sum from any fund held by the State Treasurer to the General Revenue Fund. As 30 ILCS 105/8h grants DFPR no discretion or authority to act, the action which is the subject of this finding is not an issue of agency compliance.

In addition, 30 ILCS 105/8h indicates that:

> The total transfer under this Section from any fund in any fiscal year shall not exceed the lesser of (i) 8% of the revenues to be deposited into the fund during that fiscal year or (ii) an amount that leaves a remaining fund balance of 25% of the July 1 fund balance of that fiscal year.

The Section further provides that:

> in determining the available balance in a fund, the Governor may include receipts, transfers into the fund, and other resources anticipated to be available in the fund in that fiscal year.

Revenues in the Professions Indirect Cost Fund (PIC) are received via transfers into the fund from other state funding sources and are therefore expressly subject to transfer pursuant to 30 ILCS 105/8h. As the Professions Indirect Cost Fund received $13.2 million in revenue transfers in FY 05, the $342,000 operating cost assessment, which is the subject of this finding, would fall within statutory guidelines.

AUDITORS' COMMENT:

Under the Act, there are two methods of calculating amounts available for transfers. One method is based on a percentage of revenues; the other is based on fund balance. The transfers made from the Professions Indirect Cost Fund were purported to be based on revenues to the fund, therefore the statutory language cited by the Department concerning the determination of available fund balance is inapplicable.

Further, all deposits into the Professions Indirect Cost (PIC) Fund are from interfund transfers. Generally Accepted Accounting Principles (GAAP), in particular NCGA Statement 1 – Governmental Accounting and Financial Reporting Principles, paragraph 109 states, "The term "revenues" means increases in (sources of) fund financial resources *other than from interfund transfers*" (emphasis added). As a result, there were *no* revenues in this fund, and transfers from this fund to the General Revenue Fund violate the State Finance Act.

In addition, the original Department funds transferring monies to the PIC fund were already subject to sweeps in accordance with 30 ILCS 105/8h. Subjecting the PIC fund to additional transfers to the General Revenue Fund is, in fact, double sweeping these funds.

05-4 <u>FINDING</u>: (Inadequate documentation for allocation of interagency costs)

The Department's legacy Department of Professional Regulation entered into an interagency agreement for fiscal years 2004 and 2005 to pay a portion of the costs of a contract to investigate the circumstances of a fire without documentation to support the share of costs allocated to the Department.

The Illinois State Fire Marshal initiated an Interagency Agreement (Agreement) with five other State agencies to retain a contractor to conduct an independent examination of the circumstances surrounding a fire in the Cook County Administration Building at 69 West Washington Street in Chicago that occurred October 17, 2003 (the Project). The Agreement stated the costs for the Project would not exceed $1.9 million spread over fiscal years 2004 and 2005 as follows:

- Start of the Project to April 1, 2004

Department of Professional Regulation	20% (with a cap not to exceed $125,000)
State Fire Marshal	10% (with a cap not to exceed $60,000)
Illinois State Police	54% (with a cap not to exceed $333,333)
Illinois Emergency Management Agency	4% (with a cap not to exceed $25,000)
Illinois Department of Labor	12% (with a cap not to exceed $71,000)

- April 1, 2004 to June 30, 2004

Capital Development Board	100% (with a cap not to exceed $850,000)

- Fiscal Year 2005

  The Agreement also states, "The agencies further agree to pay the remaining Project costs of $435,667 during FY05 and cooperate with the Office of Management and Budget in allocating the balance of the Project costs incurred after July 1, 2004.

  We further agree that we can make changes to these allocations in the event budgetary exigencies arise."

During fiscal year 2004 the Department of Professional Regulation paid $125,000 for its allowable share of the Project. During fiscal year 2005 the Department of Financial and Professional Regulation paid $45,631 for its allowable share of the Project, again with no documentation supporting its share of the costs. The State Fire Marshal paid $35,711 for its share of the Project in fiscal year 2005.

The Department could not provide documentation to demonstrate why it was bearing such a large portion of the contract, nor could they provide support on the methodology of allocating costs.

The State Fire Marshal Act (20 ILCS 2905 et seq.) and the Fire Investigation Act (425 ILCS 25 et seq.) gives the State Fire Marshal broad authority for the investigation of all facts relating to the cause and origins of fires.

Department personnel stated the Department was a party to the Agreement and shared in the costs as it is responsible for regulating security guards. They stated a portion of the Project would involve examining the role security guards had in responding to the fire and their role in responding to fires in general in high rise buildings.

While the Department does regulate security guards, an allocation of $45,631 of the fiscal year 2005 project costs appears excessive, especially in relation to the costs borne by the agency responsible for fire investigation, the State Fire Marshal.

As noted on the previous page, the Agreement the Department entered into noted that for fiscal year 2005, "we further agree that we can make changes to these allocations in the event budgetary exigencies arise." Allocations for fiscal year 2005 appear they were based on the Department's ability to pay, and not on the relative benefits to or responsibilities of the Department.

Prudent business practice would require an agency to obtain advance written justification for their share of costs for any Project, especially so it can ensure it is an ordinary and contingent expense of the Department. (Finding Code No. 05-4, DPR 04-3)

RECOMMENDATION:

We recommend the Department obtain written justification for any allocation of costs made to the Department in future Interagency Agreements.

DEPARTMENT RESPONSE:

Concur. This interagency agreement spanned two fiscal years and the agency completed its payment obligations under the terms of the contract. As indicated last year, the agency has implemented additional safeguards to ensure current and future interagency agreements provide additional detailed documentation regarding costs.

05-5 **<u>FINDING</u>:** (Enforcement activities not performed timely and/or not sufficiently documented)

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

The Department has established and implemented guidelines and time frames for significant investigation, prosecution, and probation/compliance activities of the Enforcement Unit. Since the Department did implement guidelines to ensure that the investigation and prosecution activity is initiated and completed within reasonable time parameters, we used their guidelines and time frames as the criteria for our tests.

We reviewed 44 investigation files and noted the following deficiencies:

- In 7 out of 44 (16%) case files reviewed, an Investigative Summary Report was not included in the file, which is required for all cases initiated after September 2000.
- In 5 out of 44 (11%) case files reviewed, the Investigative Reports were not generated within 30 days of the investigative activity. The completion of the investigative reports ranged from 1 to 84 days late.
- In 5 out of 44 (11%) case files reviewed, the Chief of Investigations did not review the initial claim and delegate the case to an investigator or supervisor within 10 business days of receipt of the complaint. The completion of the Chief of Investigations' review ranged from 15 to 87 days late.
- In 4 out of 44 (9%) case files reviewed, we noted that the Investigator did not interview the complaining witness within 30 calendar days from the date assigned to the case. For all four cases, the interview ranged from 34 to 115 days late.
- In 4 out of 44 (9%) case files reviewed, the acknowledgement letter sent to the complainant was not maintained in the case file. Therefore, we were unable to determine if one was completed or filed within 30 days of initial receipt.
- In 3 out of 44 (7%) case files reviewed, the Regulatory Administration and Enforcement System (RAES) printout report and the case file documents status did not agree.
- In 2 out of 44 (5%) case files reviewed, an Investigative Report was not included in the file.
- In 1 out of 44 (2%) case files reviewed, the Department was unable to locate the case file or any supporting documentation for the case.
- In 1 out of 44 (2%) case files reviewed, the required complaint intake documentation was not in the file.

We reviewed 24 prosecution files and noted the following deficiencies:

- In 6 out of 24 (25%) case files reviewed, the Chief Prosecutor did not review and assign the case within 30 days of referral. For all 6 cases, the review and referral ranged from 35 to 179 days late.
- In 4 out of 24 (17%) case files reviewed, we noted that the file did not contain the required Consent Order.

- In 3 out of 24 (8%) case files reviewed, the Investigative Reports and Notice of Formal Complaint were not signed or dated by the appropriate staff.
- In 2 out of 24 (8%) case files reviewed, we noted the Consent Order in the case file was not signed by the Director following review by the attorney. In one case, a closing memo was filed by the attorney in place of the Consent Order. There was no signature of approval by the Director on the memo.
- In 2 out of 24 (8%) case files reviewed, the case file documentation did not agree to the RAES printout. For one case, the RAES printout states the case was referred to prosecutions on 2/18/05 and the complaint was received on 3/15/05. For the other case, the case file states the investigator was assigned the case on 8/2/04, while the RAES printout states the investigator was assigned the case on 8/3/04.
- In 1 out of 24 (4%) case files reviewed, an Investigative Summary Report was not included in the file, which is required for all cases initiated after September 2000.
- In 1 out of 24 (4%) case files reviewed, the Notice of Formal Complaint and the Notice of Informal Conference were not maintained in the file.
- In 1 out of 24 (4%) case files reviewed, the Notice of Disciplinary Conference was not filed in a timely manner. The Notice was filed 133 days late.

We reviewed 7 probation files and noted the following:

- In 5 out of 7 (71%) case files reviewed, the Chief of Probation Investigations did not review the file and assign the case to a probation investigator within 10 days of the Consent Order.
- In 3 out of 7 (43%) case files reviewed, the probation investigator did not meet with the respondent within 30 days of the Consent Order. For all three cases, meetings were 39 to 107 days late.
- In 1 out of 7 (14%) case files reviewed, a copy of the respondent's driver's license was not maintained in the case file.
- In 2 out of 7 (29%) case files reviewed, there was no copy of an appropriate investigative report produced after the probation interview was conducted.

The activity of investigators and attorneys should be performed within reasonable time frames to allow for the accumulation of competent and sufficient evidence relating to complaints and to provide for timely prosecution of licensees. Furthermore, good internal controls require the Department to enforce its internal policies and procedures and maintain adequate documentation.

The Department believes the deficiencies above were attributed in part to the loss of a significant number of staff due to the State's Early Retirement Incentive and considering the number of complaints received and unusual circumstances regarding the nature of some cases, noncompliance with established guidelines will occur.

In carrying out the Department's mission to serve, safeguard, and promote the public welfare, the Department has a responsibility to expeditiously discipline licensees who violate the governing regulations to prevent further harm to the public. Continued deficiencies in the enforcement process place the public at risk to licensees who are not fulfilling their responsibilities. (Finding Code No. 05-5, DPR 04-12)

RECOMMENDATION:

We recommend the Department allocate the resources necessary to improve controls over the Enforcement Unit to ensure that case files and the Regulatory Administration and Enforcement System reflect necessary and significant investigative, prosecution, and probation/compliance activities within the Department's established time frames.

DEPARTMENT RESPONSE:

Concur

Investigations

The Chief of each investigative unit will be instructed to review all investigative files before the files are either closed or sent to the prosecution unit. Further, the Chiefs will regularly review each investigator's caseload to ensure that all reports are signed and all activity is updated in the RAES system.

Prosecutions

The Chiefs of the prosecution unit will be instructed to assign cases within 30 days of receipt. Further, they will regularly review the cases of the attorneys to ensure that activity on the files is done within the policy guidelines and that all documentation that must be in the attorney work file is actually there. The Administrative Assistants for each prosecution unit will be instructed to review files referred from the investigations unit to ensure that all of the investigative reports are signed and in the prosecution file. The Administrative Assistant will also review the attorney's files after the cases are disposed of to ensure that copies of signed Director's orders are contained in the files.

Probation

The Chief of the probation unit will be instructed to follow the policy guidelines to ensure that all deadlines are met on a timely basis. The chief will have regular case reviews with the investigators to ensure that the deadlines are enforced and to ensure that all RAES entries are recorded in a timely manner.

A manual checklist is being created to ensure all documents and processes have been completed appropriately. Additionally, the Department will explore the capabilities of ILES to provide an automatic method of notifying staff of due dates for processes or actions.

05-6 **<u>FINDING</u>:** (Inadequate controls over the Division of Financial Institution's Consumer Credit Section)

The Department's Division of Financial Institution's Consumer Credit Section did not comply with various statutory requirements of the Department.

During our review of 82 files from the eight areas within the Consumer Credit Section, we noted the following 28 exceptions in four areas:

Consumer Installment Loan Act (CILA)

- 5 out of 15 (33%) CILA files tested did not document adequate net worth as required by the Consumer Installment Loan Act.

  205 ILCS 670/2 states "Before the license is granted, every applicant shall prove in form satisfactory to the Director that the applicant has and will maintain a positive net worth of a minimum of $30,000."

  The applicants' files did not contain any documentation of net worth, even though each applicant maintained a license with the Department, in violation of State statute.

- 5 out of 15 (33%) CILA files tested did not contain an annual report submitted timely, as required by Consumer Installment Loan Act. Four of the annual reports were submitted late, ranging from 1 to 15 days late. One licensee failed to submit the fiscal year 2005 annual report, and the Department has not received it to date.

  205 ILCS 670/11(b) states "Each licensee shall annually, on or before the first day of March, file a report with the Director giving such relevant information as the Director may reasonably require concerning the business and operations during the preceding calendar year of each licensed place of business conducted by the licensee."

  In addition, 205 ILCS 670/11(b) states "The Director may fine each licensee $25 for each day beyond March 1 such report is filed." The Department does not impose a fine on any licensee that fails to file or file an untimely annual report.

- 3 out of 15 (20%) CILA files tested did not contain a renewal application and annual license fee submitted timely, as required by the Consumer Installment Loan Act.

  205 ILCS 670/8 states "Before the 15th day of each December, a licensee must pay to the Director, and the Department must receive, the annual license fee required by Section 2 for the next succeeding calendar year. The license shall expire on the first of January unless the license fee has been paid prior thereto."

  In two of the three instances noted, the licensees did not file renewals with the Department by January 1, and the licenses were not properly terminated.

Sales Finance Agencies

- 1 out of 10 (10%) Sales Finance files tested did not document adequate net worth as required by the Sales Finance Agency Act.

  205 ILCS 660/6 states "Before the license is granted, the applicant shall prove in form satisfactory to the Director, that the applicant has a positive net worth of a minimum of $30,000."

  The applicant's file did not contain any documentation of net worth, even though the applicant maintained two licenses with the Department.

- 3 out of 10 (30%) Sales Finance files tested did not contain a renewal application submitted timely, as required by the Sales Finance Agency Act, ranging from 1 to 124 days late.

  205 ILCS 660/6 states "A licensee must pay to the Department, and the Department must receive, by December 1 of each year, the renewal license applications on forms prescribed by the Director…" In addition, 205 ILCS 660/5 states "If a licensee fails to renew his or her license by the 31st day of December, it shall automatically expire…"

  In two of the three instances noted, the licensees did not file a renewal with the Department by December 31, and the licenses were not properly terminated.

Debt Management

- 1 out of 20 (5%) Debt Management files selected for testing could not be located.

- 7 out of 20 (35%) Debt Management files tested did not contain a renewal application submitted timely, as required by the Debt Management Services Act, ranging from 1 to 203 days late. An additional 1 out of 20 (5%) of the files did not contain a renewal application.

  205 ILCS 665/6 states "Each licensee under the provisions of this Act may make application to the Director for renewal of its license… . The application must be received by the Department no later than December 1 of the year preceding the year for which the application applies."

  None of the untimely renewals resulted in expiration of the license. The Debt Management Services Act does not address expiration of licenses upon untimely renewal, and the Department has not established rules regarding the expiration of licenses due to untimely renewal.

- 2 out of 20 (10%) Debt Management files tested did not contain bond information for calendar year 2005, as required by the Debt Management Services Act.

  205 ILCS 665/6 states "Each licensee under the provisions of this Act may make application to the Director for renewal of its license, which application for renewal shall be on the form prescribed by the Director and shall be accompanied by a fee of $100 together with a bond or other surety as required, in a minimum amount of $25,000 or such an amount as required by the Director based on the amount of disbursements made by the licensee in the previous year."

Transmitters of Money Act (TOMA)

- 1 out of 10 (10%) TOMA files tested did not document adequate net worth as required by the Transmitters of Money Act.

  205 ILCS 657/20 states "That the applicant has and maintains the net worth specified…, computed according to generally accepted accounting principles, corresponding to the number of locations in this State at which the applicant is conducting business or proposes to conduct business by itself and by any authorized sellers specified…"

  Based upon the number of locations, the applicant should have maintained net worth of $400,000, but only maintained net worth of $139,095 and $221,247 for calendar years 2004 and 2005, respectively.

Department officials stated these errors and omissions were attributed to the loss of a significant number of staff due to the State's Early Retirement Incentive. (Finding Code No. 05-6)

RECOMMENDATION:

We recommend the Department strengthen internal controls to ensure all statutory requirements are strictly adhered to, including the review of Department rules and policies to ensure all statutory requirements are properly addressed. Further, the Department should review all licensees' files to ensure adequate documentation exists, and take measures to terminate licenses where statutory provisions are not met.

DEPARTMENT RESPONSE:

Concur. Since the audit examination, the Department has hired three supervisors for the Consumer Credit section. The influx of management and experience has allowed the Department to address many of the issues cited in this report. New processes and internal controls have been implemented, and it is believed that these measures will significantly improve the Consumer Credit section's compliance with statutory requirements.

05-7 FINDING: (Failure to reconcile Department receipt records to the Illinois Office of the Comptroller records)

The Department did not perform a timely and accurate reconciliation of Department receipt records to the Illinois Office of the Comptroller records, as required by the Statewide Accounting Management System (SAMS).

During the engagement period, the Department's receipts totaled $525,917,036. Receipt totals collected by the Division of Professional Regulation are entered into a manual receipts ledger daily. Our testing of monthly receipt reconciliations of Department records to the Comptroller's SB04 Report noted the following:

- The Division of Professional Regulation failed to accurately perform receipt reconciliations for all twelve months of fiscal year 2005.

- The Division of Banks and Real Estate did not maintain documentation of the date of completion for any reconciliations.

- The Division of Financial Institutions prepared untimely receipt reconciliations for nine months of fiscal year 2005, ranging from 11 to 247 days late.

SAMS Procedure 25.40.20 (page 1 of 4) requires an Agency to perform a monthly reconciliation of receipt account balances and notify the Comptroller's Office of any corrections or unreconcilable differences.

Implementation of a computerized receipts system would also assist the Department with timely and accurate receipt reconciliations.

Department personnel stated the timeliness and accuracy of receipt reconciliations are complicated due to the use of several legacy financial systems and the current implementation process of the ILES system for the Division of Professional Regulation.

Failure to properly reconcile cash receipts could lead to unresolved differences between Department and Comptroller records and to inaccurate financial reporting. (Finding Code No. 05-7, DPR 04-5, 03-10, BRE 04-3)

RECOMMENDATION:

We recommend the Department ensure monthly reconciliations are performed in accordance with SAMS procedures to ensure accurate financial reporting.

DEPARTMENT RESPONSE:

Concur. The Department is working on consolidating numerous legacy receipt systems into a single integrated financial system. As this will be a multi-year project, the agency is taking interim steps to consolidate receipt reconciliation functions within a common area.

This will help ensure additional standardization and error checking procedures are implemented until the new system can be developed. The new system will be designed to provide a computerized receipt function.

05-8 **FINDING:** (Inadequate controls over revenue processing at the Division of Banks and Real Estate)

The Department's Division of Banks and Real Estate (Division) did not have adequate controls over its revenue processing.

The Division was comprised of the following four Bureaus:

1. Bureau of Banks and Trust Companies
2. Bureau of Real Estate Professions
3. Bureau of Residential Finance, and
4. Bureau of Administration

The Bureau of Banks and Trust Companies collects fees in connection with supervising and examining Illinois state chartered banks, foreign banks and state chartered corporate fiduciaries in addition to licensing pawnshops in Illinois. All fees are collected electronically through an Automated Clearing House (ACH).

The Bureau of Real Estate Professions directly collects fees associated with real estate professionals, auctioneer professionals, timeshare and land sales projects, and home inspector professionals.

The Bureau of Residential Finance directly collects fees associated with the supervision and examination of Illinois savings and loan associations, savings banks and mortgage bankers and brokers.

Each of these Bureaus process revenues to varying degrees which are ultimately sent to Fiscal in the Bureau of Administration for final processing and posting to the general ledger. The Division collected approximately $46,357,633 through 27 different fee categories in fiscal year 2005.

We noted the following deficiencies with revenue processing:

- Checks are not logged immediately after receipt in all bureaus.
- Daily receipt logs, if maintained, are not reconciled to deposits or entries in the Credentialing Licensing Enforcement and Regulation (CLEAR) system.
- Receipts entered into the CLEAR system are not reconciled to the general ledger.
- Fees assessed are not reconciled to fees collected.
- General policies and procedures for revenue processing with the CLEAR system have not been developed to make the CLEAR system more user friendly for Department staff.

Good internal controls require checks be immediately logged, certain reconciliations be performed, and adequate policies and procedures be developed to ensure the safeguarding of assets and the accuracy and reliability of accounting data.

Division personnel stated that some of the deficiencies are due to the decentralized nature of receipt processing at the Division. However, many of the deficiencies are due to the revenue system (CLEAR) not providing the information needed to perform many areas of revenue processing that would normally be done with a more user friendly type software.

Failure to implement adequate internal controls over revenue processing increases the risk that errors or irregularities could occur and not be detected and may result in inaccurate financial reporting. (Finding Code No. 05-8, BRE 04-4)

RECOMMENDATION:

We recommend that the Division of Banks and Real Estate develop and implement adequate and consistent internal controls over the processing of revenues within the Division. Further the Division should implement the accounting software used by the other three legacy agencies within the Department for more consistency in tracking revenues received by the Department.

DEPARTMENT RESPONSE:

Concur. In recent months the Division of Banking has implemented the following procedures to address the revenue processing issue:

1) All checks are logged when received by the Division of Banking. The check(s) and original log is sent to the appropriate staff personnel for posting onto the licensee account and for deposit.
2) Receipts are matched to the deposit by the Springfield Staff via a tape count of all monies.
3) Fees assessed to the licensee are currently being reconciled with the fees collected/ posted as the unapplied funds are moved to the correct licensee account. If it is found that the licensee did not pay the correct amount they are notified of the non-payment and warned that their account will be placed in inactive status.
4) Policies and procedures are being developed.
5) IT is conducting a study to determine the feasibility of developing a consolidated receipt system or consolidating to one of the existing platforms.

05-9 <u>FINDING</u>: (Amounts reported on Agency Fee Imposition Report Forms do not agree to Department Records)

The Department did not properly report fees collected on the 2005 Agency Fee Imposition Report.

During the engagement period, each legacy agency submitted an individual fee imposition report to the fiscal office and the reports were all combined into one report. Our review of the Agency Fee Imposition Report (Report) for fiscal year 2005 noted the following differences between each legacy agency report and the combined report initially submitted with the Illinois Office of the Comptroller:

- Division of Financial Institutions – Three fees in two funds listed within the Report did not agree with Department records. The differences ranged from $10,085 to $4,508,000.

- Division of Professional Regulation – There was a net difference of $1,242 between the *All Methods Fiscal Report* and the Agency Fee Imposition Report. The original Report filed with the Comptroller originally had differences totaling $1,148,938, but an amended report still contained errors totaling $1,242.

The State Comptroller Act (15 ILCS 405/16.2) requires all State agencies that impose and collect fees prepare the Agency Fee Imposition Report Form. The form shall list and describe the fees imposed by the Agency, the purpose of the fees, the amount of revenue generated by each fee, and the funds into which the fees are deposited.

Department personnel stated the differences in the Division of Financial Institutions report were due to typing errors when keying the numbers into the report. Department personnel stated the differences in the Division of Professional Regulation were due to misplacing a fee into the wrong profession code. Department personnel stated it has subsequently submitted a corrected report to the Illinois Office of the Comptroller.

Incorrect reporting of fees on the Agency Fee Imposition Report results in the Agency providing inaccurate information on the Statewide Agency Fee Imposition Report submitted to the General Assembly and diminishes government oversight. (Finding Code No. 05-9, BRE 04-5)

<u>RECOMMENDATION</u>:

We recommend a supervisor review the Agency Fee Imposition Report prior to its submission to the Comptroller's Office to ensure accuracy for all reported fees.

DEPARTMENT RESPONSE:

Concur. The incorrect Agency Fee Imposition Report entries were the result of human error and were corrected immediately after discovery. The small difference in the DPR portion of the report is due to the use of a legacy licensing system and a separate legacy financial system, with dual entry creating small errors each fiscal year. This problem will be corrected by the end of calendar year 2006 due to the full installation of the Illinois Licensing and Enforcement System (ILES) which will contain both licensing and financial data.

05-10 **<u>FINDING</u>:** (Failure to reconcile Department expenditure and fund records to the Illinois Office of the Comptroller)

The Department did not perform a timely and accurate reconciliation of Department expenditure and fund records to the Illinois Office of the Comptroller records, as required by the Statewide Accounting Management System (SAMS).

During our testing of monthly expenditure reconciliations of Department records to the Comptroller's Monthly Status Report, we noted the following:

- The Division of Professional Regulation prepared two inaccurate reconciliations in which the Department's reconciliations included keying errors and did not agree with the Comptroller's Monthly Status Report.

- The Division of Banks and Real Estate prepared an inaccurate reconciliation in which the Department's reconciliation was incomplete.

SAMS Procedure 11.40.20 (page 1 of 5) requires an Agency to perform a monthly reconciliation of the unexpended budget authority balance and notify the Comptroller's Office of any unreconcilable differences.

Department personnel stated the errors in the expenditure reconciliations were not corrected due to the learning curve associated with reconciling an expanded number of funds.

During the testing of monthly fund reconciliations of Department records to the Comptroller's Cash Report, we noted the following:

- The Division of Professional Regulation failed to timely perform fund cash reconciliations for all twelve months of fiscal year 2005. The reconciliations were performed more than six months after the end of the fiscal year.

- The Division of Insurance prepared an inaccurate reconciliation for one fund, in which Department's reconciliation did not agree with the Comptroller's Cash Report.

SAMS Procedure 9.40.30 (page 1 of 5) requires an Agency to perform a monthly reconciliation of ending cash balance and notify the Comptroller's Office of any unreconcilable differences.

Department personnel stated the fund reconciliations were prepared untimely due to Department personnel believing the reconciliations could be performed on an annual basis, and no monthly fund reconciliations were required.

Failure to properly reconcile expenditures and fund cash balances could lead to unresolved differences between Department and Comptroller records and to inaccurate financial reporting. (Finding Code No. 05-10)

RECOMMENDATION:

We recommend the Department ensure monthly expenditure and fund reconciliations are performed in accordance with SAMS procedures to ensure accurate financial reporting.

DEPARTMENT RESPONSE:

Concur. The Financial Reporting section of the consolidated DFPR fiscal department prepares all reconciliations. The errors mentioned in the expenditure reconciliation process were due to the learning curve of agency staff. The individual who prepared the reconciliations was not experienced with Division of Professional Regulation funds.

Errors noted were corrected on the next monthly report. In addition, cash reconciliations are being standardized to utilize the same format across all agency funds.

05-11 FINDING: (Voucher processing, approval and payment)

The Department did not maintain adequate controls over the processing, approval and payment of vouchers as required by the Illinois Administrative Code and Department Policy.

During our testing of invoice vouchers processed during the examination period, we noted the following:

- In 9 out of 120 (8%) invoice vouchers reviewed, the vendor invoices were approved for payment from 45 to 133 days late;

- In 36 out of 120 (30%) invoice vouchers reviewed, the vendor invoice was not properly approved and dated, and therefore did not support approval within 30 days of receipt;

- In 5 out of 120 (4%) invoice voucher reviewed, interest payments were not properly remitted to the vendors, totaling $639.

- The Department did not implement internal procedures that would permit full compliance with the provisions of the State Prompt Payment Act, including reviewing all invoice vouchers and calculating interest for each individual vendor bill received or determining whether an interest penalty is owed. The Department stated that no interest payments were made during fiscal year 2005.

The Illinois Administrative Code (Code) (74 Ill. Adm. Code 900.70) states an agency shall approve proper bills or deny bills with defects, in whole or in part, within 30 days after receipt of the bill. The Code further states a payment is late if the date of payment is not within 60 days after the receipt of a proper bill.

In addition, the Code (74 Ill. Adm. Code 900.30) states that is the duty and responsibility of each State agency to develop and implement internal procedures that will permit full compliance with the provisions of the State Prompt Payment Act. All State agencies must maintain written or electronic records reflecting the date or dates on which: the goods were received and accepted or the services were rendered; the proper bill was received by the State agency; approval of payment of a bill was given by the Agency; a vendor bill was disapproved, in whole or in part, based upon a defect or what the State agency believes to be a defect; and the payment was issued by the Comptroller's Office.

Additionally, the Code (74 Ill. Adm. Code 900.90) requires interest is to be calculated for each individual vendor bill received. A determination of whether an interest penalty is owed is to be made for each individual bill.

Department officials stated these deficiencies were due in part to Departmental procedures not being followed, a need to more efficiently allocate Departmental resources and the learning curve associated with doing more with less.

Failure to timely process vouchers may result in late payment to vendors and result in excessive interest penalties being levied against the Department. (Finding Code No. 05-11, DPR 04-8, 03-7, BRE 04-15)

<u>RECOMMENDATION</u>:

We continue to recommend the Department devote adequate resources and follow established policies and procedures to ensure invoice vouchers are processed, approved and paid in a timely manner. Further, the Department should perform the calculations necessary to determine if they owe any vendors interest and pay required charges.

<u>DEPARTMENT RESPONSE</u>:

Concur. DFPR is in the process of implementing a new policy requiring review and approval of invoices by agency managers within a five-day time frame. This will allow sufficient time to process payments in accordance with the 30 day time limit defined in the Illinois Administrative Code. The Accounting Information System (AIS) generates an aging report that can be used to ensure future compliance of the State Prompt Payment Act.

05-12 FINDING: (Time sheets not maintained in compliance with the State Officials and Employees Ethics Act)

The Department is not maintaining time sheets for its employees in compliance with the State Officials and Employees Ethics Act (Act).

The Department expended $68,627,247 for payroll and related costs and had an average of 825 employees during fiscal year 2005.

The Act requires the Department to adopt personnel policies consistent with the Act. The Act (5 ILCS 430/5-5(c)) states, "The policies shall require State employees to periodically submit time sheets documenting the time spent each day on official State business to the nearest quarter hour."

We noted the Department's employees did not maintain time sheets in compliance with the Act. Employees' time is tracked using a "negative" timekeeping system whereby the employee is assumed to be working unless noted otherwise. No time sheets documenting the time spent each day on official State business to the nearest quarter hour were maintained.

Department management stated they believed that using the Central Management Services (CMS) payroll system (the Department uses this system) would be in compliance with the Act. Management further stated that due to the consolidation, the Department is currently reviewing and revising all legacy agencies' policies and procedures.

By not maintaining appropriate time sheets, the Department is not monitoring employees' time spent on official state business as required to comply with the Act. (Finding Code No. 05-12, DPR 04-7, DFI 04-2)

RECOMMENDATION:

We recommend the Department amend its policies to require employees to maintain time sheets in compliance with the Act.

DEPARTMENT RESPONSE:

Concur. In January of this year, the Department implemented an additional timekeeping system for approximately 200 of its merit compensation employees. This electronic system requires employees to input the time they spend on state business to the nearest quarter hour, and contains controls to ensure that submission of the timesheet each week results in the employees, in effect, certifying their timesheet. This Department policy was communicated via e-mails and training sessions. The Department plans to begin negotiations with the unions to expand this timekeeping system to all union employees later this year. Once this is completed, a formal, written policy will be introduced.

05-13 FINDING: (Employee performance evaluations not performed on a timely basis)

The Department did not conduct employee performance evaluations on a timely basis.

During our testing, we noted that 35 out of 50 (70%) employees sampled did not have a performance evaluation performed on a timely basis. These untimely evaluations included 4 evaluations that were not prepared during the fiscal year and 31 evaluations completed between 3 to 132 days late.

Personnel rules issued by the Department of Central Management Services (80 Ill. Adm. Code 302.270) require performance records to include an evaluation of employee performance prepared by each agency not less often than annually. In addition, each of the four legacy agencies required annual performance evaluations; however, each legacy agency applied their own policies regarding the completion date of the performance evaluations. For example, the legacy agency of the Department of Professional Regulation had evaluations due to Human Resources two months minus three weeks before the employees' credible service date, while Banks and Real Estate had evaluations due by the credible service date.

According to Department personnel, procedures performed by the legacy agencies regarding the completion dates of the evaluations differed until January 2005, making the evaluation process difficult for Human Resources to monitor.

Without performance evaluations there is no documented basis for promotion, demotion, discharge, layoff, recall, or reinstatement. (Finding Code No. 05-13, DPR 04-6, 03-4, 01-4, 99-17, 97-20, 95-17, 93-26, BRE 04-9)

RECOMMENDATION:

We recommend the Department implement controls to ensure evaluations are completed on a timely basis and hold management personnel accountable for completing employee performance evaluations on a timely basis.

DEPARTMENT RESPONSE:

Concur. The Department conducted evaluation training sessions in January 2006 (January 23 – Springfield, and January 26 – Chicago) for all supervisory and management staff. The Human Resources Division ("HRD") continues to communicate via e-mail to appropriate management staff on evaluation due timeframes and submission dates to Human Resources. In addition, if an evaluation is untimely, the HRD communicates this monthly via e-mail to appropriate management staff until receipt of the completed evaluation. The Department is in process of finalizing a written policy with assigned consultants.

05-14 **<u>FINDING</u>:** (Failure to enforce travel rules)

The Department did not enforce the travel regulations outlined within the *Travel Guide for State of Illinois Employees* (Travel Guide), codified at 80 Ill. Adm. Code Part 2800, that was developed by the Governor's Travel Control Board.

During our review of travel vouchers, we noted the following exceptions:

- We noted that 4 of 6 (67%) out-of-country travel vouchers tested, totaling $9,280, were not approved in advance by the Chairman of the Governor's Travel Control Board. Three of the vouchers were for the Governor's fact finding taskforce to inspect/review pharmacy sites in Canada. Initial travel to Canada occurred August 24 – 28, 2004, but was not approved by the Chairman of the Governor's Travel Control Board until October 5, 2004. Additional travel to Canada occurred October 10 – 16, 2004, but was not approved by the Chairman of the Governor's Travel Control Board until March 3, 2005. The other voucher was for an examination of banks and trust companies in Ireland and England. Travel occurred October 8 – 17, 2004, but was not approved by the Chairman of the Governor's Travel Control Board until October 14, 2004.

  The Travel Guide (Section 2800.700(b)) states "Travel outside the contiguous United States requires the approval of the Chairman of the Governor's Travel Control Board prior to such travel." It also specifies ex post facto exceptions (Section 2800.710) "may be granted after the fact by the Chairman of the Governor's Travel Control Board when necessary to meet special or unavoidable circumstances …". These trips were not approved in advance and do not qualify for ex post facto exception approval since the Department had ample time prior to the trips to seek approval from the Governor's Travel Control Board.

- 2 out of 25 (8%) travel vouchers were completed incorrectly. The vouchers listed incorrect headquarters.

  In one instance, an employee incorrectly listed his home address, instead of official headquarters, resulting in overpayment of $28.

  In another instance the voucher listed headquarters that was not in agreement with Form TA-2 submissions with the Legislative Audit Commission. The Travel Guide required that Form TA-2 be completed and filed with the Legislative Audit Commission for any individual whom headquarters has been designated as a location other than that at which official duties require the largest part of working time. The employee, whose headquarters was located at his home, moved during the year. He correctly prepared travel vouchers, using his new home as headquarters, but the Form TA-2 was not revised, and did not properly reflect an accurate headquarters.

- 1 out of 25 (4%) travel vouchers contained an employee signature that did not match the signature on the employee's W-4 form. During our expanded testing of this employee's travel vouchers, we noted 8 out of 13 (62%) travel vouchers contained a signature inconsistent with the payroll withholding card. Department personnel stated that it appeared this employee's spouse was preparing and signing some of the travel vouchers.

  The Travel Guide (Section 2800.240 (f)) states "All copies of the voucher shall be signed in ink by the individual who has incurred the expense and his/her supervisor."

During our testing of license and liability forms, we noted the Department had inconsistent requirements. Various legacy agencies document license and liability for each employee differently:

- The Division of Professional Regulation requires license and liability forms to be completed at the beginning of each fiscal year, including documentation of insurance.

- The Division of Insurance requires each employee to complete license and liability forms when they begin employment, but information is not updated on an annual basis.

- The Divisions of Banks and Real Estate and Financial Institutions require employees submitting travel vouchers to sign a statement ensuring they have a valid license and insurance coverage, but no documentation is required.

The Department requires employees to be insured for the use of personal vehicles when traveling on State business. Since the various legacy agencies document license and liability for each employee differently, the lack of consistency with verification of license and liability with Department personnel could result in inadequate documentation or incomplete information.

Department officials stated that the Travel Control Board approvals were difficult to obtain prior to travel in some cases due to very limited advance notice of the travel requirement. They further stated the instances of incorrect voucher completion was due to human error and the learning curve associated with a consolidated vouchering unit learning the travel requirements of the four legacy agencies.

Failure to comply with travel rules and regulations could result in excessive or unauthorized travel. (Finding Code No. 05-14, DPR 04-2)

RECOMMENDATION:

We continue to recommend the Department establish effective controls over travel including adequate approval of travel requests and review of travel vouchers prior to reimbursement. Further, the Department should revise its policies and procedures related to license and liability coverage for personal vehicles to ensure adequate documentation exists when employees use personal vehicles when traveling on State business.

DEPARTMENT RESPONSE:

Concur. DFPR will remind all employees that out of country travel must be submitted in advance of travel and must have all required signatures before securing travel plans. Headquarters assignments are currently being reviewed and the TA-2 report filings will be prepared and reviewed by management before the final document is submitted. A draft policy on out-of-country travel has been developed and submitted to the consolidation consultants for review.

05-15 <u>FINDING</u>: (Controls over telecommunication services and expenditures)

The Department did not maintain adequate controls over telecommunication services and expenditures.

The Department expended $1,095,848 for telecommunications services during fiscal year 2005. During our testing, we noted the following:

- In 40 of 40 (100%) invoice vouchers for telephone, pager, and cell phone charges tested, the Department did not perform a timely review of the vendor invoice and monitor charges for services and expenditures to ensure unnecessary expenditures were eliminated, proper service was provided and misuse of telecommunications services did not occur. We noted the Department's review of charges for services were two to twelve months after the statement date. The Department paid these invoices prior to receiving approval from the responsible reviewer.

- In 5 out of 40 (13%) invoice vouchers for telephone, pager, and cell phone charges tested, the Department had not distributed detailed billings to agency personnel to verify charges.

- In 5 out of 40 (13%) invoice vouchers for telephone, pager, and cell phone charges tested, the Department could not locate the detailed phone billings.

- In 2 of 8 (25%) telephone credit card cancellations tested, the Telephone Credit Card Request Form (Form) was not submitted timely upon employee separation. The Form for credit card cancellation was submitted to the Department of Central Management Services between 74 and 117 days after employee separation.

- The Department does not have a formal system or policy to notify the Telecommunications Coordinator upon employee separation from the Department.

- The Department does not have a formal policy related to the approval and usage of the Department's cellular phones and pagers.

The Department of Central Management Services (DCMS), Division of Telecommunications, "A Guide to Services and Procedures" (November 2003) (Guide), requires each agency to appoint a Telecommunications Coordinator, designated by the agency's director or executive officer, to interface with CMS on all telecommunications needs. Specific responsibilities of a telecommunications coordinator are: review all communications requests within the agency to ensure compliance with CMS and agency guidelines; determine user needs and approve requests for service and equipment which are in compliance with established guidelines; coordinate on all projects involving telecommunications services, including submitting completed service request forms; develop a program for monitoring services and expenditures to ensure that unnecessary expenditures are eliminated and a proper level of service is provided; and monitor the use of telecommunications services by the agency for the specific purposes of identifying the misuse of telecommunications services and any need for instruction and/or training.

Subsequent to Department consolidation, one individual has been temporarily assigned the Telecommunications Coordinator responsibilities in addition to normal duties. The Department has not staffed this position permanently.

According to Department personnel, the Telecommunications Coordinator is not notified when employees separate from the Department. Currently, supervisors in the Department are responsible for reporting a subordinate employee's separation to the Telecommunications Coordinator. The Department has a checklist of forms to be completed and items to be returned when an employee separates from the Department; currently this listing does not include telephone credit cards or cellular phones.

The Department's telephone usage policy provides guidelines for appropriate usage of the State's telephone system. This policy does not include any guidelines for the Department's cellular phones assigned to employees of the Department.

These weaknesses could lead to excessive or unnecessary expenditures for telecommunications services. (Finding Code No. 05-15, DPR 04-9, 03-8, BRE 04-10)

RECOMMENDATION:

We recommend the Department devote adequate resources and develop a formal policy for the timely review of telecommunications services and expenditures, a cell phone usage policy, as well as a policy to notify the Telecommunications Coordinator upon employee separation from the Department. Further, the Department should appoint a Telecommunications Coordinator to ensure monitoring of charges and services, as well as adherence to DCMS guidelines and Department policies.

DEPARTMENT RESPONSE:

Concur. The Department, through the adoption of legacy best practices in the DFPR merger, is reallocating resources to review and monitor the area of telecommunications that have lacked strong controls.

The Division of Human Resources now provides an e-mail notification to the Division of Administrative Services to ensure that cell phone, pager, and calling card assignments are recalled at the time of termination. The agency has also dedicated additional resources to ensure that telecommunication bills are reviewed in a timelier manner.

The Division of Administrative Services is in the process of developing a comprehensive new Telecommunications policy that will address these issues.

05-16 FINDING: (Controls over vehicle reporting and operation of automotive equipment expenditures)

The Department did not maintain adequate controls over vehicle reporting and operation of automotive equipment expenditures.

The Department of Financial and Professional Regulation had not standardized its policies and procedures for the 4 legacy agencies during the engagement period, and generally followed legacy agency procedures. During our testing, we generally followed the policies used by the legacy Department of Professional Regulation (Vehicle Policy ADM-81-2C).

During our testing of the Department's Vehicle Policies, accident reports filed and automotive invoice vouchers processed during the examination period, we noted the following:

- The Department has not revised its Vehicle Policies for inclusion of the "Assigned Vehicle Summary Report" currently in use by the Department to obtain quarterly commuting use of an assigned State Vehicle.

- The Department has not revised its Vehicle Policies for inclusion of the revised Monthly Automotive Cost Report (with oil change mileage and date) currently in use by the Department.

- In 9 out of 12 (75%) accident files reviewed for the examination period, the SR-1 form on the Illinois Motorist Report was not signed and dated; therefore, we were unable to determine if the form was filed with the Department within two working days, as required by the Department's Vehicle Policy.

- In 5 out of 12 (42%) accident files reviewed for the examination period, the SR-1 form with an Auto Liability Uniform Cover Letter was not filed with the Department of Central Management Services (DCMS) Risk Management within seven calendar days of the accident, as required by the Department of Central Management Services Vehicle Policy. Four of the forms were filed from 9 to 15 days late. One form was not dated so timeliness could not be determined.

- In 12 out of 12 (100%) accident files reviewed during the examination period, the Department did not maintain documentation of filing the SR-1 form with the Illinois Department of Transportation (IDOT), as required by the Department's Vehicle Policy.

- The Department did not follow its Vehicle Policy, which requires an Accident Review Committee. The Committee did not meet at all during fiscal year 2005. In the prior compliance report, it was noted that the Committee has not met since 1998. Department personnel stated they are currently attempting to remove this requirement from their policy as it is not required by DCMS.

- In 1 out of 89 (1%) automotive invoice vouchers tested, the invoice voucher was for purchase of fuel on a weekend and did not have prior approval of a supervisor, as required by the Department's Vehicle Policy.

- In 9 out of 89 (10%) automotive invoice vouchers tested, the expenses incurred were not reported on the Monthly Automotive Cost Report for that particular State vehicle.

- In 12 out of 89 (13%) automotive invoice vouchers tested, the charge ticket was not provided with the voucher or the Monthly Automotive Cost Report.

- In 40 out of 89 (45%) automotive invoice vouchers tested, the charge ticket or the Monthly Automotive Cost Report did not have the employee's signature.

- In 12 out of 89 (13%) automotive invoice vouchers tested, an automobile description, license plate number, vehicle ID, or any other means to identify State vehicle used was not given on the supporting documentation.

- Procedures for preparation of the Monthly Automotive Cost Report were not consistent. The Divisions of Professional Regulation and Insurance complete these reports. The Divisions of Banks and Real Estate and Financial Institutions do not complete Monthly Automotive Cost Reports.

- In 10 out of 123 (8%) vehicles tested for proper vehicle maintenance (2 months tested), an oil change was not performed once every 5,000 miles, as required by the Department's Vehicle Policy. We noted the mileage at the time of the oil change ranged from 5,123 to 8,497 miles.

- The Department's Fiscal Officer did not prepare year-to-date summary reports for the Vehicle Coordinator, which clearly details by individual vehicle, the total miles driven and total expenses for gas, oil, repairs and the cost per mile for each vehicle, as required by the Department's Vehicle Policy.

Department officials stated there were several issues contributing to the problems noted including procedures not being followed, a lack of standardized procedures during the examination period, a need to more efficiently allocate resources and the learning curve associated with doing more with less. The Department stated that due to the consolidation, the Department is currently reviewing and revising all legacy agencies' policies and procedures. During fiscal year 2005, no Department-wide policies and procedures were approved due to continuing consolidation efforts.

Failure to follow the current Department Vehicle Policy can lead to misappropriation of assets, misuse of State funds or undue liability to the Department or State for inappropriate use of State vehicles. (Finding Code No. 05-16, DPR 04-10, 03-9, BRE 04-7)

RECOMMENDATION:

We recommend the Department revise, review and approve a Vehicle Policy to ensure adequate controls over the operation of automotive equipment and expenditures. Further, the Department should reiterate the importance of adherence to established policies and procedures to all Department employees to strengthen controls over the operation of automotive equipment and expenditures.

DEPARTMENT RESPONSE:

Concur. The Division of Administrative Services is in the process of developing a comprehensive new vehicle policy that will establish better controls over the operations of automotive equipment and expenditures.

The monthly automotive cost report has been revised by Administrative Services and is currently being utilized in a pilot period. Full implementation is scheduled for May, 2006.

The Department will ensure future accident files are completed, reviewed and maintained by departmental staff and filed with Central Management Services and the Illinois Department of Transportation in a timely manner.

05-17 **<u>FINDING</u>:** (Certification of license and automotive liability coverage)

The Department did not properly certify license and automotive liability coverage, certify vehicle assignments, and revise its Vehicle Policies in compliance with the Illinois Vehicle Code (Code).

We tested 61 employee vehicle assignments during fiscal year 2005 and noted the following:

- For 4 (7%) assignments during fiscal year 2005, the insurance card attached to the submitted license and liability form did not contain the individual's name.

- For 61 (100%) assignments during fiscal year 2005, a certification was signed; however, the certification was not in accordance with the Illinois Vehicle Code. The certification was filed for travel reimbursement on personal vehicle use for State business, rather than for vehicle assignment.

- The Department has not revised its Vehicle Policies to adhere to the requirements of the Code. The Department's policy requires completion of a Traveler's Certification form, which certifies licensure and automotive liability insurance coverage for employee's use of a personal vehicle and contains no reference to certification of licensure and automotive liability coverage for use of State assigned vehicles in accordance with the Code.

According to the Illinois Vehicle Code (625 ILCS 5/7-601(c)), every employee of a State agency, who is assigned a specific vehicle owned or leased by the State on an ongoing basis, shall provide a certification annually to the Director. The certification shall affirm that the employee is duly licensed to drive and that the employee has liability insurance coverage extending to the employee when the assigned vehicle is used for other than official State business. The certification shall be provided during the period July 1 through July 31 of each calendar year or within 30 days of any new assignment of a vehicle on an ongoing basis, whichever is later.

The Department's Vehicle Policy (ADM-81-2C Page 3.205) (legacy Department of Professional Regulation policy) states individuals using a Department vehicle must sign a Traveler's Certification form, certifying that the driver has a valid Illinois Driver's License and is covered by insurance in an amount adequate to meet the requirements set forth in the Illinois Travel Regulations. In addition, all Department vehicle users shall abide by the automobile operation rules as published in the Illinois Vehicle Code.

According to Department officials, due to the consolidation, the Department is currently reviewing and revising all legacy agencies' policies and procedures. During fiscal year 2005, no Department-wide policies and procedures were approved due to continuing consolidation efforts. In addition, the Department continues to seek guidance from DCMS regarding the certification of liability insurance coverage for employees covered under the current bargaining unit contracts.

Failure to obtain an employee certification as required by the Code could result in undue risk of loss to the State for injury or damage. (Finding Code No. 05-17, DPR 04-11, 03-5, 01-7)

RECOMMENDATION:

We continue to recommend the Department establish and enforce a policy and obtain certification forms for license and automotive liability insurance for State assigned vehicles, as required by statute, or rescind an employee's authority to use a state assigned vehicle if they refuse to provide the required certification.

DEPARTMENT RESPONSE:

Concur. Central Management Services (CMS) has advised the Department that the certification of liability insurance issue will require collective bargaining efforts with AFSCME. CMS will advise when this occurs.

05-18 FINDING: (Deficiencies identified with the CLEAR computer system)

The Department's Division of Banks and Real Estate's (Division) Credentialing Licensing Enforcement And Regulation system (CLEAR) had significant deficiencies.

The CLEAR system was implemented in February 2003. CLEAR is an enterprise-wide computerized licensing, enforcement and regulatory system, which replaced the Division's outdated legacy systems, and processes approximately $45 million in receipts per year. The system was developed by a contractor with a total cost of approximately $1 million.

During our review of the Mortgage Banking Division, we found the CLEAR system was not meeting the needs of the Division. The following problems with the system were identified:

- Inability to accurately count fees and reconcile to dollar amounts.
- Access to the system was not effectively controlled.

We did note from our sample testing that the Department had made improvements to the system to address several issues from the prior year's finding. We found no instances of duplicate billings of entities and licenses are now listed as inactive when renewal timeframes are not met. The Department has created a user manual on the use of the system, however, we noted the lack of user training has led to inaccurate information being entered into the CLEAR system, thus causing incorrect fees to be assessed.

The CLEAR system was implemented without the use of system development standards that require adequate testing and security controls to ensure the accuracy and integrity of the system.

Department management stated it is currently in communication with the contractor responsible for the development of the CLEAR system to develop an additional financial system component that will provide for adequate documentation. If this development is not practical, Department management stated it will look toward moving information maintained on the CLEAR system to the Division of Professional Regulation's new ILES system.

Prudent business practices dictate projects are properly evaluated and approved, thoroughly tested, consistently documented, sufficiently secure and meet the needs of the user. (Finding Code No. 05-18, BRE 04-2)

RECOMMENDATION:

The Department's Division of Banks and Real Estate should evaluate the CLEAR system and develop a corrective action plan to enhance the system to ensure that it meets the needs of the users.

DEPARTMENT RESPONSE:

Concur. Information Technology is conducting a study to determine the feasibility of developing a consolidated receipt system, creating a revenue system within CLEAR or consolidating to one of the existing platforms.

05-19 <u>FINDING</u>: (Lack of an adequate disaster contingency plan for computer systems)

The Department did not have a current, tested disaster contingency plan that addresses the recovery of computer systems for all of its divisions.

The Department utilizes mainframe, midrange and microcomputer networks comprised of approximately 150 servers and 1,400 PCs to run its critical applications. The Divisions of Banks and Real Estate and Professional Regulation rely heavily on information systems to track and process thousands of licenses for the State. Recovery procedures for these systems had not been formally documented.

The Department provided the following documents for documentation of disaster recovery procedures for its legacy agencies:

- Division of Insurance Business Continuity Plan, dated January 2006.
- Department of Professional Regulation Information Technology Plan – Recovery Activation Plan, dated April 1, 2004.
- Office of Banks and Real Estate Disaster Recovery Plan for Management Information Systems, last updated on August 18, 1998.

Of the documents provided, only the Division of Insurance document was up to date and had been recently tested.

The Department's Information Technology (IT) functions are being consolidated into the Department of Central Management Services (DCMS). Service Level Agreements have been developed to outline the terms and conditions under which DCMS will provide specified IT services to consolidated agencies. The Department signed its Agreement in January 2005.

Schedule N of the Department's Service Level Agreement contains a detailed list of the recovery services responsibilities for DCMS and the Department. None of the plans addressed all of the Department's required responsibilities included in the Agreement.

Information technology guidance (including the National Institute of Standards and Technology and Government Accountability Office) endorse the formal development and testing of disaster contingency plans. Tests of disaster contingency plans (and the associated documentation of the test results) verify that the plan, procedures, and resources provide the capability to recover critical systems within the required timeframe.

Department personnel stated that DCMS is responsible for hardware recovery and the other priorities have prevented completion of comprehensive business continuity plan.

Failure to adequately develop and test a disaster contingency plan leaves the Department exposed to the possibility of major disruptions of services. A comprehensive test of the plan across all systems utilized will assist management in identifying weaknesses to ensure recovery procedures are adequate in the event of a disaster. Continuous testing of plans would also assist management to ensure the plans are appropriately modified, as the Department's computing environment and disaster recovery needs change. (Finding Code No. 05-19)

RECOMMENDATION:

We recommend the Department develop and test a comprehensive disaster contingency plan that covers all significant computer systems. The Department should ensure that the responsibilities outlined in its Service Level Agreement are adequately addressed in the Plan. In addition, the Department should work with DCMS to ensure DCMS is complying with its responsibilities as outlined in the Agreement.

DEPARTMENT RESPONSE:

Concur. We have been aware of this problem and have made it a priority. We have dedicated one fulltime staff person to address this issue and develop a comprehensive Disaster Recovery plan for DFPR.

05-20 <u>FINDING</u>: (Inadequate computer security administration function)

The Department did not have an adequate computer security administration function.

The Department utilizes mainframe, midrange and microcomputer networks comprised of approximately 150 servers and 1,400 PCs to run its critical applications.

During our review of the Department's computer security administration procedures, we noted the following weaknesses:

- <u>Security Policies and Procedures</u> - New security policies and procedures had been drafted, but they had not been approved by the appropriate levels of management. In addition, the draft policies did not contain specific security monitoring procedures.

- <u>Security Monitoring</u> - The Department's Security Officer did not oversee all security aspects of the Department's information technology environment. For example, the Security Officer had not been granted appropriate access to all the Department's information systems, nor had she been granted authority to monitor all of the Department's local area networks (LANs). Only one of the Department's divisions utilized software to monitor security parameters on a regular basis.

The Department has a significant investment and places great reliance in its technology infrastructure that is used to meet its overall mission. As such, the Department has an inherent responsibility to ensure security over its computer environment is adequately established and consistently enforced. Without adequate security administration and continuous monitoring, the possibility of unauthorized access and misuse of the Department's information systems and confidential or sensitive data could occur. Without proper monitoring of security controls, a greater risk exists that security violations will occur and go undetected.

The Department's LAN servers are currently maintained at the Department's various facilities, but are due to be consolidated into the Department of Central Management Services' (DCMS) network at a future date. Until DCMS takes physical control of the LAN servers, the Department is responsible for ensuring network, application, and data security. After the servers are consolidated, the Department will still be responsible for security related to its applications and data.

Department personnel stated that these weaknesses occurred due to the recent formation of the agency from its legacy agencies and other priorities taking precedence. (Finding Code No. 05-20)

RECOMMENDATION:

We recommend the Department assess its security administration function and ensure it is adequate for safeguarding all of the Department's computer systems and data resources. Further the Department should:

- Update its security and other technology-related policies to reflect the current operating environment, including the development of security software or LAN administration policies and procedures. Policies and procedures for administering access to computer resources, reviewing and monitoring of security software activities, and the processing and reporting of security violations should be established.

- Ensure the Security Officer oversees all security aspects of the Department's information technology environment to enforce compliance with established security policies and procedures.

DEPARTMENT RESPONSE:

Concur. Information Technology agrees with the finding on a Security Policies and Procedures Manual. We produced the Microcomputer Policy & Procedures Manual that was reviewed in draft by the audit team several months ago. Approval from all parties, including the Union has been received and the Manual was distributed on April 24. Forms acknowledging that users have received and read the manual and new DFPR Internet access forms are being signed by all users. These forms are being forwarded to Human Resources to be included in each employee's personnel jacket.

It should be noted that under CMS IT Rationalization, control of the servers and basic network security has become a function of CMS and/or CMS staff located in our building(s). DFPR staff does not have direct access to these servers or the ability to set security profiles for users.

Additionally, the consolidation of four agencies into one has dramatically increased the quantity and variety of application systems that are in place. If an attempt were made to consolidate all security under a single person, it would be nearly impossible for that person to stay current because the applications continue to evolve. There is staff trained in security responsible for each of the major applications. They ensure that security is properly established and monitored.

05-21 FINDING: (Improper destruction of examination workpapers)

The Department's Office of Banks and Real Estate, Banking Division destroys all workpapers from prior year trust company examinations before completing the current year's examination.

The Office of Banks and Real Estate is required by the Corporate Fiduciary Act (Act) to perform examinations on all corporate fiduciaries within the State. The Act (205 ILCS 620/5-2(a)) states, "The Commissioner, no less frequently than 18 months following the preceding examination, and whenever in his judgment it is necessary or expedient, either personally or by one or more competent persons appointed by him, shall visit and examine every corporate fiduciary in this State…"

During our testing of the Department's examination files for 10 Illinois trust companies, the Department could not provide documentation or workpapers supporting 2 of 10 (20%) examinations of the trust companies selected for testing. Department personnel stated that all prior year examination workpapers are destroyed once the new examination is started. Further we determined that the Department had not established a formal record retention policy for Trust examination workpapers with the State Records Commission.

The destruction of the prior examination workpapers for any corporate fiduciary before the current examination is completed is in violation of the State Records Act (5 ILCS 160). Section 3 of this Act states "All records created or received by or under the authority of or coming into the custody, control, or possession of public officials of this State in the course of their public duties are the property of the State. These records may not be mutilated, destroyed, transferred, removed, or otherwise damaged or disposed of, in whole or in part, except as provided by law." Section 18 of the State Records Act states "The head of each agency shall submit to the State Records Commission, in accordance with the regulations of the Commission, lists or schedules of records in his or her custody and his or her proposal for the length of time each record series warrants retention for administrative, legal or fiscal purposes after it has been created or received by the agency."

Department personnel stated it did not have a formal record retention policy established for Trust examination workpapers and it is their informal internal policy to destroy examination workpapers once a new examination is started. Department officials further stated that there is a draft policy drafted and approved for fiscal year 2006 that states the Department must maintain the Trust examination workpapers for one year, then microfilm and dispose of all hard copy documentation and retain all record series of microfilms in the office for nine years. Destruction of these documents is in violation of the State Records Act and does not allow for proper review by the Auditor General or his special assistants. (Finding Code No. 05-21)

RECOMMENDATION:

We recommend the Department establish formal policies for the maintenance and safekeeping of all corporate fiduciary examination workpapers with the State Records Commission. Such policies should be in compliance with the State Records Act and should ensure such records be maintained at least until the subsequent corporate fiduciary examination and the Auditor General's examinations are completed.

DEPARTMENT RESPONSE:

Concur. A draft retention schedule is in development and will be submitted to the State Records Commission. In addition, we have made provisions within Division of Administrative Services Policies and Procedures to further address detail and handling of such documents and their disposition.

05-22 **FINDING:** (Failure to establish a Savings Bank Examiner Training Foundation)

The Department's Division of Banks and Real Estate did not establish a Savings Bank Examiner Training Foundation.

The Saving Bank Act (205 ILCS 205/9007) requires that a Savings Bank Examiner Training Foundation be established for the purpose of funding and overseeing the training of savings bank examiners. The Foundation shall be governed by a 15-member board of trustees and shall promulgate regulations to govern the formation, administration, and activities of the Foundation.

Department officials stated the reason they have not established a Savings Bank Foundation is because they are trying to find candidates and are reviewing the feasibility of the Foundation. The Department did not provide an estimate of the cost to establish the Foundation.

By not complying with the Savings Bank Act, the Department is not funding and overseeing the training of savings bank examiners as required by the General Assembly. (Finding Code No. 05-22, BRE 04-8, 02-6)

RECOMMENDATION:

We recommend the Department enforce the provisions of the Savings Bank Act or continue to seek legislative remedy to the statutory requirement.

DEPARTMENT RESPONSE:

Concur. Legislation was written to eliminate this requirement for introduction during the 2006 Spring General Assembly session, but a sponsor could not be obtained for the bill. The agency will continue efforts to have this requirement eliminated via legislation.

05-23 FINDING: (Noncompliance with Residential Mortgage License Act of 1987)

The Department's Division of Banks and Real Estate (Division) was not in compliance with provisions of the Residential Mortgage License Act of 1987 (Act) (205 ILCS 635). We noted the following:

- Residential Mortgage Board (Board) members were not appointed in accordance with the Act.

  - Two of 5 (40%) Board members are serving on expired terms. Both board members' terms expired January 31, 2005 and had not been renewed to date.

    The Act (205 ILCS 635/1-5(a)) states, that on or before January 15 of each year, the Commissioner shall appoint one or more board members, as shall be necessary to maintain a 5 member Board, whose terms shall be for 3 years commencing February 1 in the year in which they are respectively appointed. If a vacancy occurs on the Residential Mortgage Board, the Commissioner shall within 60 days appoint a new member who shall hold office for the remainder of the vacated term.

    According to Division personnel, the Board members terms were not renewed timely due to oversight.

  - Two of 5 (40%) Board members did not timely file a statement with the Commissioner regarding current business transactions or other affiliations with licensees under the Act for 2005.

    The Act (205 ILCS 635/1-5(c)) states, that each member of the Residential Mortgage Board shall file annually, no later than February 1, with the Commissioner a statement of his or her current business transactions or other affiliations with any licensee under this Act.

    According to Division personnel, the Conflict of Interest Statements were not filed timely due to the Board members delay in signing the statements.

- A sample of 25 licensees was selected from a universe of 2,023 licensees. According to the Agency's "MB – Audits Received Report – MB Only Report" as of June 30, 2005, fifteen (60%) of the licensees tested did not submit an annual audit report within 90 days of their fiscal year end, including 10 instances in which the Department had not received the annual audit reports at all. The Commissioner did not cause an audit of any of the licensees, as required by law, to be made due to the untimely filing of annual audit reports.

The Act (205 ILCS 635/3-2(d)) states that the most recent audit report shall be filed with the Commissioner within 90 days after the end of the licensee's fiscal year. The Act (205 ILCS 635/3-2(e)) states that if any licensee required to make an audit shall fail to cause an audit to be made, the Commissioner shall cause the same to be made by a certified public accountant at the licensee's expense. The Commissioner shall select such certified public accountant by advertising for bids or by such other fair and impartial means as he or she establishes by regulation.

According to Division personnel, the Examination staff review the reports as they come in, but the Licensing Section must input the reports. The date the reports are received is logged manually and approximately 1,700 licensees have December 31 year-ends, so between March and April the Agency has a large volume of statements to input.

Department management stated it was not in compliance with Residential Mortgage License Act requirements due to oversight, consolidation issues, and changes in staffing of the Residential Mortgage Section.

Failure to enforce the Act results in Board members serving excessive terms and serving with potential conflicts of interest that are unidentified. Failure to obtain recent audit reports from licensees or to cause an audit to be made results in the Division having inadequate financial information to properly regulate residential mortgage lenders. (Finding Code No. 05-23, BRE 04-12, 02-3)

RECOMMENDATION:

We recommend the Department implement procedures to ensure compliance with provisions of the Residential Mortgage License Act of 1987.

DEPARTMENT RESPONSE:

Concur.

1) Mortgage Board members terms were renewed and conflict of interest declarations have been filed.
2) Procedures have been implemented to correct deficiencies. If the Annual Audit Reports are not received during the allotted time frame, a letter notifying licensees is sent out.

05-24 FINDING: (Residential mortgage license examinations not conducted in accordance with statutory requirements)

The Department failed to timely conduct examinations of the affairs of residential mortgage licensees.

The Residential Mortgage License Act (205 ILCS 635/4-2) requires the Commissioner to conduct examinations of the business affairs of a licensee for compliance with the Act. The Financial Institutions Code (38 Ill. Adm. Code 1050.425) states the Commissioner is to conduct examinations at intervals based on the licensee's rating. Examinations are to occur 12 to 36 months from the initial examination.

During our testing we noted examinations had not been conducted timely for 378 of the 979 (39%) residential mortgage licensees required to have an examination. The 378 examinations were late as follows:

- 129 were 1 to 5 months late
- 134 were 6 to 10 months late
- 89 were 11 to 15 months late
- 23 were 16 to 20 months late
- 3 were 21 to 25 months late

Department personnel stated due to staff shortages, the Department has not been able to complete all examinations in the required timeframe.

Failure to conduct examinations could result in licensees conducting business not in compliance with the Residential Mortgage License Act. (Finding Code No. 05-24, BRE 04-14)

RECOMMENDATION:

We recommend that the Department allocate the resources necessary to ensure examinations are conducted within the required timeframe and to ensure licensees are in compliance with the Residential Mortgage License Act.

DEPARTMENT RESPONSE:

Concur. The Department has allocated additional resources to the Mortgage Banking Section in order to ensure examinations are conducted within the required timeframe and are in compliance with the Residential Mortgage License Act of 1987.

05-25 FINDING: (Noncompliance with the State Banking Act)

The Department's Division of Banks and Real Estate was not in compliance with the provisions of the State Banking Act (Act) (205 ILCS 5/78) regarding the State Banking Board.

The Act states that the State Banking Board of Illinois shall consist of the Commissioner as its chairman and 16 additional members divided into 3 classes designated Class A members, Class B members, and Class C members who are appointed by the Governor by and with the advice and consent of the Senate. During our testing we noted the following:

- Three of four (75%) Class A positions were vacant.

  The Act states that Class A shall consist of 4 persons, none of whom shall be an officer or director of or owner, whether direct or indirect, of more than 5% of the outstanding capital stock of any bank.

- Seven of ten (70%) Class B positions were vacant.

  The Act states that Class B shall consist of 10 persons who at the time of their respective appointments shall have had not less than 10 years banking experience. Of the 10 Class B members, 2 members shall be from State banks having total assets of not more than $20,000,000 at the time of appointment, 2 shall be from State banks having total assets of more than $20,000,000 but not more than $50,000,000 at the time of their appointment, 2 shall be from State banks having total assets of more than $50,000,000 but not more than $125,000,000 at the time of their appointment, one shall be from a State bank having total assets of more than $125,000,000 but not more than $250,000,000 at the time of appointment, one shall be from a State bank having total assets of more than $250,000,000 but not more than $1,000,000,000 at the time of appointment, one shall be from a State bank having total assets of more than $1,000,000,000 at the time of appointment, and one shall be from a foreign banking corporation certified pursuant to the Foreign Banking Office Act.

Department management stated the positions were not filled due to the difficulty in finding willing candidates to accept the positions.

Failure to appoint State Banking Board members according to the criteria set forth in the Act may prevent the Board from carrying out its mandated duties of regulating banks in accordance with the Act. (Finding Code No. 05-25, BRE 04-16)

RECOMMENDATION:

We continue to recommend the Department work with the Governor's Office to fill the Board vacancies.

DEPARTMENT RESPONSE:

Concur. The Department will continue to work with the Governor's Office to fill the remaining vacancies on the State Banking Board of Illinois.

05-26 FINDING: (Failure to ensure timely receipt of annual statements from viatical settlement providers)

The Department failed to receive annual statements in a timely manner from viatical settlement providers.

During our examination of annual statements received by the Department for the calendar year ended December 31, 2004, we noted that the Department failed to receive annual statements in a timely manner from 12 of 16 (75%) viatical settlement providers licensed by the State. The statements were received between 1 and 95 days late.

According to the Illinois Insurance Code (215 ILCS 158/25), each viatical settlement provider "licensee shall file with the Director on or before March 1 of each year an annual statement containing such information as the Director may prescribe by rule." A viatical settlement provider is an organization that contracts with a person who owns a life insurance policy that insures the life of a person with a catastrophic or life threatening illness. The viatical settlement provider pays compensation that is less than the expected death benefit of the insurance policy in return for the policy owner's assignment of the death benefit to the viatical settlement provider.

Department staff stated the providers are not compelled to produce the annual statements because the Director has never formally adopted a rule prescribing what forms must be submitted. Additionally, there is no provision for penalty for failure to submit annual statements in a timely manner. However, the Department requests four specific forms be submitted which include information regarding settlements entered into during the year. These forms appear to be designed to monitor the business practices of the providers, as well as provide statistics of the industry within the State. However, for providers that have not experienced any activity during the reporting year, a written statement professing this fact is accepted by the Department.

The statute was enacted to protect the interests of the public. Failure to require timely annual statements from viatical settlement providers reduces the Department's assurance of that protection. (Finding Code No. 05-26, DOI 04-2)

RECOMMENDATION:

We recommend the Department adopt formal rules requiring the submission of annual statements from viatical settlement providers. Further, the Department should seek remedies for a provider's failure to submit the required forms in a timely manner, such as fines or penalties.

DEPARTMENT RESPONSE:

Concur. The Department has required the viatical companies to file the reports for calendar year 2005 and have also implemented Part 57.01, (effective 4-3-06) requiring the submission of annual statements from viatical settlement providers. Please note that there was not sufficient time to take any action to correct the problem due to the timing of the previous audit that ended June 30, 2005, and this most recent audit finding.

05-27 <u>FINDING</u>: (Formal written summary reports not provided to health care facilities)

The Department did not ensure the Medical Disciplinary Board (Board) sent formal written summary reports of final actions taken upon disciplinary files to the required facilities, boards, associations and insurers as required by the Medical Practice Act of 1987 (Act).

During our mandate testing, we noted the Department did not ensure the Board sent the required summary reports of final actions taken upon disciplinary files maintained to every licensed health care facility, every professional association and society of persons licensed under the Act, medical associations, insurers and the Federation of State Medical Licensing Boards.

The Medical Practice Act of 1987 (225 ILCS 60/23(F)) requires the Medical Disciplinary Board shall prepare, on a timely basis, but in no event less than one every other month, a summary report of final actions taken upon disciplinary files maintained by the Board. The Act further states the summary reports shall be sent to every health care facility licensed by the Illinois Department of Public Health, every professional association and society of persons licensed under this Act functioning on a statewide basis in this State, the American Medical Association, the American Osteopathic Association, the American Chiropractic Association, all insurers providing professional liability insurance to persons licensed under this Act in the State of Illinois, the Federation of State Medical Licensing Boards, and the Illinois Pharmacists Association.

Department personnel stated they believe the above statute is outdated and it is no longer necessary to send separate summary reports to the intended recipients mentioned above since the Department publishes, at least monthly (beginning in 1996), final disciplinary actions taken by the Department against a licensee or applicant pursuant to the Act, as required by the Civil Administrative Code (Code) (20 ILCS 2105/2105-205), on its web site. The Department revised the code in 1997 and notified all entities mentioned above regarding the revision in the Code that the summary report was available for free download from the Department's website or they could continue to receive the report by mail upon request and payment of the required fee, set by the Department. Department personnel stated that they are currently seeking legislative remedy to the statutory requirement with Senate Bill 2608.

The Board's failure to send the required summary reports of final actions taken upon disciplinary files may prevent the communication of important information to the intended recipients mentioned above. (Finding Code No. 05-27, DPR 04-16, 03-14)

<u>RECOMMENDATION</u>:

We continue to recommend the Department ensure the Board sends the required summary reports of final actions taken upon disciplinary files to the intended recipients provided by the Act until legislative remedy regarding the statutory requirement has been enacted.

DEPARTMENT RESPONSE:

Concur. The Department, with the support of the Illinois Medical Society, sought legislative sponsorship for two bills – HB 2576 and Senate Amendment #1 to SB 2608 – that would have abolished the requirement that summary reports be sent to health care facilities. HB 2576 was not acted upon by the House Rules committee while Senate Amendment #1 to SB 2608 was tabled.

The legislation would have replaced the requirement with a provision that the Department post the summary reports on its website. The agency will continue efforts to seek a legislative remedy in future sessions.

05-28 **<u>FINDING</u>:** (Reports relating to professional conduct and capacity of podiatric physician)

The Department failed to develop rules consistent with the Podiatric Medical Practice Act of 1987.

During our testing, we noted the Department developed and printed rules for the administration of the Podiatric Medical Practice Act of 1987 (Act). The Department's Rules (68 Ill. Adm. Code 1360) were not consistent with the requirements of the Act. The Rules only require the chief administrator or executive officer of any health care institution licensed by the Illinois Department of Public Health to report to the Podiatric Medical Licensing Board (Board) concerning impaired podiatric physicians. The Rules are silent on the reporting requirements to the Board for the entities mentioned in the Act of the incompetence or unprofessional conduct, felonies and settlement of claims regarding a podiatric physician.

The Act (225 ILCS 100/26(A)) states the Board shall by rule provide for the reporting to it of all instances in which a podiatric physician licensed under the Act who is impaired by reason of age, drug or alcohol abuse or physical or mental impairment, is under supervision and, where appropriate, is in a program of rehabilitation. The Act further states any administrator or officer of any hospital, nursing home or other health care agency or facility, who has knowledge of an impaired podiatric physician, shall promptly file a written report to the Department on forms provided by the Department; the president or chief executive officer of any association or society of podiatric physicians licensed under the Act shall report to the Board when the association or society renders a final determination related to the competence or conduct of a podiatric physician; every insurance company that offers policies of professional liability insurance to persons licensed under the Act shall report to the Board the settlement of any claim or cause of action or final judgment that alleged negligence in the furnishing of medical care; the State's Attorney of each county shall report to the Board all instances in which a person licensed under this Act is convicted or otherwise found guilty of the commission of any felony; and all agencies, boards, commissions, departments, or other instrumentalities of the government of the State of Illinois shall report to the Board any instance in which a podiatric physician licensed under this Act has either committed an act or acts that may be a violation of this Act or may constitute unprofessional conduct related directly to patient care or that indicates that a podiatric physician licensed under this Act may be mentally or physically disabled in such a manner as to endanger patients under that physician's care.

According to Department personnel, the requirements of the Act were not originally included in the rules due to oversight.

Department personnel stated that rules have been drafted to correct this error. The rules were not adopted by the Department in fiscal year 2005. The Department's failure to adopt rules consistent with the Act could result in inappropriate administration and regulation of the profession or unnecessary risk to the public. (Finding Code No. 05-28, DPR 04-17, 03-16)

RECOMMENDATION:

We continue to recommend the Department formally adopt and implement rules consistent with the Act.

DEPARTMENT RESPONSE:

Concur. Rules have been amended and were effective on March 1, 2006.

05-29 FINDING: (Failure to employ an Assistant Drug Compliance Coordinator)

The Department did not employ an Assistant Drug Compliance Coordinator, as required by the Wholesale Drug Distribution Licensing Act (Act).

The Act (225 ILCS 120/50(c)) states the Department shall employ a person whose title shall be Assistant Drug Compliance Coordinator to assist the Drug Compliance Coordinator in administering and enforcing the Act.

Department personnel stated the Department did not employ an Assistant Drug Compliance Coordinator due to the Department's intent and efforts to eliminate the position through legislation. The Department estimates the cost to employ an Assistant Drug Compliance Coordinator to be $102,309.

The Department's failure to hire an Assistant Drug Compliance Coordinator could result in inadequate administration and enforcement of the profession. (Finding Code No. 05-29, DPR 04-18, 03-17)

RECOMMENDATION:

We continue to recommend the Department hire an Assistant Drug Compliance Coordinator as required by State statute or seek a legislative remedy to the statutory requirement.

DEPARTMENT RESPONSE:

The Department sought legislative sponsorship of a bill, SB 2909, that will abolish the position of the Assistant Drug Compliance Coordinator. The Bill has passed both chambers and is awaiting the Governor's signature before it becomes law.

05-30 FINDING: (Fees charged for roofing licensure inconsistent with Roofing Industry Act)

The Department failed to charge fees for the roofing industry license in accordance with the Illinois Roofing Industry Act (Act).

During our testing, we noted the fees charged by the Department, through the Emergency Rules for the Administration of the Act (68 Ill. Adm. Code 1460.80), published on April 10, 2003, were not in accordance with the Act. The Emergency Rules state the renewal fee is set at $62.50 per year and the fee for issuance of a duplicate/replacement license for a change of name or address is $20. Per the Act the biennial renewal fee shall not exceed one-half of the initial application fee and issuance of a duplicate/replacement license for a change of name or address should be $10. The Department has set the initial application fee at $125; therefore, the biennial renewal fee should not exceed $62.50. In addition, a fee for an application filed during the second half of the biennial period was not established by the Emergency Rules.

The Department renewed 3,605 roofer licenses at $125 per license as of June 30, 2005, and collected $450,625 in fees for roofing renewals, $225,312 in excess of the allowable renewal fees set by the Act.

The Act (225 ILCS 335/7) states if an applicant for initial certification applies for licensure during the second half of the biennial period, the applicant shall only be required to pay one-half of the amount fixed by the Department for the initial application. Any change of the license that requires the issuance of a new license shall be completed on a form required by the Department, accompanied by a $10 handling fee. The biennial renewal fee shall be fixed by the Department in an amount not to exceed one-half of the initial application fee.

Department officials stated the intent of the Board and the Department was to charge $125.00 for the biennial renewal fee. Department officials further stated the Act did not include the proper fee and subsequently the Act has been changed.

The Department's failure to charge fees in accordance with the Act and its Administrative Rules results in noncompliance with statutory requirements and could result in inappropriate administration of the profession. (Finding Code Number 05-30, DPR 04-19, 03-18)

RECOMMENDATION:

We recommend the Department charge roofing industry license fees in accordance with the Illinois Roofing Industry Act and its Rules for the Administration of the Act.

DEPARTMENT RESPONSE:

Concur. Legislation was introduced and passed during the 2005 Spring Session to correct fees within the Act. The bill was signed into law (PA 94-254) by the Governor on July 19, 2005. The new legislation amended the fee language to be consistent with the intentions of the fees which were charged.

05-31 FINDING: (Clinical Psychologists Licensing and Disciplinary Board (Board) not fully staffed)

The Director of the Department did not appoint a member to the Clinical Psychologists Licensing and Disciplinary Board in order to fill a vacancy that has existed since July 2003 for one public member who is not a licensed health care provider.

The Clinical Psychologist Licensing Act (Act) (225 ILCS 15/7) states, "The Board shall consist of 7 persons, 4 of whom are licensed clinical psychologists, and actively engaged in the practice of clinical psychology, 2 of whom are licensed clinical psychologists and are full time faculty members of accredited colleges or universities who are engaged in training clinical psychologists, and one of whom is a public member who is not a licensed health care provider." The Director is responsible for appointing the Board that serves in an advisory capacity.

Department management stated that during fiscal year 2005 the Department filled one of two vacancies noted during the previous examination. Department management stated it is currently in the process of filling the other vacancy.

Board members should be appointed in a timely manner in order to properly formulate the function of the Board as intended. A full board is necessary to properly conduct meetings and operate effectively and efficiently. (Finding Code No. 05-31, DPR 04-20)

RECOMMENDATION:

We recommend the Director appoint qualifying members to the Board as required by the Act.

DEPARTMENT RESPONSE:

Concur. A member has been appointed to the Clinical Psychologists Licensing and Disciplinary Board to fill the vacancy which existed since July 2003. His appointment became effective April 14, 2006.

05-32 <u>FINDING</u>: (Failure to comply with the Home Medical Equipment and Services Provider License Act)

The Department failed to conduct mandatory inspections and set a fee for the inspections in accordance with the Home Medical Equipment and Services Provider Act (Act).

The Act (225 ILCS 51/90) requires the Department to inspect each licensee for compliance with the requirements of this Act within three years of initial licensure and at least once every three years thereafter, unless the licensee can demonstrate proof of renewal of accreditation with a recognized national accrediting body. The Department shall conduct random inspections upon renewal of a license, for cause or as necessary to assure the integrity and effectiveness of the licensing process. The Department may authorize qualified individuals to conduct inspections, and shall set by rule the fee for each inspection.

The Department currently licenses 573 providers under this Act. The Department provided documentation supporting 140 (24%) license inspections during fiscal year 2005, but could not document that any of the remaining 433 (76%) licensees under this Act had been inspected during fiscal year 2005. In addition, we noted that the Administrative Rules for Home Medical Providers (68 Ill. Adm. Code 1253.70) do not set a fee for inspections as required by the Act.

Department personnel stated that inspections were not performed due to staff shortages. Department personnel further stated that the Department was unaware that the Act authorized them to charge a fee for such mandatory inspections.

The Department's noncompliance with this mandate could allow the remaining 433 licensees not inspected under this Act to continue practicing without the proper accreditation requirements. This noncompliance has a negative effect on members of the general public who rely on home medical providers for medical equipment and assistance. (Finding Code No. 05-32, DPR 04-21)

<u>RECOMMENDATION</u>:

We recommend the Department allocate the resources necessary to conduct the mandatory inspections to ensure that licensees are in compliance with the requirements of licensure under the Act. Further the Department should establish a fee for these inspections as required by the Act.

<u>DEPARTMENT RESPONSE</u>:

Concur. The Department has assigned Investigators from all of its sections to conduct mandatory inspections on Home Medical Equipment and Service Providers. While the Department has not inspected all locations, it has made great strides in the past year.

05-33 **FINDING:** (Failure to comply with a provision of the Illinois Dental Practice Act)

The Department did not establish by rule a program of care, counseling, and treatment for impaired dentists as required by the Illinois Dental Practice Act (Act) (225 ILCS 25/5.5).

Section 25/4(o) of the Act defines an impaired dentist as "a dentist…who is unable to practice with reasonable skill and safety because of a physical or mental disability as evidenced by a written determination or written consent based on clinical evidence, including deterioration through the aging process, loss of motor skills, abuse of drugs or alcohol, or a psychiatric disorder, of sufficient degree to diminish the person's ability to deliver competent patient care." Our review of Department rules noted no reference to a program of care, counseling, and treatment for impaired dentists.

Department personnel stated they have established a care and treatment program for impaired dentists, and are in the process of establishing and filing rules.

The Department is required by statute to establish such a program for the benefit of the general public and dental professionals. Failure to comply with establishing formal rules is in noncompliance with the Act and could lead to inappropriate dental practice and conduct. (Finding Code No. 05-33, DPR 04-22)

RECOMMENDATION:

We recommend the Department establish rules for a program of care and treatment for impaired dentists in order to be in compliance with the Illinois Dental Practice Act.

DEPARTMENT RESPONSE:

Concur. The Department has established a care and treatment program for impaired dentists and has several dentists participating in the program. The Department has drafted rules establishing the care and treatment program. These rules are anticipated to be filed by June 30, 2006.

05-34 **<u>FINDING</u>:** (Recommendations presented in the Management Audit of Group Workers' Compensation Self-Insured Pools not implemented)

The Department did not fully implement four of nine recommendations presented in the Management Audit of Group Workers' Compensation Self-Insured Pools (Management Audit) conducted by the Office of the Auditor General.

The audit was released in January, 2003, pursuant to Legislative Audit Commission Resolution Number 121. The following are findings and issues raised in the audit that have not been fully implemented.

- The Management Audit found that there were pools in liquidation and some active pools that included members with dissimilar risk characteristics. The Workers' Compensation Pool Law (215 ILCS 5/107a.03) enacted effective January 1, 2001 requires all pools to be comprised of members with homogenous risks. However, neither the statutes nor Department rules define homogenous. One Department official was quoted in the Management Audit that "It is impossible to accurately predict losses when the subjects for coverage present a virtual potpourri of risks and exposures thereby undermining the credibility of available statistics regarding frequency and severity of losses." Having members with dissimilar risk characteristics creates the potential for unexpected risks, as claims could greatly exceed the premium rates collected for expected losses. According to Department officials, this issue will be resolved by regulation currently in draft form. (Recommendation 4)

- The Management Audit found that 12 of the 23 pools licensed at December 31, 2001, either reported gross annual payrolls under $10,000,000, or did not disclose payrolls in their annual statements at all. Effective January 1, 2001, the Illinois Insurance Code (215 ILCS 5/107a.07) requires the Department in evaluating the financial strength of pools to consider "The gross annual payroll of members, which must be at least $10,000,000." The purpose of the statute is to assist in the evaluation of the financial strength and solvency of a pool, gross annual payroll being an indicator of financial strength. The greater the payroll, the greater the ability a pool has to spread the risk of substantial claims. Of the 10 active pools as of June 30, 2005, all had annual gross payrolls in excess of the statutory requirement. The Department has indicated that pools in runoff (not active) lack payroll. According to Department officials, this issue will be resolved by regulation currently in draft form. (Recommendation 5)

- The Management Audit found that financial examinations of the pools were not filed in accordance with statutory requirements. Of 36 examinations completed between July, 1995 and February, 2002, 10 were adopted within mandated time frames, 10 were adopted after mandated time frames, 3 were in progress, and 13 were never adopted. The Director is required by the Illinois Insurance Code (215 ILCS 5/132.5.c) to enter an order adopting or rejecting the final examination report or calling for an investigative hearing to obtain more information within 60 days of the receipt of the examination report. During fiscal year 2005, seven examinations were adopted. Of these seven, three were adopted within statutory time limits, and four were adopted between 13 to 67 days after the 60 day mandate.

Department officials stated that the main causes for the delays were supervisory staff retirement and examiner office moves in the Chicago office. One of the primary purposes for examinations is to evaluate the accuracy of the pool's financial statements. Failure to adopt examinations on a timely basis could result in a pool with significant financial deficiencies going undetected. (Recommendation 7)

- The Management Audit found that the Group Self-Insurers Workers' Compensation Fund assets did not appear to be sufficient to cover estimated claims against the fund as of June 30, 2002. The fund was established by the Workers' Compensation Pool Law (215 ILCS 5/107a.13), effective January 1, 2001. The Department is responsible for collecting semi-annual assessments for the purpose of compensating eligible employees when their group workers' compensation self-insured pool is unable to pay their claims due to financial insolvency. As of June 30, 2002, the Insolvency Fund balance was $152,051. The estimated claims outstanding against the fund amounted to $1.1 million. The Management Audit recommended the Department "Consider whether the statutory percentage of semi-annual assessment paid by the pools should be increased to raise the fund's balance and seek legislation to assist in preventing future shortfalls." In December of 2001, the Director ordered assessments totaling in excess of $1.3 million. However, only $525,615 of these funds have been collected through June 30, 2005. The primary reason for this is that in October, 2002, lawsuits were filed by the pools challenging the constitutionality of the statute. As of June 30, 2005, the outcome of the challenge was still pending. Department officials have represented that changes in legislation cannot be sought pending resolution of outstanding lawsuits. (Recommendation 9)

The Department's failure to fully implement recommendations presented in the Management Audit of Group Workers' Compensation Self-Insured Pools could result in a pool with significant financial deficiencies going undetected, potential for unexpected risks, and insufficient Fund assets to cover potential claims. (Finding Code No. 05-34, DOI 04-3)

RECOMMENDATION:

We recommend the Department:

- Continue in its efforts to enact final rules to define homogeneous for pool membership, and monitor the pool members for homogeneous risks on an ongoing basis;
- Continue in its efforts to enact final rules that would allow waiver of the gross payroll requirement for pools in runoff;

- Allocate the resources necessary to conduct all required financial examinations and adopt them in a timely manner to comply with statutory requirements; and
- Seek a statutory increase to the Insolvency Fund assessments, or show cause why such an increase is not considered necessary.

DEPARTMENT RESPONSE:

Concur.

1. The Division of Insurance will continue its efforts to finalize and submit a regulation to JCAR addressing the issues of similar risk characteristics for the members of each workers' compensation pool. The pool will also address whether any required amount of member payroll is necessary for inactive pools which have no members (pools in runoff).
2. The Division wishes to reiterate that even without the existence of regulation, the members of each of the current active pools already possess acceptable similar risk characteristics, and all the current active pools are annually reviewed by the Division to assure they maintain the required minimum amount of payroll.
3. The Division will continue its efforts to complete examinations of workers compensation pools within the statutory timeframes. Such examinations are conducted once every five years, while the Division receives and analyzes financial statements for each pool every three months, and based on such analyses takes appropriate actions against the pools as warranted.
4. The Division will consider proposing legislation, if necessary, pertaining to the amount of assessments for the workers compensation pool insolvency fund once the litigation challenging the constitutionality of the existing statute is resolved.

PRIOR FINDINGS NOT REPEATED – STATE

05-35 **<u>FINDING</u>:** (Efficiency Initiative Payments)

Previous engagements noted that efficiency initiative payments made to the Department of Central Management Services (CMS) did not comply with the State Finance Act. The payments for efficiency initiative billings were made from improper line item appropriations. The State Finance Act directs agencies to pay the savings amounts from line item appropriations where the cost savings are anticipated to occur. (30 ILCS 105/6p-5)

During the current engagement, we noted that payments made by the Department of Financial and Professional Regulation for efficiency billings from CMS were made from the appropriate line items based on the detail that accompanied the billing. As a result, this finding is not repeated. (Finding Code No. DPR 04-1, BRE 04-1, DOI 04-1, and DFI 04-1)

05-36 **<u>FINDING</u>:** (Failure to timely update licensing information)

During a prior engagement, the legacy Office of Banks and Real Estate did not update licensing information on a timely basis, as required by the Residential Mortgage Act of 1987 (205 ILCS 635/2-6). The Agency's computer system (CLEAR) did not automatically mark a license as inactive when the license was not renewed within the required timeframe, requiring personnel to manually mark the license as inactive, resulting in a period of time where licenses, that had not been renewed, would appear as active.

During the current engagement, we noted the Department initiated procedures to ensure all non-renewed licenses are properly listed as inactive. (Finding Code No. BRE 04-6)

05-37 **<u>FINDING</u>:** (Inadequate controls over petty cash and locally held funds)

During a prior engagement, the legacy Office of Banks and Real Estate did not have adequate controls over its petty cash and locally held funds. The Office of Banks and Real Estate maintained a petty cash fund that had been inactive since 1996, but still maintained a cash balance, and no annual Petty Cash Fund Usage Reports were submitted to the Comptroller's Office. In addition, two locally held funds were not reflected in Agency records or properly established and reported to the Comptroller as required by the State Comptroller Act.

During the current engagement, we noted the petty cash fund and both locally held funds were properly dissolved. (Finding Code No. BRE 04-11)

05-38 **<u>FINDING</u>:** (Untimely deposit of receipts)

During a prior engagement, the legacy Office of Banks and Real Estate did not timely deposit receipts or document the date of receipt, as required by the State Officers and Employees Money Disposition Act (30 ILCS 230/2 (a)).

During the current engagement, we noted the Department sought and received a deposit extension from the Comptroller's Office. We noted no instances in which the Department did not properly document the date of receipt. (Finding Code No. BRE 04-13)

05-39 **<u>FINDING</u>:** (Manual revenue ledgers not in agreement with computerized receipt records)

During a prior engagement, the legacy Department of Professional Regulation maintained manual revenue ledgers that were not in agreement with computerized receipt records and did not allow for adequate receipt reconciliations.

During the current engagement, we noted the Department's manual revenue ledgers agreed to the computerized daily receipts and summary reports. (Finding Code No. DPR 04-4)

05-40 **<u>FINDING</u>:** (Failure to file an annual certification required by the Baccalaureate Assistance Law for Registered Nurses)

During a prior engagement, the legacy Department of Professional Regulation did not file a certification with the Illinois Department of Public Health (IDPH) on the number of registered nurses in each region actively engaged in the practice of professional nursing.

During the current engagement, we noted the Department filed the report with IDPH. (Finding Code No. DPR 04-13, 03-6, 01-11)

05-41 **<u>FINDING</u>:** (Failure to comply with provisions of the Nursing and Advanced Practice Nursing Act (Act))

During a prior engagement, the legacy Department of Professional Regulation did not make all licensure requirements available in Spanish on the Department's website. The Department also did not provide links, in Spanish, to a listing of the Department approved nursing programs and other educational resources related to the Test of English as a Foreign Language and the Commission on Graduates of Foreign Nursing Schools Examination, as required by the Nursing and Advanced Practice Nursing Act (225 ILCS 65/20)

During the current engagement, we noted the Department complied with requirements of the Act. (Finding Code No. DPR 04-14)

05-42 FINDING: (Failure to comply with a provision of the Funeral Directors and Embalmers Licensing Code)

During a prior engagement, the legacy Department of Professional Regulation's Rules for the Administration of the Funeral Directors and Embalmer Licensing Code (68 Ill. Adm. Code 1250.170) did not require each fixed place of practice or establishment devoted to the care and preparation for burial or transportation of deceased human bodies to maintain a preparation room, as required by the Funeral Directors and Embalmers Licensing Code (225 ILCS 41/15-55).

During the current engagement, we noted the Department revised rules to be in compliance with all requirements of the Code. (Finding Code No. DPR 04-15, 03-13)

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statement of the Security Deposit Fund – 1109 of the State of Illinois, Department of Financial and Professional Regulation was performed by Sikich LLP.

Based on their audit, the auditors expressed an unqualified opinion on the Department's financial statement of the Security Deposit Fund – 1109.

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INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statement of the Security Deposit Fund – 1109 of the State of Illinois, Department of Financial and Professional Regulation as of June 30, 2005, as listed in the table of contents. This financial statement is the responsibility of the State of Illinois, Department of Financial and Professional Regulation's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statement presents only the Security Deposit Fund – 1109 and does not purport to, and does not, present fairly the financial position of the State of Illinois, Department of Financial and Professional Regulation as of June 30, 2005, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of the Security Deposit Fund – 1109 of the State of Illinois, Department of Financial and Professional Regulation, as of June 30, 2005 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2005 on our consideration of the State of Illinois, Department of Financial and Professional Regulation's internal control over financial reporting of the Security Deposit Fund – 1109 and on our tests of the State of Illinois, Department of Financial and Professional Regulation's compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The State of Illinois, Department of Financial and Professional Regulation has not presented a management's discussion and analysis for the Security Deposit Fund – 1109 that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statement.

Our audit was conducted for the purpose of forming an opinion on the financial statement of the Security Deposit Fund – 1109 of the State of Illinois, Department of Financial and Professional Regulation. The Statement of Changes in Assets and Liabilities for the year ended June 30, 2005 is presented for purposes of additional analysis and is not a required part of the financial statement. The Statement of Changes in Assets and Liabilities has been subjected to the auditing procedures applied in the audit of the Security Deposit Fund – 1109 financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

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

Sikich LLP

Springfield, Illinois
November 30, 2005

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

INDIVIDUAL NONSHARED FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2005
(Expressed in Thousands)

SECURITY DEPOSIT FUND - 1109

ASSETS		
Cash and cash equivalents	$	4,066
Investments		1,164,212
Total assets	$	1,168,278
LIABILITIES		
Other liabilities	$	1,168,278
Total liabilities	$	1,168,278

The accompanying notes to the financial statement are an integral part of this statement.

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

INDIVIDUAL NONSHARED FIDUCIARY FUND

NOTES TO FINANCIAL STATEMENT

June 30, 2005

1. DESCRIPTION OF FUND

The State of Illinois, Department of Financial and Professional Regulation (the Department) administers the fiduciary fund described below. A nonshared fund is a fund in which a single State agency is responsible for administering substantially all financial transactions of the fund.

1109 – Security Deposit Fund – The Security Deposit Fund was 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 Division 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statement of the individual nonshared fiduciary fund administered by the Department has been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statement, summarized below are the more significant accounting policies.

(a) Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which elected officials of the primary government are financially accountable. Financial accountability is defined as:

(1) Appointment of a voting majority of the component unit’s board and either (a) the primary government’s ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

(2) Fiscal dependency on the primary government.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Based upon the required criteria, the nonshared fiduciary fund does not have component units, nor is it a component unit of any other entity. However, because the nonshared fiduciary fund is not legally separate from the State of Illinois (State), it is included in the financial statements of the State as a nonshared fiduciary fund. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1871.

The financial statement presents only the Security Deposit Fund – 1109 administered by the State of Illinois, Department of Financial and Professional Regulation and does not purport to, and does not, present fairly the financial position of the State of Illinois, Department of Financial and Professional Regulation as of June 30, 2005, and changes in its financial position, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

(b) Basis of Presentation

In government the basic accounting and reporting entity is a fund. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The individual nonshared fiduciary fund presented herein is also classified as an agency fund. An agency fund acts as a custodian for other entities. Assets in an agency fund are held for a period of time and then returned to their owners or to another party that is entitled to receive resources. Since the Department has no equity in agency funds, only a statement of fiduciary net assets has been presented.

(c) Basis of Accounting

The individual nonshared fiduciary fund is reported using the economic resources measurement focus and the accrual basis of accounting.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

(d) Cash and Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments convertible to cash with maturities of less than 90 days at the time of purchase. Cash and cash equivalents include cash on hand, cash in banks, certificates of deposit, and money market accounts for locally held funds.

(e) Investments

Investments are reported at fair value. The Department holds investments pursuant to statutory authority for locally held funds.

(f) Use of Estimates

The preparation of the financial statement in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement. Actual results could differ from those estimates.

(g) New Accounting Pronouncements

Effective for the year ended June 30, 2005, the State adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures,* which amends GASB Statement No. 3 by modifying and eliminating certain risk disclosures related to deposits and investments. The statement also requires additional risk disclosures related to deposits and investments and descriptions of deposit and investment policies, if applicable, related to those risks. There was no significant impact on the Department's financial statements as a result of adopting this statement.

3. DEPOSITS AND INVESTMENTS

The Public Funds Investment Act (30 ILCS 235/1 et seq.) provides general guidance concerning the criteria to be met for the placement of public funds in a financial institution and the types of investment instruments permitted. Investment instruments permitted include: U.S. Government, State of Illinois, and municipal securities; certificates of deposit or time savings deposits insured by the FDIC; mortgage notes, bonds, or debentures issued by the Federal Housing Administration; bonds and other obligations of the Federal National Mortgage Association; commercial paper rated within the three highest classifications by at least two standard rating services; credit union shares; and the Illinois Funds.

3. DEPOSITS AND INVESTMENTS – Continued

Locally held funds, consisting of statutory reserve requirements of insurance companies conducting business in the State of Illinois, are reported in the accompanying financial statement.

a. Deposits

Custodial Credit Risk - Custodial credit risk for deposits with financial institutions is the risk that in the event of bank failure, the Department's deposits may not be returned to it. To guard against custodial credit risk for deposits with financial institutions, the Department requires that deposits with financial institutions in excess of FDIC limits be secured by some form of collateral, by a written agreement, and held at an independent, third-party institution in the name of the Department.

b. Investments

As of June 30, 2005, the Department had the following investments:

	Fair Value (Thousands)	**Weighted Average Maturity (Years)**
Investment Type		
U.S. Treasury Bills	$ 5,136	.21
U.S. Treasury Notes	646,698	2.77
U.S. Treasury Bonds	163,207	14.74
U.S. Treasury Strips	17,289	5.10
U.S. Agency Obligations	67,211	6.38
Municipal Debt	72,133	12.59
Corporate Debt Securities	191,429	9.18
Total Fair Value	1,163,103	
Non-negotiable Certificates of Deposit with maturities of greater than 90 days at time of purchase	1,109	
	$ 1,164,212	

3. DEPOSITS AND INVESTMENTS – Continued

b. Investments - Continued

Custodial Credit Risk - Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the investment, the Department will not be able to recover the value of its investments that are in possession of an outside party.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The above listing of investments summarizes interest rate risk using the Weighted Average maturity method. The Weighted Average Maturity Method (WAM) expresses investment time horizons – the time when investments become due and payable – in years to reflect the dollar size of individual investments within an investment type. The portfolio's WAM is derived by dollar-weighting the WAM for each investment type.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Department does not have a formal investment policy that limits investment choices. The below table summarizes the credit rating by Moody's, a nationally recognized statistical ratings organization.

Investment Type	**Fair Value (Thousands)**	**Credit Rating (Moody's)**
U.S. Agency Obligations	$ 59,755	AAA
	6,830	AA2
	626	AGN
	$ 67,211	
Municipal Debt	$ 8,360	AA1
	20,489	AA2
	14,981	AA3
	28,303	AAA
	$ 72,133	

3. DEPOSITS AND INVESTMENTS – Continued

b. Investments - Continued

	Fair Value (Thousands)	Credit Rating (Moody's)
Investment Type		
Corporate Debt Securities	$ 56,120	A1
	37,426	A2
	5,293	A3
	7,499	AA1
	11,082	AA2
	54,906	AA3
	19,103	AAA
	$191,429	

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

For the Year Ended June 30, 2005
(Expressed in Thousands)

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
SECURITY DEPOSIT FUND - 1109				
ASSETS				
Cash and cash equivalents	$ 1,515	$ 23,702	$ 21,151	$ 4,066
Investments	1,146,632	318,030	300,450	1,164,212
Total assets	$ 1,148,147	$ 341,732	$ 321,601	$ 1,168,278
LIABILITIES				
Other liabilities	$ 1,148,147	$ 341,732	$ 321,601	$ 1,168,278

See accompanying Independent Auditors' Report

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

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 Expenditures of Federal Awards
  Notes to the Schedule of Expenditures of Federal Awards
  Schedule of Appropriations, Expenditures and Lapsed Balances by Fund
  Schedule of Appropriations, Expenditures and Lapsed Balances by Major Object Code
  Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances by Fund
  Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances by Major Object Code
  Schedule of Efficiency Initiative Payments
  Schedule of Receipts, Disbursements and Fund Balance (Cash Basis) – Locally-Held Funds
  Schedule of Changes in State Property
  Comparative Schedule of Cash Receipts by Fund
  Comparative Schedule of Cash Receipts by Division by Revenue Category
  Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller
  Analysis of Significant Variations in Expenditures by Fund
  Analysis of Significant Variations in Expenditures by Major Object Code
  Analysis of Significant Variations in Receipts by Fund
  Analysis of Significant Variations in Receipts by Division by Revenue Category
  Analysis of Significant Lapse Period Spending by Major Object Code
  Analysis of Accounts Receivable

- Analysis of Operations

  Agency Functions and Planning Program
  Average Number of Employees
  Service Efforts and Accomplishments (Not Examined)

The auditors' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states the auditors have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General, except for information on the Service Efforts and Accomplishments on which they did not perform any procedures. However, the auditors do not express an opinion on the supplementary information.

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2005
(Expressed in Thousands)

Federal Grantor:	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services:		
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	$ 462
State Planning Grants Health Care Access for the Uninsured	93.256	178
TOTAL EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2005		$ 640

The accompanying notes are an integral part of this schedule.

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2005

1. SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the State of Illinois, Department of Financial and Professional Regulation (Department). The Department reporting entity is defined in Note 2 of the Department's financial statement for the nonshared fund.

The Schedule of Expenditures of Federal Awards was prepared for State compliance purposes only. A separate single audit of the State of Illinois, Department of Financial and Professional Regulation was not conducted. A separate single audit of the entire State of Illinois (which includes the State of Illinois, Department of Financial and Professional Regulation) was performed and released under separate cover.

2. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards has been prepared in accordance with generally accepted accounting principles on the modified accrual basis of accounting as prescribed in pronouncements issued by the Governmental Accounting Standards Board.

3. INDIRECT COSTS

The Department does not claim indirect cost reimbursements for any of its federal award programs. Consequently, the Department does not have an indirect cost rate established for allocating indirect costs to federal award programs.

4. DESCRIPTION OF FEDERAL AWARD PROGRAMS

The following is a brief description of the programs included in the Schedule of Expenditures of Federal Awards:

U.S. Department of Health and Human Services:

A. CFDA #93.779

The grant has been used to develop the new and innovative approaches necessary to enhance the Senior Health Insurance Program (SHIP) counseling services. Primary efforts are to keep updated on the changes in Medicare and Medicare Supplement and to educate the senior population as well as SHIP volunteers on those changes, as well as to recruit more SHIP volunteers and sponsoring organizations. Revenues derived from the Department's participation in the program were accounted for in the Senior Health Insurance Program Fund – 0396.

4. DESCRIPTION OF FEDERAL AWARD PROGRAMS – Continued

B. CFDA #93.256

This one time grant, extended through August 31, 2006, is for the development of plans for providing uninsured citizens of Illinois access to affordable health insurance. Studies are conducted to better identify the characteristics of uninsured citizens, the data of which will determine the most effective methods to provide them with high quality, affordable health insurance similar to plans that cover government employees or other benchmark plans. Revenues derived from the Department's participation in the planning grant were accounted for in the Department of Insurance Federal Trust Fund – 0673.

5. PASS-THROUGH AND SUBRECIPIENT AWARDS

The Department receives all of its federal awards directly from the U.S. Department of Health and Human Services, and does not provide any awards to subrecipients.

6. NONCASH AWARDS

The Department does not receive any noncash awards.

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
APPROPRIATIONS FOR FISCAL YEAR 2005 - BY FUND

Fourteen Months Ended August 31, 2005

	Appropriations (Net After Transfers)	Expenditures Through June 30, 2005	Lapse Period Expenditures July 1 to August 31, 2005	Total Expenditures	Balances Lapsed
Public Acts 93-0842 and 93-070					
APPROPRIATED FUNDS					
DIVISION OF FINANCIAL INSTITUTIONS					
Financial Institution Fund - 0021	$ 3,524,905	$ 3,243,571	$ 116,060	$ 3,359,631	$ 165,274
TOMA Consumer Protection Fund - 0241	20,000	-	-	-	20,000
Credit Union Fund - 0243	3,505,851	2,948,687	122,795	3,071,482	434,369
Total - Division of Financial Institutions	7,050,756	6,192,258	238,855	6,431,113	619,643
DIVISION OF INSURANCE					
Senior Health Insurance Program Fund - 0396	600,000	417,851	48,185	466,036	133,964
Public Pension Regulation Trust Fund - 0546	802,700	731,416	3,215	734,631	68,069
Insurance Producers' Administration Fund - 0922	11,680,955	9,952,143	217,005	10,169,148	1,511,807
Insurance Financial Regulation Fund - 0997	16,178,825	14,313,558	119,580	14,433,138	1,745,687
Total - Division of Insurance	29,262,480	25,414,968	387,985	25,802,953	3,459,527
DIVISION OF BANKS AND REAL ESTATE					
General Revenue Fund - 0001	1,310,371	1,305,116	-	1,305,116	5,255
Savings and Residential Finance Regulatory Fund - 0244	3,865,855	3,532,186	74,666	3,606,852	259,003
Appraisal Administration Fund - 0386	755,653	563,491	17,645	581,136	174,517
Pawnbroker Regulation Fund - 0562	125,716	102,567	4,045	106,612	19,104
Auction Regulation Administration Fund - 0641	279,329	162,463	35,597	198,060	81,269
Home Inspector Administration Fund - 0746	271,367	218,723	1,062	219,785	51,582
Real Estate Audit Fund - 0750	100,000	-	-	-	100,000
Bank and Trust Company Fund - 0795	17,217,255	15,918,950	237,075	16,156,025	1,061,230
Real Estate Research and Education Fund - 0849	70,000	1,050	2,618	3,668	66,332
Real Estate License Administration Fund - 0850	3,423,610	3,105,123	92,490	3,197,613	225,997
Total - Division of Banks and Real Estate	27,419,156	24,909,669	465,198	25,374,867	2,044,289

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
APPROPRIATIONS FOR FISCAL YEAR 2005 - BY FUND

Fourteen Months Ended August 31, 2005

	Appropriations (Net After Transfers)	Expenditures Through June 30, 2005	Lapse Period Expenditures July 1 to August 31, 2005	Total Expenditures	Balances Lapsed
DIVISION OF PROFESSIONAL REGULATION					
General Professions Dedicated Fund - 0022	$ 3,407,800	$ 3,253,603	$ 46,339	$ 3,299,942	$ 107,858
Illinois State Pharmacy Disciplinary Fund - 0057	1,173,900	1,015,151	59,816	1,074,967	98,933
Illinois State Medical Disciplinary Fund - 0093	3,444,200	3,270,469	33,970	3,304,439	139,761
Registered CPA Administration and Disciplinary Fund - 0151	473,600	151,302	1,022	152,324	321,276
Professional Regulation Evidence Fund - 0192	80,000	-	-	-	80,000
Professions Indirect Cost Fund - 0218	11,727,546	10,130,493	1,154,940	11,285,433	442,113
Nurse Dedicated and Professional Fund - 0258	1,522,000	1,270,408	34,446	1,304,854	217,146
Optometric Licensing and Disciplinary Committee Fund - 0259	464,800	380,011	462	380,473	84,327
Illinois State Dental Disciplinary Fund - 0823	810,750	756,082	5,563	761,645	49,105
Design Professional Administration and Investigation Fund - 0888	892,550	656,124	7,152	663,276	229,274
Illinois State Podiatric Disciplinary Fund - 0954	11,000	323	200	523	10,477
Total - Division of Professional Regulation	24,008,146	20,883,966	1,343,910	22,227,876	1,780,270
TOTAL - ALL APPROPRIATED FUNDS	87,740,538	77,400,861	2,435,948	79,836,809	7,903,729

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
APPROPRIATIONS FOR FISCAL YEAR 2005 - BY FUND

Fourteen Months Ended August 31, 2005

	Appropriations (Net After Transfers)	Expenditures Through June 30, 2005	Lapse Period Expenditures July 1 to August 31, 2005	Total Expenditures	Balances Lapsed
NON-APPROPRIATED FUNDS					
DIVISION OF INSURANCE					
Insurance Premium Tax Refund Fund - 0378	N/A	$ 1,819,571	$ -	$ 1,819,571	N/A
Department of Insurance Federal Trust Fund - 0673	N/A	129,627	48,185	177,812	N/A
Total - Division of Insurance		1,949,198	48,185	1,997,383	
DIVISION OF BANKS AND REAL ESTATE					
Real Estate Recovery Fund - 0629	N/A	21,500	-	21,500	N/A
Total - Division of Banks and Real Estate		21,500	-	21,500	
TOTAL - ALL NON-APPROPRIATED FUNDS		1,970,698	48,185	2,018,883	
GRAND TOTAL - ALL FUNDS		$ 79,371,559	$ 2,484,133	$ 81,855,692	

Note: All data on this schedule has been taken from State Comptroller records and reconciled to those of the Department.

(1) Appropriations are also net of transfers totaling $3,941,983 to the Department of Central Management Services in accordance with 20 ILCS 405/405-410 and Executive Orders No. 2 and 10.

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
APPROPRIATIONS FOR FISCAL YEAR 2005 - BY MAJOR OBJECT CODE

Fourteen Months Ended August 31, 2005

	Appropriations (Net After Transfers)	Expenditures Through June 30, 2005	Lapse Period Expenditures July 1 to August 31, 2005	Total Expenditures	Balances Lapsed
Public Acts 93-0842 and 93-070					
APPROPRIATED FUNDS					
Personal services	$ 47,286,754	$ 46,313,501	$ 286,180	$ 46,599,681	$ 687,073
Retirement - employer contribution	924,082	825,602	2,738	828,340	95,742
Retirement - employee contribution	7,603,955	7,416,056	55,877	7,471,933	132,022
Social security	3,575,152	3,328,497	24,634	3,353,131	222,021
Group insurance	10,636,228	10,319,607	54,555	10,374,162	262,066
Contractual services	6,172,456	3,177,332	785,968	3,963,300	2,209,156
Travel	2,907,681	1,584,023	183,338	1,767,361	1,140,320
Commodities	324,135	103,508	21,239	124,747	199,388
Printing	422,651	116,665	30,608	147,273	275,378
Equipment	540,288	9,314	149,798	159,112	381,176
Electronic data processing	2,176,992	1,074,074	553,912	1,627,986	549,006
Telecommunications	1,298,993	913,635	182,213	1,095,848	203,145
Operation of automotive equipment	228,300	161,712	40,186	201,898	26,402
Lump sum	1,863,600	570,203	51,825	622,028	1,241,572
Awards and grants	1,340,371	1,314,066	400	1,314,466	25,905
Refunds	438,900	173,066	12,477	185,543	253,357
TOTAL - APPROPRIATED FUNDS	87,740,538	77,400,861	2,435,948	79,836,809	7,903,729

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
APPROPRIATIONS FOR FISCAL YEAR 2005 - BY MAJOR OBJECT CODE

Fourteen Months Ended August 31, 2005

	Appropriations (Net After Transfers)	Expenditures Through June 30, 2005	Lapse Period Expenditures July 1 to August 31, 2005	Total Expenditures	Balances Lapsed
NON-APPROPRIATED FUNDS					
Lump sum	N/A	$ 129,627	$ 48,185	$ 177,812	N/A
Awards and grants	N/A	21,500	-	21,500	N/A
Refunds	N/A	1,819,571	-	1,819,571	N/A
TOTAL - NON-APPROPRIATED FUNDS		1,970,698	48,185	2,018,883	
GRAND TOTAL - ALL FUNDS		$ 79,371,559	$ 2,484,133	$ 81,855,692	

Note: All data on this schedule has been taken from State Comptroller records and reconciled to those of the Department.

(1) Appropriations are also net of transfers totaling $3,941,983 to the Department of Central Management Services in accordance with 20 ILCS 405/405-410 and Executive Orders No. 2 and 10.

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES BY FUND

	2005			2004		
	Public Acts 93-0842 and 93-070			Public Acts 93-0062, 93-0065 and 93-0664		
	Appropriations (Net After Transfers)	Total Expenditures	Balances Lapsed	Appropriations (Net After Transfers)	Total Expenditures	Balances Lapsed
APPROPRIATED FUNDS						
DIVISION OF FINANCIAL INSTITUTIONS						
Financial Institution Fund - 0021	$ 3,524,905	$ 3,359,631	$ 165,274	$ 5,595,775	$ 4,612,818	$ 982,957
TOMA Consumer Protection Fund - 0241	20,000	-	20,000	-	-	-
Credit Union Fund - 0243	3,505,851	3,071,482	434,369	3,443,776	3,052,050	391,726
Total - Division of Financial Institutions	7,050,756	6,431,113	619,643	9,039,551	7,664,868	1,374,683
DIVISION OF INSURANCE						
Senior Health Insurance Program Fund - 0396	600,000	466,036	133,964	700,000	405,675	294,325
Public Pension Regulation Trust Fund - 0546	802,700	734,631	68,069	952,400	824,529	127,871
Insurance Producers' Administration Fund - 0922	11,680,955	10,169,148	1,511,807	13,754,476	11,002,953	2,751,523
Insurance Financial Regulation Fund - 0997	16,178,825	14,433,138	1,745,687	18,639,693	15,175,206	3,464,487
Total - Division of Insurance	29,262,480	25,802,953	3,459,527	34,046,569	27,408,363	6,638,206
DIVISION OF BANKS AND REAL ESTATE						
General Revenue Fund - 0001	1,310,371	1,305,116	5,255	-	-	-
Savings and Residential Finance Regulatory Fund - 0244	3,865,855	3,606,852	259,003	4,855,564	4,060,440	795,124
Appraisal Administration Fund - 0386	755,653	581,136	174,517	1,305,054	1,042,179	262,875
Pawnbroker Regulation Fund - 0562	125,716	106,612	19,104	121,404	106,429	14,975
Auction Regulation Administration Fund - 0641	279,329	198,060	81,269	301,943	111,986	189,957
Home Inspector Administration Fund - 0746	271,367	219,785	51,582	283,100	209,811	73,289
Real Estate Audit Fund - 0750	100,000	-	100,000	100,000	-	100,000
Bank and Trust Company Fund - 0795	17,217,255	16,156,025	1,061,230	18,851,401	17,909,173	942,228
Real Estate Research and Education Fund - 0849	70,000	3,668	66,332	70,000	7,456	62,544
Real Estate License Administration Fund - 0850	3,423,610	3,197,613	225,997	4,671,115	3,880,202	790,913
Total - Division of Banks and Real Estate	27,419,156	25,374,867	2,044,289	30,559,581	27,327,676	3,231,905

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES BY FUND

	2005			2004		
	Public Acts 93-0842 and 93-070			Public Acts 93-0062, 93-0065 and 93-0664		
	Appropriations (Net After Transfers)	Total Expenditures	Balances Lapsed	Appropriations (Net After Transfers)	Total Expenditures	Balances Lapsed
DIVISION OF PROFESSIONAL REGULATION						
General Professions Dedicated Fund - 0022	$ 3,407,800	$ 3,299,942	$ 107,858	$ 3,504,600	$ 3,057,947	$ 446,653
Illinois State Pharmacy Disciplinary Fund - 0057	1,173,900	1,074,967	98,933	1,369,900	978,029	391,871
Illinois State Medical Disciplinary Fund - 0093	3,444,200	3,304,439	139,761	3,843,100	3,066,132	776,968
Registered CPA Administration and Disciplinary Fund - 0151	473,600	152,324	321,276	74,500	66,753	7,747
Professional Regulation Evidence Fund - 0192	80,000	-	80,000	100,000	25,000	75,000
Professions Indirect Cost Fund - 0218	11,727,546	11,285,433	442,113	12,795,673	11,808,703	986,970
Nurse Dedicated and Professional Fund - 0258	1,522,000	1,304,854	217,146	1,703,200	1,334,379	368,821
Optometric Licensing and Disciplinary Committee Fund - 0259	464,800	380,473	84,327	457,800	367,849	89,951
Illinois State Dental Disciplinary Fund - 0823	810,750	761,645	49,105	787,000	707,919	79,081
Design Professional Administration and Investigation Fund - 0888	892,550	663,276	229,274	854,800	725,706	129,094
Illinois State Podiatric Disciplinary Fund - 0954	11,000	523	10,477	11,000	2,962	8,038
Total - Division of Professional Regulation	24,008,146	22,227,876	1,780,270	25,501,573	22,141,379	3,360,194
TOTAL - ALL APPROPRIATED FUNDS	87,740,538	79,836,809	7,903,729	99,147,274	84,542,286	14,604,988
NON-APPROPRIATED FUNDS						
DIVISION OF INSURANCE						
Insurance Premium Tax Refund Fund - 0378	N/A	1,819,571	N/A	N/A	2,805,864	N/A
Department of Insurance Federal Trust Fund - 0673	N/A	177,812	N/A	N/A	165,132	N/A
Total - Division of Insurance		1,997,383			2,970,996	
DIVISION OF BANKS AND REAL ESTATE						
Real Estate Recovery Fund - 0629	N/A	21,500	N/A	N/A	11,500	N/A
Total - Division of Banks and Real Estate		21,500			11,500	
TOTAL - ALL NON-APPROPRIATED FUNDS		2,018,883			2,982,496	
GRAND TOTAL - ALL FUNDS		$ 81,855,692			$ 87,524,782	

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES BY FUND

	2005			2004		
	Public Acts 93-0842 and 93-070			Public Acts 93-0062, 93-0065 and 93-0664		
	Appropriations (Net After Transfers)	Total Expenditures	Balances Lapsed	Appropriations (Net After Transfers)	Total Expenditures	Balances Lapsed
APPOINTED STATE OFFICERS' SALARIES						
General Revenue Fund - 0001	$ 437,700	$ 250,811	$ 186,889	$ 498,600	$ 324,697	$ 173,903
Bank and Trust Company Fund - 0795	115,700	115,700	-	209,100	209,008	92
Total - State Officers' Salaries	$ 553,400	$ 366,511	$ 186,889	$ 707,700	$ 533,705	$ 173,995

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES BY MAJOR OBJECT CODE

	Fiscal Year	
	2005	2004
	Public Acts 93-0842 and 93-070	Public Acts 93-0062, 93-0065 and 93-0664
APPROPRIATED FUNDS		
Appropriations (net of transfers)	$ 87,740,538	$ 99,147,274
Expenditures:		
Personal services	46,599,681	49,086,357
Retirement - employer contribution	828,340	1,033,650
Retirement - employee contribution	7,471,933	6,606,622
Social security	3,353,131	3,526,149
Group insurance	10,374,162	9,200,569
Contractual services	3,963,300	7,085,479
Travel	1,767,361	2,585,601
Commodities	124,747	252,532
Printing	147,273	244,136
Equipment	159,112	163,835
Electronic data processing	1,627,986	2,244,225
Telecommunications	1,095,848	1,136,615
Operation of automotive equipment	201,898	224,910
Lump sum	622,028	778,098
Awards and grants	1,314,466	193,975
Refunds	185,543	179,533
Total expenditures	79,836,809	84,542,286
Lapsed balances	$ 7,903,729	$ 14,604,988
NON-APPROPRIATED FUNDS		
Expenditures:		
Lump sum	$ 177,812	$ 165,132
Awards and grants	21,500	11,500
Refunds	1,819,571	2,805,864
Total expenditures - non-appropriated funds	$ 2,018,883	$ 2,982,496

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

SCHEDULE OF EFFICIENCY INITIATIVE PAYMENTS

For the Year Ended June 30, 2005

<u>Procurement Efficiency Initiative</u>	
Professions Indirect Cost Fund - 0218	
Printing	$ 2,452
Real Estate License Administration Fund - 0850	
Contractual services	4,092
Insurance Producers' Administration Fund - 0922	
Contractual services	7,791
Insurance Financial Regulation Fund - 0997	
Contractual services	7,791
Subtotal for Procurement Efficiency Initiative	22,126
<u>Information Technology Initiative</u>	
Financial Institution Fund - 0021	
Electronic data processing	50,000
Telecommunications services	3,782
Professions Indirect Cost Fund - 0218	
Electronic data processing	116,345
Telecommunications services	23,802
Credit Union Fund - 0243	
Electronic data processing	50,000
Telecommunications services	3,782
Savings and Residential Finance Regulatory Fund - 0244	
Telecommunications services	5,875

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

SCHEDULE OF EFFICIENCY INITIATIVE PAYMENTS

For the Year Ended June 30, 2005

Bank and Trust Company Fund - 0795	
Telecommunications services	$ 11,750
Real Estate License Administration Fund - 0850	
Telecommunications services	5,875
Insurance Producers' Administration Fund - 0922	
Contractual services	120,000
Telecommunications services	15,028
Insurance Financial Regulation Fund - 0997	
Telecommunications services	15,028
Subtotal for Information Technology Initiative	421,267
Grand Total for Efficiency Initiative Payments	$ 443,393

Note: This schedule includes only those payments made pursuant to 30 ILCS 105/6p-5. Amounts were obtained from the Department and reconciled to information from the Office of the Comptroller.

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE (CASH BASIS)
LOCALLY HELD FUNDS

For the Year Ended June 30, 2005

	Liquidated Currency Exchange Fund 1133	Official Advance Fund 1249	Bank Examiner's Education Fund 1296	Total
Cash Balance at July 1, 2004	$ 37,046	$ 10,677	$ 156,010	$ 203,733
Receipts	129	7,730	95,750	103,609
Disbursements	(915)	(8,044)	(52,878)	(61,837)
Cash Balance at June 30, 2005	$ 36,260	$ 10,363	$ 198,882	$ 245,505

The above locally held funds are held at the following institutions:

Liquidated Currency Exchange Fund	Corus Bank
Official Advance Fund	Bank One
Bank Examiner's Education Fund	Marine Bank

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

SCHEDULE OF CHANGES IN STATE PROPERTY
For the Year Ended June 30, 2005

Property balance, July 1, 2004	$ 15,282,775
Additions:	
Purchases	1,089,869
Transfers in	178,140
Total Additions	1,268,009
Deductions:	
Deletions	(724,086)
Transfers out	(496,809)
Total Deductions	(1,220,895)
Property balance, June 30, 2005	$ 15,329,889

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 FINANCIAL AND PROFESSIONAL REGULATION
COMPARATIVE SCHEDULE OF CASH RECEIPTS BY FUND

For the Years Ended June 30, 2005 and 2004

	2005	2004
Division of Financial Institutions:		
Financial Institution Fund - 0021	$ 8,806,764	$ 8,535,446
Credit Union Fund - 0243	5,075,284	5,054,828
Subtotal - Division of Financial Institutions	13,882,048	13,590,274
Division of Insurance:		
General Revenue Fund - 0001	350,384,826	365,192,168
Fire Prevention Fund - 0047	19,319,568	18,761,974
Department of Insurance State Trust Fund - 0382	266,496	50,671
Senior Health Insurance Program Fund - 0396	433,250	416,565
Protest Fund - 0401	9,495,161	2,423,133
Industrial Commission Operations Fund - 0534	22,992,471	30,691,535
Public Pension Regulation Trust Fund - 0546	1,307,682	1,235,700
Department of Insurance Federal Trust Fund - 0673	141,513	195,487
Group Self-Insurers Workers Compensation Fund - 0739	461,961	132,568
Insurance Producers' Administration Fund - 0922	21,235,522	21,002,813
Insurance Financial Regulation Fund - 0997	20,250,288	26,428,860
Subtotal - Division of Insurance	446,288,738	466,531,474
Division of Banks and Real Estate:		
Savings and Residential Finance Regulatory Fund - 0244	11,844,030	9,106,564
Appraisal Administration Fund - 0386	728,223	2,608,442
Pawnbroker Regulation Fund - 0562	13,577	201,480
Real Estate Recovery Fund - 0629	85,711	77,674
Auction Regulation Administration Fund - 0641	45,725	625,715
Auction Recovery Fund - 0643	10,500	2,000
Home Inspector Administration Fund - 0746	1,148,285	441,955
Bank and Trust Company Fund - 0795	23,461,721	25,185,279
Real Estate License Administration Fund - 0850	8,312,829	6,541,414
Subtotal - Division of Banks and Real Estate	45,650,601	44,790,523

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION
COMPARATIVE SCHEDULE OF CASH RECEIPTS BY FUND

For the Years Ended June 30, 2005 and 2004

	2005	2004
Division of Professional Regulation:		
General Revenue Fund - 0001	$ -	$ 401
General Professions Dedicated Fund - 0022	9,446,390	9,448,034
Illinois State Pharmacy Disciplinary Fund - 0057	1,892,387	3,798,808
Illinois State Medical Disciplinary Fund - 0093	11,642,300	1,627,247
Registered CPA Administration and Disciplinary Fund - 0151	211,859	920,759
Nurse Dedicated and Professional Fund - 0258	2,457,771	9,489,479
Optometric Licensing and Disciplinary Committee Fund - 0259	151,361	937,062
Paper and Printing Revolving Fund - 0308	1,340	2,785
Illinois State Dental Disciplinary Fund - 0823	3,107,169	277,164
Design Professional Administration and Investigation Fund - 0888	1,199,024	1,529,827
Hearing Instrument Dispenser Examining and Disciplinary Fund - 0938	1,890	30,015
Illinois State Podiatric Disciplinary Fund - 0954	485,521	50,553
Subtotal - Division of Professional Regulation	30,597,012	28,112,134
Total - All Funds	$ 536,418,399	$ 553,024,405

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION
COMPARATIVE SCHEDULE OF CASH RECEIPTS
BY DIVISION BY REVENUE CATEGORY

For the Years Ended June 30, 2005 and 2004

	2005		2004	
Division of Financial Institutions:				
Licenses fees and registration:				
Credit union administrative fees	$ 5,007,917		$ 4,967,683	
Financial institution licenses and fees	3,926,399		2,464,971	
Retaliatory fees	3,357,913		4,346,537	
Financial institution examination fees	1,107,421		1,147,875	
Credit union examination fees	6,275		10,380	
		$ 13,405,925		$ 12,937,446
Fines, penalties or violations		476,123		652,828
Subtotal - Division of Financial Institutions		13,882,048		13,590,274
Division of Insurance:				
Privilege insurance tax		206,498,034		211,085,776
Retaliatory tax		138,864,978		152,065,179
Licenses fees and registration:				
Industrial Commission Operations Fund surcharges	22,992,471		30,691,535	
Insurance producer licenses and fees	20,990,617		19,498,043	
Regulatory insurance licenses and fees	20,250,288		26,428,860	
Pensions filing fees	1,307,682		1,235,700	
Insurance performance examination fees	706,866		797,930	
		66,247,924		78,652,068
Protest fees		9,495,161		2,423,133
Fire marshal tax		19,319,568		18,761,974
Federal government grant		433,250		612,052
Surety bonds		141,513		132,568
Court and anti-trust distributions		266,496		50,671
Fines, penalties, interest		5,021,640		2,747,305
Miscellaneous		174		748
Subtotal - Division of Insurance		446,288,738		466,531,474
Division of Banks and Real Estate:				
Licenses fees and registration:				
Bank examination fees	14,643,860		16,641,455	
Real estate licenses and fees	7,891,854		6,115,690	
Mortgage banking registrations	5,826,593		5,815,495	
Loan originator licenses and fees	3,378,223		1,312,490	
EDP examination fees	3,488,537		3,170,542	
Corporate fiduciary registrations	2,328,611		2,230,544	
International bank examination fees	2,333,125		2,391,815	
Home inspector licenses and fees	1,148,285		441,865	
Savings and loan supervisory fees	1,270,840		1,184,605	
Appraisal licenses and fees	658,100		2,582,818	
Corporate fiduciary receivership fees	399,999		404,388	
Timeshare registration fees	320,450		319,300	

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION
COMPARATIVE SCHEDULE OF CASH RECEIPTS
BY DIVISION BY REVENUE CATEGORY

For the Years Ended June 30, 2005 and 2004

	2005		2004	
Thrift registration fees	$ 61,719		$ -	
Mortgage banking examination fees	291,154		236,073	
Mortgage banking full service fees	246,450		150,650	
Savings and loan examination fees	268,835		267,073	
Miscellaneous banking fees	198,686		244,555	
Pawnbroker licenses and fees	13,560		169,930	
Land sales fees	105,525		86,650	
Auctioneer licenses and fees	45,725		625,715	
Miscellaneous international banking fees	40,150		56,700	
Miscellaneous trust company fees	25,750		29,050	
Check printer fees	2,600		200	
		$ 44,988,631		$ 44,477,603
Fines, penalties or violations		652,316		282,924
Miscellaneous		9,654		29,996
Subtotal - Division of Banks and Real Estate		45,650,601		44,790,523
Division of Professional Regulation:				
Licenses fees and registration:				
General professions licenses and fees	9,446,390		9,448,034	
Medical licenses and fees	11,642,300		1,627,247	
Dental licenses and fees	3,107,169		277,164	
Nursing licenses and fees	2,457,771		9,489,479	
Pharmacy licenses and fees	1,892,387		3,798,808	
Design professional licenses and fees	1,199,024		1,529,827	
Podiatric physician licenses and fees	485,521		50,553	
CPA licenses and fees	211,859		920,759	
Optometrics licenses and fees	151,361		937,062	
Audiologists license fees	1,890		30,015	
Printing fees	1,340		2,785	
		30,597,012		28,111,733
Miscellaneous		-		401
Subtotal - Division of Professional Regulation		30,597,012		28,112,134
Total		$ 536,418,399		$ 553,024,405

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

RECONCILIATION SCHEDULE OF CASH RECEIPTS TO DEPOSITS REMITTED TO THE STATE COMPTROLLER

For the Year Ended June 30, 2005

Fund	Receipts Per Department Records	Plus Deposits in Transit Beginning of Year	Less Deposits in Transit End of Year	Transfers/ Adjustments Other Funds	Deposits Pe Comptrolle Records
General Revenue Fund - 0001	$ 350,384,826	$ 18,441	$ (93,533)	$ (8,480,998)	$ 341,828,
Financial Institution Fund - 0021	8,806,764	27,935	(45,680)	2,177	8,791,
General Professions Dedicated Fund - 0022	9,446,390	7,425	(555,338)	116,030	9,014,
Fire Prevention Fund - 0047	19,319,568	-	-	-	19,319,
Illinois State Pharmacy Disciplinary Fund - 0057	1,892,387	1,855	(32,670)	30,073	1,891,
Illinois State Medical Disciplinary Fund - 0093	11,642,300	1,115	(1,665,971)	59,078	10,036,
Registered CPA Administration and Disciplinary Fund - 0151	211,859	225	(4,628)	4,877	212,
Credit Union Fund - 0243	5,075,284	3,225	(475)	-	5,078,
Savings and Residential Finance Regulatory Fund - 0244	11,844,030	1,643,220	(448,412)	(450)	13,038,
Nurse Dedicated and Professional Fund - 0258	2,457,771	4,670	(47,078)	68,224	2,483,
Optometric Licensing and Disciplinary Committee Fund - 0259	151,361	1,405	(8,122)	(7,394)	137,
Paper and Printing Revolving Fund - 0308	1,340	-	-	-	1,
Insurance Premium Tax Refund Fund - 0378	-	-	-	1,000,000	1,000,
Department of Insurance State Trust Fund - 0382	266,496	-	-	-	266,
Appraisal Administration Fund - 0386	728,223	31,792	(93,550)	-	666,
Senior Health Insurance Program Fund - 0396	433,250	-	-	-	433,
Protest Fund - 0401	9,495,161	67,500	(2,085)	-	9,560,
Industrial Commission Operations Fund - 0534	22,992,471	-	-	-	22,992,
Public Pension Regulation Trust Fund - 0546	1,307,682	127,829	(126,168)	(16,001)	1,293,
Pawnbroker Regulation Fund - 0562	13,577	160,650	(3,060)	-	171,
Real Estate Recovery Fund - 0629	85,711	3,546	(100)	523	89,
Auction Regulation Administration Fund - 0641	45,725	1,350	(825)	-	46,
Auction Recovery Fund - 0643	10,500	-	-	-	10,
Department of Insurance Federal Trust Fund - 0673	141,513	-	-	-	141,
Group Self-Insurers Workers Compensation Fund - 739	461,961	-	-	-	461,
Home Inspector Administration Fund - 0746	1,148,285	20,500	(14,475)	-	1,154,
Bank and Trust Company Fund - 0795	23,461,721	7,025	(14,536)	-	23,454,
Illinois State Dental Disciplinary Fund - 0823	3,107,169	1,800	(17,976)	15,333	3,106,
Real Estate License Administration Fund - 0850	8,312,829	245,121	(140,231)	-	8,417,

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

RECONCILIATION SCHEDULE OF CASH RECEIPTS TO DEPOSITS REMITTED TO THE STATE COMPTROLLER

For the Year Ended June 30, 2005

Fund	Receipts Per Department Records	Plus Deposits in Transit Beginning of Year	Less Deposits in Transit End of Year	Transfers/ Adjustments Other Funds	Deposits Pe Comptrolle Records
Design Professional Administration and Investigation Fund - 0888	$ 1,199,024	$ 600	$ (15,870)	$ 7,389	$ 1,191,
Insurance Producers' Administration Fund - 0922	21,235,522	483,514	(551,095)	23	21,167,
Hearing Instrument Dispenser Examining and Disciplinary Fund - 0938	1,890	-	(90)	7,740	9,
Illinois State Podiatric Disciplinary Fund - 0954	485,521	715	(2,624)	(980)	482,
Insurance Financial Regulation Fund - 0997	20,250,288	4,300,328	(6,681,701)	97,500	17,966,
	$ 536,418,399	$ 7,161,786	$ (10,566,293)	$ (7,096,856)	$ 525,917,

Note: Transfers/Adjustments Other Funds consist primarily of receipts recorded in Department records that are paid under protest and interfund transfers that are recorded as receipts per Department records, but are not recorded on the Comptroller's Monthly Revenue Status Report.

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BY FUND

The Department of Financial and Professional Regulation's (Department) analysis of significant fluctuations in expenditures as presented in the Comparative Schedule of Appropriations, Expenditures, and Lapsed Balances by Fund is detailed below.

We obtained explanations from Department personnel for material fluctuations in expenditures between years. We considered fluctuations in excess of 15% and $100,000 to be significant. Explanations of material expenditure fluctuations are as follows:

<u>Division of Financial Institutions</u>

Financial Institution Fund (0021) expenditures decreased $1,253,187 (27%) from fiscal year 2004 to 2005 as a result of reduced headcount and the consolidation of facility management at the Department of Central Management Services.

<u>Division of Insurance</u>

Insurance Premium Tax Refund Fund (0378) (non-appropriated) expenditures decreased $986,293 (35%) from fiscal year 2004 to 2005 as a result of fluctuations in the amount of refunds of annual premium tax collections.

<u>Division of Banks and Real Estate</u>

General Revenue Fund (0001) expenditures increased $1,305,116 from fiscal year 2004 to 2005 as a result of a payout of a lawsuit. This fund normally has no expenditures.

Appraisal Administration Fund (0386) decreased $461,043 (44%) from fiscal year 2004 to 2005 as a result of decreased headcount and biennial shared payments made to the federal government.

Real Estate License Administration Fund (0850) decreased $682,589 (18%) as a result of reduced headcount and the consolidation of facility management at the Department of Central Management Services.

<u>Division of Professional Regulation</u>

No significant fluctuations in expenditures by fund from 2004 to 2005.

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BY MAJOR OBJECT CODE

The Department of Financial and Professional Regulation's (Department) analysis of significant fluctuations in expenditures as presented in the Comparative Schedule of Appropriations, Expenditures, and Lapsed Balances by Major Object Code is detailed below.

We obtained explanations from Department personnel for material fluctuations in expenditures between years. We considered fluctuations in excess of 15% and $100,000 to be significant. Explanations of material expenditure fluctuations are as follows:

Retirement – employer contribution expenditures decreased $205,310 (20%) from fiscal year 2004 to 2005 as a result of changes in the AFSCME contract regarding union employees.

Contractual services expenditures decreased $3,122,179 (44%) from fiscal year 2004 to 2005 as a result of the consolidation of facility management at the Department of Central Management Services. No lease expenses were incurred by the Department during fiscal year 2005.

Travel expenditures decreased $818,240 (32%) from fiscal year 2004 to 2005 as a result of reduced headcount, restricted in-state and out-of-state travel, and fewer board meetings.

Commodities expenditures decreased $127,785 (51%) from fiscal year 2004 to 2005 as a result of merged supply rooms upon consolidation of legacy agencies.

Electronic data processing expenditures decreased $616,239 (27%) from fiscal year 2004 to 2005 as a result of cost savings initiatives and completion of data processing related projects.

Lump sum expenditures decreased $156,070 (20%) from fiscal year 2004 to 2005 as a result of no expenses related to the Corporate Fiduciary Receivership account due to completion of a trust company's bankruptcy proceedings and increased personal services and related expenses for the new registered accountants program.

Awards and grants expenditures increased $1,120,491 (578%) from fiscal year 2004 to 2005 as a result of a payout of a lawsuit within the Division of Banks and Real Estate.

Refunds (non-appropriated) decreased $986,293 (35%) from fiscal year 2004 to 2005 as a result of fluctuations in the amount of refunds of annual premium tax collections.

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS BY FUND

The Department's analysis of significant fluctuations in cash receipts as presented in the Comparative Schedule of Cash Receipts by Fund is detailed below. We considered fluctuations in excess of 20% and $250,000 to be significant.

Division of Financial Institutions

No significant fluctuations in cash receipts from 2004 to 2005.

Division of Insurance

Protest Fund (0401) receipts increased $7,072,028 (292%) from fiscal year 2004 to 2005 as a result of a retaliatory tax audit of a deferred compensation plan. The auditee paid the tax under protest.

Industrial Commission Operations Fund (0534) receipts decreased $7,699,064 (25%) from fiscal year 2004 to 2005 as a result of legislative changes in the surcharge rate for worker's compensation premiums.

Group Self-Insurers Workers Compensation Fund (0739) receipts increased $329,393 (248%) from fiscal year 2004 to 2005 as a result of court ordered reimbursements and increased losses paid from the pool.

Insurance Financial Regulation Fund (0997) receipts decreased $6,178,572 (23%) from fiscal year 2004 to 2005 as a result of timing differences in the receipt of annual fee payments. These payments were not billed until June 2005, and received in July 2005, during fiscal year 2006.

Division of Banks and Real Estate

Savings and Residential Finance Regulatory Fund (0244) receipts increased $2,737,466 (30%) from fiscal year 2004 to 2005 as a result of loan originator regulation, in which the majority of initial license fees were collected during fiscal year 2005.

Appraisal Administration Fund (0386) receipts decreased $1,880,219 (72%) from fiscal year 2004 to 2005 as a result of license fees collected on a biennial cycle.

Auction Regulation Administration Fund (0641) receipts decreased $579,990 (93%) from fiscal year 2004 to 2005 as a result of license fees collected on a biennial cycle.

Home Inspector Administration Fund (0746) receipts increased $706,330 (160%) from fiscal year 2005 to 2005 as a result of license fees collected on a biennial cycle.

Real Estate License Administration Fund (0850) receipts increased $1,771,415 (27%) from fiscal year 2004 to 2005 as a result of license fees collected on a biennial cycle.

Division of Professional Regulation

In general, variances in receipts were due to fee changes, renewal periods, changes in the number of licensees and changes in profession titles and qualifications. Professions have renewal periods of one, two or three years. Specific profession variances in receipts follow:

Illinois State Pharmacy Disciplinary Fund (0057) receipts decreased $1,906,421 (50%) from fiscal year 2004 to 2005 due to the renewal cycle of registered pharmacists, with renewals during fiscal year 2004.

Illinois State Medical Disciplinary Fund (0093) receipts increased $10,015,053 (615%) due to the renewal cycle of the medical profession, with renewals during fiscal year 2005.

Registered CPA Administration and Disciplinary Fund (0151) receipts decreased $708,900 (77%) due to the renewal cycle of the public accountant profession, with renewals during fiscal year 2004.

Nurse Dedicated and Professional Fund (0258) receipts decreased $7,031,708 (74%) from fiscal year 2004 to 2005 due to the renewal cycles of nursing professions, with renewals during fiscal year 2004.

Optometric Licensing and Disciplinary Committee Fund (0259) receipts decreased $785,701 (84%) from fiscal year 2004 to 2005 due to the renewal cycle of the optometrist profession, with renewals during fiscal year 2004.

Illinois State Dental Disciplinary Fund (0823) receipts increased $2,830,005 (1,021%) from fiscal year 2004 to 2005 due to the renewal cycle of the dentist and hygienist professions, with renewals during fiscal year 2005.

Design Professional Administration and Investigation Fund (0888) receipts decreased $330,803 (22%) from fiscal year 2004 to 2005 due to renewal cycles of professional engineers (fiscal year 2004), structural engineers (2005), architects (fiscal year 2005), and design firms (fiscal year 2005).

Illinois State Podiatric Disciplinary Fund (0954) receipts increased $434,968 (860%) from fiscal year 2004 to 2005 due to renewal cycles for podiatrist profession, with renewals during fiscal year 2005.

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS BY DIVISION BY REVENUE CATEGORY

The Department's analysis of significant fluctuations in cash receipts as presented in the Comparative Schedule of Cash Receipts by Division by Revenue Category is detailed below. We considered fluctuations in excess of 20% and $250,000 to be significant.

<u>Division of Financial Institutions</u>

Financial institution licenses and fees increased $1,461,428 (59%) from fiscal year 2004 to 2005 due to the new fee structure for the registration of agents.

Retaliatory fees decreased $988,624 (23%) from fiscal year 2004 to 2005 due to fluctuations in agents' activity during the calendar year.

<u>Division of Insurance</u>

Industrial Commission Operations Fund surcharges decreased $7,699,064 (25%) from fiscal year 2004 to 2005 due to legislative changes in the surcharge rate for worker's compensation premiums.

Regulatory insurance licenses and fess decreased $6,178,572 (23%) from fiscal year 2004 to 2005 due to timing differences in the receipt of annual fee payments. These payments were not billed until June 2005, and received in July 2005, during fiscal year 2006.

Protest fees increased $7,072,028 (292%) from fiscal year 2004 to 2005 due to a retaliatory tax audit of a deferred compensation plan. The auditee paid the tax under protest.

Fines, penalties, interest increased $2,274,335 (83%) from fiscal year 2004 to 2005 due to a penalty billed to a company as a result of a retaliatory tax audit regarding a deferred compensation plan.

<u>Division of Banks and Real Estate</u>

Real estate licenses and fees increased $1,776,164 (29%) from fiscal year 2004 to 2005 due to the renewal cycle of real estate salespersons, with renewals during fiscal year 2005.

Loan originator licenses and fees increased $2,065,733 (157%) from fiscal year 2004 to 2005 due to new loan originator regulation, in which the majority of initial license fees were collected during fiscal year 2005.

Home inspector licenses and fees increased $706,420 (160%) from fiscal year 2004 to 2005 due to the renewal cycle of the profession, with renewals during fiscal year 2005.

Appraisal licenses and fess decreased $1,924,718 (75%) from fiscal year 2004 to 2005 due to the renewal cycle of the profession, with renewals during fiscal year 2004.

Auctioneer licenses and fees decreased $579,990 (93%) from fiscal year 2004 to 2005 due to the renewal cycle of the profession, with renewals during fiscal year 2004.

Fines, penalties or violations increased $369,392 (131%) from fiscal year 2004 to 2005 due to larger fines being levied against licensees in noncompliance with statutory requirements.

Division of Professional Regulation

Medical licenses and fees increased $10,015,053 (615%) due to the renewal cycle of the medical profession, with renewals during fiscal year 2005.

Dental licenses and fees increased $2,830,005 (1,021%) from fiscal year 2004 to 2005 due to the renewal cycle of the dentist and hygienist professions, with renewals during fiscal year 2005.

Nursing licenses and fees decreased $7,031,708 (74%) from fiscal year 2004 to 2005 due to the renewal cycles of nursing professions, with renewals during fiscal year 2004.

Pharmacy licenses and fees decreased $1,906,421 (50%) from fiscal year 2004 to 2005 due to the renewal cycle of registered pharmacists, with renewals during fiscal year 2004.

Design professional licenses and fees decreased $330,803 (22%) from fiscal year 2004 to 2005 due to renewal cycles of professional engineers (fiscal year 2004), structural engineers (2005), architects (fiscal year 2005), and design firms (fiscal year 2005).

Podiatric physician licenses and fees increased $434,968 (860%) from fiscal year 2004 to 2005 due to renewal cycles for podiatrist profession, with renewals during fiscal year 2005.

CPA licenses and fees decreased $708,900 (77%) due to the renewal cycle of the public accountant profession, with renewals during fiscal year 2004.

Optometrics licenses and fees decreased $785,701 (84%) from fiscal year 2004 to 2005 due to the renewal cycle of the optometrist profession, with renewals during fiscal year 2004.

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING
BY MAJOR OBJECT CODE

The Department of Financial and Professional Regulation's (Department) analysis of significant lapse period spending, as presented in the Schedule of Appropriations, Expenditures and Lapsed Balances by Major Object Code, for fiscal year 2005 for lapse period expenditures exceeding 20% and $15,000 of total expenditures are detailed below.

Contractual services expenditures of $785,968 (20%) during the lapse period resulted from various consulting services for the consolidation process, review of disciplinary cases, and profession-related legislation. All consulting services were performed prior to the end of the fiscal year. Additional expenditures were related to equipment rental for renewal mailings during the end of the fiscal year, but paid during lapse period.

Printing expenditures of $30,608 (21%) during the lapse period resulted from invoice payments for goods, primarily printing of annual reports and renewal applications, ordered prior to June 30 and paid during the lapse period.

Equipment expenditures of $149,798 (94%) during the lapse period resulted from invoice payments for several vehicles ordered prior to June 30 and paid during the lapse period.

Electronic data processing expenditures of $553,912 (34%) during the lapse period resulted from invoice payments for equipment ordered prior to June 30 and efficiency initiative billings paid during the lapse period.

Operation of automotive equipment expenditures of $40,186 (20%) during the lapse period resulted from repairs and other related expenses incurred prior to June 30 and paid during the lapse period.

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

ANALYSIS OF ACCOUNTS RECEIVABLE

An aging schedule of the Department's accounts receivable (expressed in thousands) at June 30,2005 is presented below:

Aging Schedule	General Revenue Fund 0001	Financial Institution Fund 0021	General Professions Dedicated Fund 0022	Fire Prevention Fund 0047	Illinois State Pharmacy Disciplinary Fund 0057	Illinois State Medical Disciplinary Fund 093
Current	$ 179	$ 91	$ 68	$ -	$ 275	$ 57
31-60 Days	10	18	8	-	-	4
61-120	313	14	9	2	6	1
121-180	26	1	5	-	1	1
181-365	148	45	8	-	-	-
Over 365	5,293	-	71	4	3	40
Accounts Receivable Gross Balance	5,969	169	169	6	285	103
Less: Estimated Uncollectibles	(767)	-	(23)	(6)	(1)	(18
Accounts Receivable Net Balance	$ 5,202	$ 169	$ 146	$ -	$ 284	$ 85

NOTE: The Department uses private collection services and the offset system in its efforts to collect past due receivables.

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

ANALYSIS OF ACCOUNTS RECEIVABLE

.

Aging Schedule	Credit Union Fund 0243	Savings and Residential Finance Regulatory Fund 0244	Nurse Dedicated and Professional Fund 0258	Optometric Licensing and Disciplinary Committee Fund 0259	Appraisal Administration Fund 0386	Industrial Commission Operations Fund 0534
Current	$ 5	$ 381	$ 7	$ 10	$ 3	$ -
31-60 Days	1	9	-	1	-	-
61-120	-	-	-	-	3	-
121-180	-	38	1	-	-	-
181-365	-	29	7	-	-	-
Over 365	-	23	5	1	38	201
Accounts Receivable Gross Balance	6	480	20	12	44	201
Less: Estimated Uncollectibles	-	-	(2)	(1)	(15)	-
Accounts Receivable Net Balance	$ 6	$ 480	$ 18	$ 11	$ 29	$ 201

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

ANALYSIS OF ACCOUNTS RECEIVABLE

Aging Schedule	Public Pension Regulation Trust Fund 0546	Real Estate Recovery Fund 0629	Auction Recovery Fund 0643	Group Self-Insurers Workers Compensation Fund 0739	Bank and Trust Company Fund 0795	Illinois State Dental Disciplinary Fund 0823
Current	$ -	$ 7	$ -	$ -	$ 7,079	$ 25
31-60 Days	278	-	-	-	-	-
61-120	-	2	3	-	-	2
121-180	-	8	-	-	151	2
181-365	-	13	10	-	-	54
Over 365	-	1,258	-	146	6	17
Accounts Receivable Gross Balance	278	1,288	13	146	7,236	100
Less: Estimated Uncollectibles	-	(1,116)	-	-	-	(17)
Accounts Receivable Net Balance	$ 278	$ 172	$ 13	$ 146	$ 7,236	$ 83

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

ANALYSIS OF ACCOUNTS RECEIVABLE

Aging Schedule	Design Professional Administration and Investigation Fund 0888	Insurance Producers' Administration Fund 0922	Illinois State Podiatric Disciplinary Fund 0954	Insurance Financial Regulation Fund 0997	Total
Current	$ 11	$ 132	$ -	$ 4,219	$ 12,549
31-60 Days	-	3	-	2	334
61-120	-	3	-	8	366
121-180	1	-	-	2	237
181-365	-	-	-	2	316
Over 365	25	7	2	95	7,235
Accounts Receivable Gross Balance	37	145	2	4,328	21,037
Less: Estimated Uncollectibles	(25)	(7)	(2)	(99)	(2,099)
Accounts Receivable Net Balance	$ 12	$ 138	$ -	$ 4,229	$ 18,938

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

AGENCY FUNCTIONS AND PLANNING PROGRAM

For the Year Ended June 30, 2005

AGENCY FUNCTIONS

In March 2004, the Governor issued Executive Order #6 to reorganize agencies by the transfer of the functions of the Department of Financial Institutions, the Department of Insurance, the Department of Professional Regulation and the Office of Banks and Real Estate into the newly created Department of Financial and Professional Regulation (IDFPR). This Executive Order consolidated the powers, duties, rights, responsibilities, and functions of the four agencies into one new agency. The Executive Order was filed with the Secretary of State on April 1, 2004, and went into effect July 1, 2004. The previous four departments were considered abolished as of July 1st, and are now part of the new Department of Financial and Professional Regulation.

The Department oversees the regulation and licensure of banks and financial institutions, real estate businesses and professionals, insurance companies and various licensed professions, enforces standards of professional practice and protects the rights of Illinois residents in their transactions with regulated industries.

The mission of the Department is to protect consumers of financial and professional services by ensuring the integrity and standards of regulated industries and professionals through an efficiently consolidated supervisory and enforcement function. Strategic priorities include:

- Maintain safety and soundness of financial services businesses
- Enhance responsiveness of regulatory enforcement
- Improve efficiency and effectiveness of licensure and enforcement functions
- Educate consumers and the public about legal rights and remedies
- Promote economic activity throughout Illinois.

The Department's current initiatives are as follows:

- Consolidate four predecessor agencies and programs to streamline regulatory bureaucracy and reduce costs by eliminating duplicative functions while at the same time increasing consumer and industry services.

- Create and implement a consolidated, department-wide consumer call center to ensure a more timely response to consumer complaints.

- Improve public knowledge of complaint resolution resources and other consumer protection functions.

- Identify refinements to regulatory statutes and rules to improve efficiency and compliance.

DEPARTMENT PROGRAMS

Evaluation and Licensing:

The Department evaluates and acts upon license applications from regulated industries. IDFPR protects consumers by evaluating the safety, soundness and professional integrity of license applicants.

Investigation and Enforcement:

The Department safeguards the health and welfare of consumers and the public by investigating illegal activities and consumer complaints and taking enforcement actions when warranted. The Department also adjudicates complaints relating to violations of professional standards of practice.

Regulation and Supervision:

The Department conducts ongoing regulatory and supervisory functions of financial services businesses and other professions. IDFPR examiners perform regular examinations and audits of regulated entities and ensure compliance with statutory requirements. Additionally, the Department educates and informs consumers about industries and individuals under its jurisdiction, and receives complaints and inquiries regarding licensees.

Administration:

Legal

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

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

Personnel Management/Human Resources

The Unit administers the Department's personnel transactions and payroll and maintains employee salary records.

Electronic Data Processing/Information Technology

This unit provides data processing support for the Department including systems analysis, telecommunications networking, programming, microcomputer support, and user training.

Legislative Affairs

This Unit develops the Department's legislative agenda; coordinates IDFPR comments on legislation and develops issue papers, fact sheets and bill reviews; monitors legislation effecting the Department and its regulated industries/entities; 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 offices.

Administrative Services

This Unit provides general clerical support as needed for IDFPR staff, coordinates activities related to physical facilities and moves, including coordinating and assigning office space allocations, manages telecommunications, delivers materials to staff, sorts, files and distributes internal and external mail, develops, implements and administers policies and procedures for records/document management, monitors supply levels and processes/fills supply orders, manages and administers the vehicle fleet assets and identifies, classifies and processes forms used within the agency through management of the print shop.

Fiscal Operations

This Unit is responsible for preparing, implementing and monitoring the Department's annual budget. This Unit serves as the centralized accounting area of the agency. This Unit is responsible for all revenue collections, all appropriation expenditures, the accounts receivable reporting, accounts payable, travel and budget preparation. This Section prepares all financial statements for the Department on a GAAP and statutory accounting basis, maintains an automated cash receipts subsystem, statutory deposit subsystem, and the examiner billing data base. Also, this Section implements all the accounting changes required by GASB, updates the Travel Control Board changes, and adjusts the automated cash receipts subsystem to comply with the Comptroller updates.

DIVISION OF INSURANCE

The Division of Insurance is charged with monitoring, regulating and protecting the lawful rights of insurance buyers though enforcement of the Illinois Insurance Code and related laws for the regulation of all insurance companies licensed to transact business in Illinois.

The Division of Insurance is also charged with protecting the rights of Illinois citizens in their insurance transactions and monitoring the financial solvency of all regulated entities through effective administration and enforcement of the Illinois Insurance Code (215 ILCS 5/1 through 5/1312), the Illinois Pension Code (40 ILCS 5/1-101 through 5/21-109) and related laws and regulations (Title 50, Illinois Administrative Code).

The Division's mission 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 responsibilities of the Division are allocated between the Consumer-Market Section and the Financial-Corporate Regulatory Section.

DIVISION OF PROFESSIONAL REGULATION

The Division of Professional Regulation is responsible for maintaining proper standards of competence for the license holder and to protect the public from those who abuse their licenses. This responsibility encompasses licensing individuals either through issuance of an initial license or by license renewal, administering examinations as a requisite to licensure in certain professions, establishing rules for the proper conduct of licensees, performing investigations into complaints filed against licensees, and taking disciplinary action against licensees determined to have violated the laws or rules governing their profession.

The Division's mission is to serve, safeguard, and promote the public welfare by ensuring that licensure qualifications and standards for professional practice are properly evaluated, accurately applied and vigorously enforced.

The responsibilities of the Division are allocated between the Licensing and Testing Section and the Enforcement Section.

DIVISION OF FINANCIAL INSTITUTIONS

The Division of Financial Institutions is authorized by the Financial Institutions Code (20 ILCS 1205/1) to investigate, examine, license and regulate financial institutions in the State of Illinois including currency exchanges, credit unions, title insurance companies, foreign exchanges and businesses making loans of $25,000 or less.

The Division's mission is to administer and enforce the laws and regulations pertaining to those financial institutions under its jurisdiction and to protect the interests of Illinoisans in their dealings with those industries regulated by the Division of Financial Institutions.

The responsibilities of the Division are allocated among the Consumer Credit Section, the Credit Union Section, and the Currency Exchange Section.

DIVISION OF BANKS AND REAL ESTATE

The Division of Banks and Real Estate oversees the regulation and licensure of State chartered banks, trust companies, ATMs not owned by financial institutions, check printers, pawnbrokers, savings banks and savings and loan associations, mortgage bankers and brokers, real estate brokers and salespersons, appraisers, auctioneers, home inspectors, leasing agents and time share companies.

The Division’s mission is to protect and educate the public and promote confidence in the regulated industries through administration of statutory responsibilities in an efficient, professional, responsive and innovative manner.

The responsibilities of the Division are allocated among the Bureau of Banks and Trust Companies, the Bureau of Real Estate Professions, and the Bureau of Residential Finance.

PLANNING PROGRAM

Department of Financial and Professional Regulation has established a Strategic Plan. The plan includes a summary of the Department’s priorities and initiatives. The four legacy Divisions’ performance metrics are incorporated into the IDFPR Performance Metric Summary, which includes target dates/periods and descriptions of criteria to help the Department and the four Divisions to evaluate their priorities and initiatives. The Department examines key performance metrics quarterly in their Quarterly Management Report to the Governor’s Office of Management and Budget (OMB).

AUDITORS’ ASSESSMENT OF PLANNING PROGRAM

Based on our review of the Department’s planning documents and interviews with Department personnel, the planning program appears adequate for meeting Department-wide goals and objectives.

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

AVERAGE NUMBER OF EMPLOYEES

For the Years Ended June 30, 2005, 2004 and 2003

The following table, prepared from Department records, presents the average number of employees for the fiscal years ended June 30:

Division/Unit	2005	2004	2003
Division of Insurance	239		
Division of Banks and Real Estate	193		
Division of Professional Regulation	174		
Division of Financial Institutions	59		
Executive Office	5		
Fiscal and Accounting Unit	31		
Information Technology Unit	46		
Human Resources Unit	13		
Legal Unit	30		
Legislative Affairs Unit	7		
Administrative Services Unit	28		
Legacy Department of Insurance		327	351
Legacy Department of Banks and Real Estate		251	271
Legacy Department of Professional Regulation		248	275
Legacy Department of Financial Institutions		82	92
TOTAL	825	908	989

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

SERVICE EFFORTS AND ACCOMPLISHMENTS
(Not Examined)
For the Year Ended June 30, 2005

The State of Illinois, Department of Financial and Professional Regulation is a state regulatory agency that's mission is to protect consumers of financial and professional services by ensuring the integrity and standards of regulated industries and professionals through an efficiently consolidated supervisory and enforcement function.

The Illinois Department of Financial and Professional Regulation is a newly consolidated Department comprising the former Office of Banks and Real Estate, Department of Financial Institutions, Department of Insurance and Department of Professional Regulation. The Department oversees the regulation and licensure of banks and financial institutions, real estate businesses and professionals, insurance companies and various licensed professionals, enforces standards of professional practice and protects the rights of Illinois residents in their transactions with regulated industries.

<u>Evaluating and Licensing</u>

The Department evaluates and acts upon license applications from regulated industries. The Department protects consumers by evaluating the safety, soundness and professional integrity of license applicants.

<u>Investigation and Enforcement</u>

The Department safeguards the health and welfare of consumers and the public by investigating illegal activities and consumer complaints and taking enforcement actions when warranted. The Department also adjudicates complaints relating to violations of professional standards of practice.

<u>Regulation and Supervision</u>

The Department conducts ongoing regulatory and supervisory functions of financial service businesses and other professions. The Department's examiners perform regular examinations and audits of regulated entities and ensures compliance with statutory requirements. Additionally, the Department educates and informs consumers about industries and individuals under its jurisdiction, and receives complaints and inquiries regarding licensees.

<u>Division of Financial Institutions</u>

The Consumer Credit Division protects consumers and ensures that the entities regulated are in compliance with State and Federal statutes.

The Currency Exchange Division ensures that currency exchange services are delivered fairly and, by regulating the industry that provides those services, the public is provided with the protection intended by State law.

The Credit Union Division administers and enforces the laws and regulations pertaining to Illinois State-chartered credit unions and ensures the safety and soundness of these financial institutions; thereby protecting the interest of their members.

ACTIVITIES AND PERFORMANCE

	FY05 Actual	FY04 Actual	FY03 Actual
Consumer Credit Division			
Number of licensees	2,017	1,859	1,709
Number of exams completed	1,830	1,480	1,583
Currency Exchange Division			
Number of licensed exchanges	865	901	940
Number of exams completed	655	729	805
Credit Union Division			
Number of licensees	367	381	400
Number of exams completed	313	304	286

Division of Insurance

The Financial/Corporate and the Consumer Market Divisions 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.

ACTIVITIES AND PERFORMANCE

	FY05 Actual	FY04 Actual	FY03 Actual
Financial/Corporate Division			
Financial Statement Analysis Annual	437	496	502
Field Financial Examinations	92	113	89
Pension Fund Examinations completed	56	80	75
Consumer Services Division			
New/Renewal Licenses Processed	66,823	66,618	80,187
Market Conduct Examinations completed	32	25	39
Closed Consumer Complaint Files	12,696	14,217	16,081

Division of Banks and Real Estate

The Bureau of Banks and Trust Companies serves and protects the public by chartering, authorizing, and supervising State-chartered commercial banks, foreign bank offices, and corporate fiduciaries in order to assure the safety and soundness of such institutions in compliance with applicable laws and regulations for the benefit of the public. The Bureau also registers check printers, non-financial institution deployers of ATMs, and licenses pawnbrokers that operate in Illinois.

The Bureau of Real Estate Professions has the responsibility for the licensing and regulation of real estate brokers, salespersons, leasing agents, real estate firms, real estate appraisers, auctioneers, auction firms, home inspectors, and home inspector entities.

The Bureau of Residential Finance administers the laws and regulations under its jurisdiction and provides effective and efficient supervision in order to protect the interests of the citizens of the State in their dealings with those industries regulated by the Bureau.

ACTIVITIES AND PERFORMANCE

	FY05 Actual	FY04 Actual	FY03 Actual
Bureau of Banks and Trust Companies			
Number of Domestic Commercial Banks	470	492	501
Number of Foreign Bank Offices	15	15	17
Number of Domestic Corporate Fiduciaries	197	203	206
Number of Financial Information Systems Entities	522	544	558
Number of Pawnbroker Licensees	207	207	208
Number of Examinations Performed	542	568	582
Number of Applications Reviewed	336	320	229
Percentage of Newly Chartered Banks That Chose a State vs. National Charter	100%	100%	100%
Percentage of Pawnshop Complaints Investigated Within Established Time Frames	100%	100%	100%
Bureau of Real Estate Professions			
Number of Real Estate Licenses Issued/Renewed	58,800*	38,915	48,284
Number of Appraisal Licenses Issued/Renewed	1,296*	6,583	1,556
Number of Auction Licenses Issued/Renewed	1,484*	1,296	152

	FY05 Actual	FY04 Actual	FY03 Actual
Number of Home Inspector Licenses Issued/Renewed	600*	882	1,116
Number of Complaints Received	1,465	1,330	1,248
Number of Investigations	875	794	969
Percentage of Complaints Resolved Within 105 Days of Receipt of Documentation	55.0%*	98.2%	49.5%
Bureau of Residential Finance			
Number of Residential Mortgage Licensees	1,899	2,012	1,828
Number of Savings and Loans	5	6	6
Number of Savings Banks	46	48	48
Number of Service Corporations	35	38	39
Number of Thrift Examinations	29	31	26
Number of Mortgage Examinations	422	557	687
Number of License Applications Processed	367	436	1,876
Average Number of Days to Process a License	90*	122	29

* Projected

Division of Professional Regulation

The Division of Licensing and Testing completes all licensing services expeditiously and professionally while providing the highest degree of quality and customer service.

The Division of Enforcement provides prompt, efficient, and fair enforcement of the statutes governing licensees for the betterment of all professions and protection of the people of Illinois.

ACTIVITIES AND PERFORMANCE

	FY05 Actual	FY04 Actual	FY03 Actual
Division of Licensing and Testing			
Phone Calls Received by Call Center	248,126	311,368	307,630
New Licenses Issued	54,598	57,257	52,351
License Renewals Received	276,535	279,651	201,573
Initial Applications Received	62,469	57,144	59,059
Average Call Center Waiting Time (minutes)	8.3	5.5	4.5
Percentage of Mail-In Renewals Processed	74.8%	61.6%	73.0%
Percentage of E-Batch Renewals Processed	2.2%	5.7%	9.2%
Percentage of Touch Tone Renewals Processed	7.5%	14.5%	9.6%
Percentage of Internet Credit Card Renewals Processed	15.5%	18.2%	8.2%

	FY05 Actual	FY04 Actual	FY03 Actual
Division of Enforcement			
Complaints Received	9,195	9,781	11,085
Complaints Closed	9,548	11,205	8,643
Cases Closed at Investigations	431	323	378
Cases Referred to Prosecutions	3,590	6,368	7,592
Cases Closed at Prosecutions	1,293	1,270	1,313
Licensees Placed on Probation	488	590	603
Percentage of Complaints Closed	104.0%	115.0%	78.0%
Percentage of Complaints to Investigations	95.0%	15.0%	26.3%
Percentage of Cases Referred to Closure in Prosecutions	39.0%	13.0%	11.8%
Percentage of Child Support Cases Processed	3.0%	3.0%	1.64%
Percentage of Illinois Student Assistance Commission Cases Processed	5.0%	5.0%	5.89%
Percentage of Revenue Cases Processed	1.0%	1.0%	1.75%