STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Year Ended June 30, 2006

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

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Year Ended June 30, 2006

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DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

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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 December 2005	Mr. Andrew Fox (acting)
December 2005 to Present	Mr. Andrew Fox

Chief Fiscal Officer:

July 2004 to June 2006	Mr. Travis March (acting)
June 2006 to present	Mr. Tony Goldstein (acting)

Chief Legal Counsel:

July 2004 to June 2006	Mr. Patrick Hughes (acting)
June 2006 to present	Ms. Gina DeCiani

Director of Human Resources:

July 2004 to present	Mr. Richard Foxman

Director of Administrative Services:

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 December 2006	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:

April 2005 to present	Mr. Michael McRaith

Director of the Division of Banking:

July 2004 to January 2007	Mr. D. Lorenzo Padron
January 2007 to Present	Mr. Andrew Fox (acting)

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

122 South Michigan Avenue, 19th Floor
Chicago, IL 60604

ROD R. BLAGOJEVICH
Governor

DEAN MARTINEZ
Secretary

MANAGEMENT ASSERTION LETTER

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

February 9, 2007

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, 2006. Based on this evaluation, we assert that during the year ended June 30, 2006, 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

Tony Goldstein, Acting Fiscal Officer

Gina DeCiani, General 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 Report
Findings	29	34
Repeated findings	22	32
Prior recommendations implemented or not repeated	12	11

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

SCHEDULE OF FINDINGS

FINDINGS (STATE COMPLIANCE)

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PRIOR FINDINGS NOT REPEATED (STATE COMPLIANCE)

Item No.	Page	Description
06-30	78	Incorrect calculation of credit to State Banks and foreign banking corporations
06-31	78	Transfers to General Revenue Fund not in accordance with State law
06-32	78	Inadequate documentation for allocation of interagency costs
06-33	78	Inadequate controls over revenue processing at the Division of Banks and Real Estate

PRIOR FINDINGS NOT REPEATED (STATE COMPLIANCE)

Item No.	Page	Description
06-34	79	Amounts reported on Agency Fee Imposition Report Forms do not agree to Department Records
06-35	79	Inadequate computer security administration function
06-36	79	Improper destruction of examination workpapers
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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, 2007. Attending were:

DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

Dean Martinez	Secretary
Andrew Fox	Chief of Staff
Tony Goldstein	Chief Fiscal Officer
Gina DeCiani	Chief Legal Counsel
Scott Seder	Senior Deputy Legal Counsel
Robert Wagner	Deputy General Council Division of Insurance
Dan Bluthardt	Director of the Division of Professional Regulation
Scott D. Clarke	Assistant Director Division of Banking
Jack Messmore	Chief Deputy Division of Insurance
Jane Bachman	Fiscal
George Preski	Division of Financial Institutions

OFFICE OF THE AUDITOR GENERAL

Jon Fox	Audit Manager
Teresa Davis	Audit Manager

SIKICH LLP

Laura Scott	Manager
Leslie Ruyle	Supervisor
Sarah Foster	Audit Staff

Responses to the recommendations were provided by Dean Martinez, Secretary, in a letter dated May 11, 2007.

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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, 2006. 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.

As described in findings 06-1 and 06-3 in the accompanying schedule of State findings, the State of Illinois, Department of Financial and Professional Regulation did not comply with requirements regarding compliance requirements B and C. Compliance with such requirements is necessary, in our opinion, for the State of Illinois, Department of Financial and Professional Regulation to comply with the aforementioned requirements.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2006. However, the results of our procedures disclosed other 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 06-2, 06-4 through 06-17, and 06-20 through 06-29.

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.

We noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Illinois, Department of Financial and Professional Regulation's ability to comply with one or more of the aforementioned requirements. Reportable conditions are described in the accompanying schedule of State findings as findings 06-1 and 06-3.

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 06-2, 06-4 through 06-10, 06-12 through 06-16, 06-18, 06-19, 06-21, 06-22 and 06-24.

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.

<u>Supplementary Information for State Compliance Purposes</u>

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 2006 Supplementary Information for State Compliance purposes, except for information on Savings Due to Reorganization in Accordance with Executive Order #6 and 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 2005 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 9, 2007

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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, 2006, and have issued our report thereon dated October 30, 2006. 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
October 30, 2006

06-1 **<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:

- During our review and documentation of internal controls, we noted several of the accounting and receipt systems maintained by the four legacy agencies were not consolidated.

- 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). A lack of general policies and procedures for revenue processing was noted at the Division of Banking due to the decentralized nature of the system (finding 18).

- Reconciliations to Comptroller fund records were performed separately by each legacy agency, resulting in inaccurate and untimely reconciliations (finding 8).

- There were inconsistent requirements for employee evaluations among the four legacy agencies resulting in performance evaluations not performed on a timely basis (finding 12).

- There were inconsistent requirements for documenting employee automobile license and liability among the four legacy agencies resulting in inadequate documentation (finding 13).

- 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, the weaknesses noted above were still ongoing during our examination fieldwork, several months after the end of fiscal year 2006.

In its 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 human resources structure and functions;
- Streamlining and improvement of fiscal and accounting structure and processes; and
- Streamlining and improvement of 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. Recommendations for "should be" processes for the consolidated agency were received April 4, 2006, and the Department is in the process of evaluating the recommendations. 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 efforts were made to address specific consolidation problems noted during the previous examination, and the Department continues to consolidate functions, standardize controls and develop consistent department-wide procedures. Additional barriers include the need to consolidate legacy agency networks, multiple agency receipt systems, and physical location considerations.

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. 06-1, 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:

The Department of Financial and Professional Regulation (DFPR) was created May 5, 2004 through Executive Order by Governor Rod Blagojevich. The consolidated agency combined four distinct regulatory bodies to create the largest consumer protection bureau in the state.

While the Department agrees that this Audit Report demonstrates that there is work still to be completed, DFPR is moving on a steady, efficient and responsible pace towards absolute consolidation of the entire agency. It is of note that the Department has made progress since last year's audit resulting in the elimination of 12 repeat findings.

Although the Department embraces the audit process as an objective review of the agency's performance, the Department respectfully disagrees with Finding Number One. Please find the following evidence of the Department's progress toward absolute consolidation in FY 06 in each of its support group functions.

Highlights of Achievements:

Information Technology

When the Department was created in July 2004 from four separate state agencies, the implementation phase of the consolidation called upon the Information Technology Unit to perform much of the streamlining of processes.

- When the Department began, it employed four separate e-mail systems. They were in-house Lotus Notes, Lotus Notes provided by CMS, Novell GroupWise and MS Outlook. All systems consolidated into a single MS outlook e-mail system in FY 06.
- After consolidation, the Department employed two Ethernet networks running the Novell operating system, one MS windows 2000 network running on a token ring network and one MS Windows XP network. All networks have been converted to a single MS Windows XP Ethernet network. The Novell and Token Ring networks have been eliminated.
- Prior to FY 06, there were three separate Blackberry networks running including the following: a CMS provided system, a hybrid system, an internal system and no Blackberry services in one of its divisions. All of these services were combined into a single, in-house Blackberry system in FY 06.
- Prior to FY 06, the Division of Insurance had not replaced their outdated desktops in several years. These desktops were replaced with current line equipment.

- Prior to FY 06, across all divisions, there were a variety of MS Windows desktop operating systems and MS Office application software (Outlook, Windows, Excel, PowerPoint etc). In FY 06, all systems were upgraded to MS Windows XP operating system and MS Windows 2003 application software.
- In FY 06, the case management systems were completed and replaced.
- In FY 06, four separate and distinct inventory systems from the four prior agencies were combined into a single inventory system increasing efficiency in inventory control agency-wide.
- In FY 06, four prior agency Internet sites were combined into a single IDFPR Internet site.
- In FY 06, redundant servers and services were combined to reduce the expense for the Agency and provide the users with greater ease of use.
- In FY 06, the use of digital imaging technology was greatly expanded from limited use in one division to an agency-wide enterprise service utilized by all divisions.
- In FY 06, the Department expanded the Unisys system to process invoices applications and deposits from multiple divisions for greater efficiency.
- In FY06, the use of the Xerox Docutech printing system was expanded to all divisions to provide high volume printing of renewals, licenses, and other documents.

Fiscal Office

When the Department was created in July 2004 from four separate state agencies, the implementation phase of the consolidation required significant streamlining in fiscal operations. The following progress was made in FY 06:

- Prior to FY 06, all four former legacy agencies used separate revenue/receipts systems. These systems are highly complex due to the number of industries and the number of professions regulated by DFPR. There have been system consolidation processes ongoing and the Department goal is to achieve the consolidation of the receipt systems within the short term.
- The GAAP reporting issue has been resolved in that Department assigned a staff member to coordinate and package reporting information and the filing will be done internally. There will be input by experts within the Fiscal section but the completion will be done by the GAAP coordinator, effective FY07.
- The finding issue related to employee automobile license and liability when driving personal vehicles has been resolved. During FY07, all travel voucher documentation includes a statement indicating the employee has a valid driver’s license and the minimum insurance coverage per Section 10-101(b) of the Illinois Vehicle Code. This document is signed by the traveler stating full compliance of this issue. If an employee refuses to sign the document that provides that they will have additional liability insurance, they will not be allowed to drive a state vehicle and will have to use a personal vehicle with their own liability insurance coverage.

General Counsel’s Office

When the Department was created in July 2004 from four separate state agencies, the implementation phase of the consolidation required significant streamlining in the General Counsel’s Office. The following progress has been made since consolidation:

- The General Counsel's Office continued its efforts to consolidate the functions of the office. In the first year of the consolidation, the Department brought together in the General Counsel's Office the ethics, rulemaking, and FOIA functions of the four divisions.
- In FY07, the Department’s General Counsel’s Office created an agency-wide database to allow for the tracking of FOIA requests and responses, and IT trained relevant staff on its use.
- IT also created a system that will allow for the automatic filing with the Executive Ethics Commission of comments to proposed rules to comply with the requirements established in the State Officials and Employees Ethics Act.
- Consolidated the hearing officer function, shifting more hearings into our consolidated hearing unit, and creating specific status calls to allow for the tracking of various division-specific cases.

Administrative Services

Under the umbrella of Administrative Services, telecom functions, the coordination and planning of the moves within the agency, the management of the vehicle fleet, as well as mailing and document production take place throughout the agency. This support group achieved the following:

- Consolidated office space – Agency moved the Division of Financial Institutions from the Iles Bldg into our existing space at 320 Washington and surrendered significant square footage within the 500 Monroe building.
- Consolidated vehicle fleet per executive order without formal procedures provided for in the Executive Order.
- Centralized an automated inventory system.
- Centralized four inventory systems combined into a single inventory system.
- Centralized the agency telephone directory.
- Consolidated and centralized the mail functions.
- Consolidated and centralized printing functions.
- Consolidated reception.
- Consolidated and expanded the usage of field offices from one division to four.
- Centralized Record Services.
- Centralized telecom functions.
- Consolidated and centralized the supply and ordering process.

Agency Initiatives, Projects and Divisional Success

As a result of consolidation there have been a number of inter-agency initiatives among the various divisional staff that were accomplished in fiscal year 2006.

- The Creation of the States first Mortgage Fraud Task Force consisting of personnel for all four divisions resulting in uncovering one of the largest mortgage fraud investigations in state history.
- The consolidation of the Real Estate section into the Division of Professional Regulation.
- Implementation of the Medical Malpractice Reform Act, resulting in the lowering of premiums for medical malpractice and the prosecution of medical doctors for pattern of practice cases.
- Implementation of the Payday Reform Act, resulting in two of the divisions working together to protect citizens from unscrupulous lenders.
- HB4050 Predatory Lending Initiative resulting in the interagency cooperation to ensure that the state properly protects citizens from predatory lenders.

The Department has made significant progress during FY06 to date and will continue to implement improvements on an ongoing basis to ensure that we meet the regulatory and financial requirements of the agency.

AUDITOR COMMENT:

We acknowledge the Department has made progress in its consolidation efforts, but there are several areas which had not been consolidated, as specifically identified in the finding. In its response, the Department identified several areas where progress was made, but much of this was not completed until fiscal year 2007, which was after our examination period. Many unconsolidated areas were in the fiscal office, where the Department acknowledged separate legacy systems, including separate revenue/receipts systems, still exist.

Many of the weaknesses noted in this report were a result of inconsistent legacy policies and procedures utilized by the Department during the examination period. We continue to recommend the Department complete the consolidation process and standardize its business practices throughout the Department.

06-2 **<u>FINDING</u>:** (Inadequate monitoring of interagency agreements)

The Department's process to monitor interagency agreements was inadequate.

During our examination of two interagency agreements between the Department and the Governor's Office of Management and Budget, the following deficiencies were noted:

- 2 out of 2 (100%) interagency agreements tested, totaling $55,640, were not signed by all necessary parties before the effective date. The agreements were signed 174-294 days late.

- 1 out of 2 (50%) interagency agreements tested pertaining to legal services, totaling $25,640, did not include supporting documentation detailing the methodology used for determining the percent allocation to be paid by the Department for billing of shared services.

- 1 out of 2 (50%) interagency agreements pertaining to legal services had services invoiced prior to the effective date of the agreement totaling $25,640.

The Department enters into multiple agreements with other State Agencies and other units of government. The purpose of these agreements is to assist the Department in fulfilling its mandated mission. In order to assess whether the agreement is reasonable, appropriate, and sufficiently documents the responsibilities of the appropriate parties, the agreement needs to be approved prior to the effective date, include proper documentation supporting the percent allocation used for billings, and include proper support for payments to vendors. SAMS Procedure (15.10.40) requires contracts to be reduced to writing and filed with the Illinois Office of the Comptroller within 15 days of execution.

Department personnel stated the Department was a party to the Agreement and shared in the costs in connection with employment and labor litigation issues relating to the Agency.

Prudent business practices require the approval of agreements prior to the effective date and proper documentation supporting the billing and payment of services. (Finding Code No. 06-2)

<u>RECOMMENDATION</u>:

We recommend the Department ensure all interagency agreements are approved by an authorized signer prior to the effective date of the agreement. Further, the Department should require all interagency agreements include methodology supporting the percent allocations used for billing of shared services.

<u>DEPARTMENT RESPONSE</u>:

Concur. The Department will take the necessary steps to ensure that the recommendations of the auditors are implemented for future interagency agreements.

06-3 **FINDING:** (Division of Professional Regulation enforcement activities not performed timely and/or not sufficiently documented)

The Department's Division of Professional Regulation's 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 34 investigation files and noted the following deficiencies:

- In 12 out of 34 (35%) case files reviewed, the Department was unable to locate the case files or any supporting documentation for the case.

- In 9 out of 34 (26%) case files reviewed, an Investigative Report was not included in the file.

- In 5 out of 34 (15%) case files reviewed, the Investigative Reports were not generated within 30 days of the investigative activity. The completion of the investigative reports ranged from 8 to 41 days late.

- In 4 out of 34 (12%) case files reviewed, significant activities had not been completed for normal cases within 90 days of receiving the complaint.

- In 2 out of 34 (6%) 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 both of the cases, the interview ranged from 8 to 22 days late.

- In 2 out of 34 (6%) 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. The completion of the Chief of Investigations' review ranged from 93 to 101 days late.

We reviewed 25 prosecution files and noted the following deficiencies:

- In 5 out of 25 (20%) case files reviewed, the Department was unable to locate the case file or any supporting documentation for the case.

- In 7 out of 25 (28%) case files reviewed, an Investigative Report was not included in the file.

- In 7 out of 25 (28%) 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 25 (20%) 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 4 out of 25 (16%) case files reviewed, the Chief Prosecutor did not review and assign the case within 30 days of referral. For these cases, the review and referral ranged from 41 to 110 days late.

- In 4 out of 25 (16%) case files reviewed, the Notice of Disciplinary Conference was not filed in a timely manner. The Notices had no date; therefore we are unable to determine how late they were filed.

- In 3 out of 25 (12%) case files reviewed, we noted the Consent Order in the case file was not signed by the Director following review by the attorney.

- In 1 out of 25 (4%) case files reviewed, the case file documentation did not agree to the Regulatory Administration and Enforcement System (RAES) printout. For this case, the RAES printout states the receipt of an acknowledgment letter, but the case file did not contain a copy of the required letter.

- In 1 out of 25 (4%) case files reviewed, we noted the Investigative Summary in the case file was not signed by the Director.

We reviewed 16 probation files and noted the following:

- In 1 out of 16 (6%) case files reviewed, the Department was unable to locate the case file or any supporting documentation for the case.

- In 11 out of 16 (69%) case files reviewed, an Investigative Report was not included in the file.

- In 8 out of 16 (50%) 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 16 (19%) case files reviewed, we noted the Consent Order in the case file was not signed by the Director following review by the attorney.

- In 2 out of 16 (13%) 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 2 out of 16 (13%) case files reviewed, the probation investigator did not meet with the respondent within 30 days of the Consent Order. For both cases, meetings were 4 to 19 days late.

- In 2 out of 16 (13%) case files reviewed, there was not an up-to-date discipline screen page printout included in the case file.

- In 2 out of 16 (13%) case files reviewed, the Regulatory Administration and Enforcement System (RAES) printout report and the case file documents status did not agree. For both cases, the RAES printout states the case file contained a consent order, but the file did not contain one.

- In 1 out of 16 (6%) case files reviewed, there was no copy of an appropriate Regulatory Administration and Enforcement System (RAES) printout report in the case file.

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 State Records Act (5 ILCS 160/8) states in part, "The head of each agency shall cause to be made and preserved records containing adequate and proper documentation of the…decisions…and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency's activities."

The Department's Enforcement Unit has outlined several corrective courses, but these initiatives were not implemented until fiscal year 2007.

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. 06-3, 05-5, DPR 04-12)

RECOMMENDATION:

We recommend the Department comply with the State Records Act and maintain the documentation required within its Enforcement Unit files. Further, we continue to recommend the Department allocate the resources necessary to comply with its internal guidelines for 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 in the Department within its established time frames.

DEPARTMENT RESPONSE:

The Department concurs with the recommendation in that the investigators and prosecutors should perform and document their activities within the timeframes and in the manner as set by the policy manual. However, the Department does not concur with the conclusion that enforcement files that are not in strict compliance with the policy manual create a significant public risk.

The policy manual guidelines are internal guidelines to guide employees in the completion of their responsibilities. It is important to note that not all aspects of an investigation or prosecution are within the control of the Department.

To achieve that end, the Department will develop a written case review policy and directive. The directive will instruct the Chiefs of the investigation, prosecution and probation units on what to look for and what to measure during the case reviews. The Chiefs of the investigation, prosecution and probation units will be instructed to follow the policy guidelines to ensure that all deadlines are met on a timely basis. They will hold monthly case reviews with the investigators, prosecutors and probation officers to ensure that the deadlines are enforced and to ensure that all RAES/ILES entries are recorded in a timely manner.

Further, the Department is working with IT to develop automated notices to inform the Chiefs when cases fall outside of policy timelines. To ensure the files are properly maintained random case file reviews will be conducted to ensure that the documents in the files match the ILES documentation input by the employee.

Additionally, the Department is undertaking a complete revision of the enforcement policy manual to assure that all policy guidelines are current, necessary, and designed to enhance the Department's ability to investigate and prosecute violations of the acts and rules.

AUDITOR COMMENT:

We do not concur with the Department's assertion that enforcement files not in strict compliance with the policy manual do not create a significant public risk.

One of the Department's primary responsibilities is to regulate professions. Since the Department regulates thousands of individuals and businesses, it is imperative the Department have strong standardized policies and procedures for its Enforcement Unit. We are holding the Department to its own policies and procedures. If these are inadequate, the Department needs to modify its policies and procedures.

As evidenced by the numerous exceptions noted above, the Department's documentation and recordkeeping in its Enforcement Unit needs significant improvement. Failure to expeditiously discipline licensees who violate governing regulations does indeed place the public at risk to licensees who are not fulfilling their responsibilities.

06-4 **FINDING:** (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 the eight areas within the Consumer Credit Section, we noted exceptions in 14 of 20 (70%) Consumer Installment Loan Act (CILA) licensee files tested:

- 2 out of 20 (10%) CILA files tested did not have an annual examination performed as required by the Consumer Installment Loan Act.

  205 ILCS 670/10 states "The Director shall make an examination of the affairs, business, office and records of each licensee at least once each year."

  The licensees' files did not contain any documentation that an annual examination was conducted during the year.

- 6 out of 20 (30%) CILA files tested did not contain an annual report submitted timely, as required by Consumer Installment Loan Act. The annual reports were submitted from 2 to 92 days late.

  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." Only three of the six licensees remitted fine payments.

- 11 out of 20 (55%) CILA files tested did not contain an 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 five of the eleven instances noted, the licensees did not file renewals with the Department by January 1, and Department records did not reflect these expired licenses.

  205 ILCS 670/8 states "If a licensee fails to renew his or her license by the 31st day of December, it shall automatically expire and the licensee is not entitled to a hearing; however, the Director, in his or her discretion, may reinstate an expired license upon payment of the annual renewal fee and proof of good cause for failure to renew."

Noncompliance noted in the prior year's examination with the Sales Finance Agencies Act, the Debt Management Services Act and the Transmitter of Money Act were not repeated.

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. Three new supervisors were hired in March and April of 2006, but the late hiring limited the time available to address concerns from the previous examination.

By not performing the required annual examination, not obtaining the required annual report and not collecting the license fee the agency may be allowing unqualified and unlicensed consumer lenders to practice. (Finding Code No. 06-4, 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:

The Department concurs that 2 of 20 files in the sample did not have examinations conducted in FY06. As a result, the Department conducted its own internal review and determined that of the 1,395 CILA licensees for which examinations were required 42 were not examined within FY06 resulting in an exception rate of 3.01%. The Department expects to be in 100% compliance in FY07.

We respectfully disagree with bullet points two and three. The Department has taken sufficient measures to monitor and control the submission of annual reports and fees. Penalties for failure to submit these items in a timely manner are discretionary and have been assessed when deemed appropriate. Other than issuing fines the Department has no other means to force a licensee to submit the required information. Per statute, licenses automatically expire if not renewed by December 31, requiring no further formal action to be taken. For control purposes, we do not change our internal classification from "active" to "inactive" until we have received back from the licensee the original license certificate, detailed location where records will be maintained and a contact person.

The Department plans on adjusting our licensing system to provide additional classification options such as "active/non-renewal". This will enhance this process but regardless, if the renewal has not been received by December 31st, the license statutorily expires.

AUDITOR COMMENT:

The Department disagreed with bullets two and three, and described controls in place. However, they did not dispute the facts that CILA files did not contain an annual report submitted timely or an annual fee submitted timely. Regardless of controls, these exceptions are in noncompliance with the Consumer Installment Loan Act.

06-5 FINDING: (Currency exchange licensees not submitting annual reports in a timely manner)

The Department's Division of Financial Institution's Currency Exchange Section did not ensure licensees submitted annual reports to the Department in a timely manner in compliance with the Currency Exchange Act.

During our testing of the Division of Financial Institutions' Currency Exchange Section, we noted 278 out of 657 (42%) calendar year 2005 annual reports were filed after the March 1st due date, including one entity's annual report for the 206 ambulatory exchanges it operates. The annual reports were submitted late, ranging from 1 to 119 days late.

The Currency Exchange Act (Act) (205 ILCS 405/16) requires that an annual report be filed with the Department by March 1st, stating "Each licensee shall annually, on or before the 1st day of March, file a report with the Director for the calendar year period from January 1st through December 31st…"

Department personnel stated that some of the annual reports were sent to an incorrect e-mail address. The Department also stated they believe there was one true late filing and a late filing fee was imposed on this company. The Department believes that each of the other late filings was sent to the incorrect address. However, the Department could not document the reports that they stated were sent to the incorrect e-mail address. The Department further stated they were going to highlight the e-mail address in their annual notification letter that is sent in October of each year.

Failure to require timely submission of annual reports is in violation of the Act. Annual reports contain relevant information regarding the business and operations of each licensed currency exchange, and are critical for effective management and investigation of these entities. (Finding Code No. 06-5)

RECOMMENDATION:

We recommend that the Department implement procedures to ensure all statutory requirements are strictly adhered to, including the timely submission of annual reports from licensed currency exchanges.

DEPARTMENT RESPONSE:

The annual reports were not submitted on time as a result of the department changing its e-mail address. After noticing an unusual number of missing submissions, the Section discovered that licensees were submitting the annual reports to an old e-mail address that had been in use during the previous reporting cycle. The Section contacted Information Technology (IT) personnel to inform them of this problem and request that the reports submitted to the "old" address be forwarded for processing. The Section then directed the licensees that our records indicated had not submitted an annual report to resubmit their annual reports to the proper e-mail address. This resubmission caused a date later than the March 1 deadline to be recorded as the received date.

In order to prevent this from occurring in the future, the Section has listed the e-mail address more conspicuously in the annual report notification letter. Further, a Section employee has assumed duties for receiving and posting data received, which had previously been performed by IT personnel.

06-6 FINDING: (Untimely refunds issued to insurance companies for overpayment of annual privilege tax)

The Department's Division of Insurance failed to issue timely refunds to insurance companies for overpayment of the annual privilege tax as required by the Illinois Insurance Code (Code).

The privilege tax is a tax paid by all insurance companies for the privilege of doing business in Illinois. The privilege tax is paid when the annual tax return is filed with the Department on or before March 15th. Payment is made by a company if prior year overpayment and quarterly payments are less than the current tax due. If the previous payment amount is greater than the tax due an overpayment is established and the insurance company may request a refund for the overpayment or apply the overpayment to following year tax liability.

During our examination of the Department's issuance of refunds, the Department failed to issue refunds totaling $112,418 in a timely manner for 4 out of 25 (16%) refunds tested, ranging from 1 to 285 days late.

The Code (215 ILCS 5/412(1) (a)) states, "the Director shall provide a cash refund within 120 days after receipt of written request if all necessary information has been filed with the Department in order for it to perform an audit of the annual return for the year in which the overpayment occurred or within 120 days after the date the Department receives all the necessary information to perform such audit."

Department personnel stated written requests for refunds are often submitted with the tax return, and may not be noted by the Department until a random audit or follow up call by the company. In addition, due to peak workload during March through June of each year, the refund process has a low priority.

The Code provisions protect insurance companies paying the annual privilege tax and provide for timely refund of overpayment. Failure to provide a cash refund within the required timeframe denies insurance companies timely refunds to which they are entitled and is in noncompliance with the Code. (Finding Code No. 06-6)

RECOMMENDATION:

We recommend the Department issue the required refunds to insurance companies for overpayments of the privilege tax within the 120 day requirement set forth by the Code.

DEPARTMENT RESPONSE:

Concur. The Department will make every effort to issue the cash refunds as promptly as possible in the future. A new procedure will be implemented by the Cash Management Unit to ensure staff persons reviewing incoming mail are diligent in looking for refund requests so they may be promptly reviewed and processed accordingly.

06-7 **<u>FINDING</u>:** (Failure to reconcile Department receipt records to the Illinois Office of the Comptroller records in a timely manner)

The Department did not perform timely reconciliations 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 $512,158,794. Receipts are collected by the Department through five different cash systems. Our testing of monthly receipt reconciliations of Department records to the Comptroller's SB04 Report noted the Department's Division of Professional Regulation failed to perform timely receipt reconciliations for all twelve months of fiscal year 2006 in a timely manner. All monthly reconciliations were not started until after fiscal year 2006 year end (July 2006) and not completed until September 2006.

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

Implementation of one Department-wide receipt reconciliation form would assist the Department with timely and accurate receipt reconciliations. Also, implementation of a centralized cash system would allow for one individual within the Department the responsibility for the monthly receipt reconciliations, instead of four separate individuals performing four separate types of monthly reconciliations at different times.

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 Integrated Licensing and Enforcement System (ILES) system for the Division of Professional Regulation. The implementation of the ILES system has been initiated, but was not completed until fiscal year 2007.

Failure to properly reconcile cash receipts could lead to unresolved differences between Department and Comptroller records and to inaccurate financial reporting. (Finding Code No. 06-7, 05-7, DPR 04-5, 03-10, BRE 04-3)

<u>RECOMMENDATION</u>:

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

<u>DEPARTMENT RESPONSE</u>:

Concur. The agency has taken interim steps to consolidate the receipt reconciliations responsibilities within the Financial Reporting Section of the Division of Fiscal Operations. The failure to perform the reconciliation in a timely manner was due to the loss of staff within this section and the use of two financial systems, Regulatory Administration and Enforcement (RAES) and Integrated Licensing and Enforcement System (ILES) for the Department of Professional Regulation. The implementation to one system, ILES, for the Department of Professional Regulation has been completed, but not until FY07.

06-8 **FINDING:** (Failure to reconcile Department fund records to the Illinois Office of the Comptroller)

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

During the testing of monthly fund reconciliations of Department records to the Comptroller's Cash Report, we noted the Division of Professional Regulation failed to timely perform fund cash reconciliations for all twelve months of fiscal year 2006. The reconciliations were performed more than three months after the end of the fiscal year.

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.

In the prior examination period we noted the Department had not reconciled Department expenditures to the Comptroller records. During the current examination period our sample testing indicated that the Department is now reconciling its expenditure records to the Comptroller's records.

Department personnel stated the fund reconciliations were prepared untimely due to time required to implement a reconciliation process and catch up on the back log of activity not previously reconciled.

Failure to properly reconcile fund cash balances could lead to unresolved differences between Department and Comptroller records and to inaccurate financial reporting. (Finding Code No. 06-8, 05-10)

RECOMMENDATION:

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

DEPARTMENT RESPONSE:

Concur. The Department continues to work to consolidate and standardize fund reconciliations to ensure monthly fund reconciliations are performed in a timely manner.

06-9 **<u>FINDING</u>:** (Inadequate internal and administrative controls over locally held funds)

During our review, we noted weaknesses in internal controls over the three locally held funds maintained by the Department's Division of Professional Regulation.

Weaknesses noted were as follows:

- The custodian of the locally held funds has incompatible responsibilities including access to funds, recordkeeping and the preparation of monthly bank reconciliations. This lack of segregation of duties compromises the security of the funds.

- The *Report of Receipts and Disbursements for Locally Held Funds* (Form C-17) required to be filed quarterly with the Office of the Comptroller contained errors. One quarterly C-17 had incorrect deposits of $421. Several other quarterly reports contained additional errors and did not agree to supporting documentation.

- Three of 4 (75%) C-17 reports were filed late, ranging from 4 to 101 days after the due date with the Office of the Comptroller.

- The C-17 reports were prepared and approved by a single employee. They are not independently reviewed prior to submission with the Comptroller.

- Receipts and disbursements are accumulated manually. This allows for errors and does not leave a trail supporting totals on the C-17 reports.

- Adequate reconciliations were not prepared for the locally held funds. The Department maintains two locally held funds, the Official Advance General Fund and the Medical Fund, with balances of $3,500 and $5,000 respectively, operating as petty cash funds maintained at local bank accounts. The Department did not prepare monthly reconciliations of these funds, which should include any in-transit items. Because no monthly reconciliations were prepared, the Department was unable to reconcile to the authorized balances as of June 30, 2006.

- The Official Advance General Fund and the Medical Fund maintained cash on hand balances that were not promptly deposited in the respective bank accounts. The Official Advance General Fund maintained $78 cash on hand and the Medical Fund maintained $88 cash on hand. The Department maintains additional petty cash funds, so no cash on hand should be necessary for these funds.

The Comptroller's Statewide Accounting Management System (SAMS) procedures for locally held fund reporting (SAMS Procedure 33.13.20) states the reports should be completed using actual receipts and disbursements, requires that reports be filed no later than the last day of the month following the last day of the quarter, and states that C-17 reports be prepared then sent to the agency official responsible for approving them prior to submission to the Office of the Comptroller.

Department personnel stated errors have occurred due to the numerous manual calculations required to summarize transactions from several bank accounts. Additionally, reports were submitted late due to oversight.

Good business practice and internal control procedures provide for the establishment of effective controls to safeguard assets and provide accountability. Failure to establish an effective internal control system could result in loss from fraud or theft or in errors and discrepancies going undetected. (Finding Code No. 06-9)

RECOMMENDATION:

We recommend the Department implement policies to ensure adequate internal and administrative controls over locally held funds, including adequate segregation of duties and proper reconciliation of funds. Further, an independent supervisor should review the C-17 reports before they are submitted to the Comptroller.

DEPARTMENT RESPONSE:

Concur.

The Department will eliminate cash on hand thereby negating any petty cash fund.

The Department is in the process of correcting some minor errors caused by the reconciliation. The $421 deposit was made to the wrong fund from the worksheet and was corrected and deposited in a timely manner.

The C-17 report filed in February of 2006 was from the last quarter of 2005 and filed late due to an employee leaving state government. The other quarterlies were filed within 29 days after the last quarterly date due to obtaining of statement from the bank. Additionally, the Department has implemented new procedures to ensure this finding is not repeated.

The receipts and disbursements are now also received electronically from the bank. This should further ensure a proper trail supporting totals.

The monthly reconciliations were prepared for the last four months of 2006 and before. They were previously submitted every three months. The Advanced General Fund and the Medical Fund are bank accounts and not petty cash funds. The Division will continue to work towards reconciling the accounts which will take place following receipt of the money from the requests made through the Court of Claims.

Procedures have been implemented for additional review and compliance to ensure the quarterly report is submitted on a timely basis.

The Department is presently utilizing the automated on line system for statements from the bank to avoid manual miscalculations.

The Department will continue to review current control procedures and the implementation of new policies which will address the finding.

06-10 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 6 out of 60 (10%) invoice vouchers reviewed, the vendor invoices were approved for payment from 2 to 37 days late;

- In 10 out of 60 (17%) invoice vouchers reviewed, the vendor invoices were not properly documented to identify the date of receipt of a proper bill;

- In 6 out of 60 (10%) invoice vouchers reviewed, interest payments were not properly remitted to the vendors, totaling $69;

- In 4 out of 50 (8%) invoice vouchers reviewed, there was no copy of the required purchase order with the voucher.

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 it 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.

The Code (74 Ill. Adm. Code 900.90) also 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 processing delays due to vendor problems and internal questions related to the billings that require assistance from various sections. In a response to a prior finding, the Department stated it was implementing a new policy requiring review and approval of invoices by agency managers within a five-day time frame. This policy was never adopted.

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. 06-10, 05-11, DPR 04-8, 03-7, BRE 04-15)

<u>RECOMMENDATION</u>:

We continue to recommend the Department 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>:

The Department believes it does maintain adequate controls over processing, approval and payment of vouchers. The majority of processing delays were due to vendor invoice problems and internal questions related to vendor invoices that required time to review and confirm vendor billing accuracy ("proper bill" as defined). The Department's Fiscal Office uses the Accounting Information System to process vouchers and this system does trace all vouchers for interest penalty requirements. Department policy on paying interest to vendors is based on the State Accounting Management System. Procedure 17.20.45 page 1 of 6, part 2, which indicates if there is an interest payment of $50.00 or above, the Department, is required to make interest payment to the vendor. If under $50.00, the vendor must request in writing, interest reimbursement. Should there be an interest due of $50.00 or more the AIS system automatically generates a voucher to be processed.

<u>AUDITOR COMMENT</u>:

The Department did not dispute the facts noted in the finding. Processing delays may have been due to vendor invoice problems and internal questions relative to vendor invoices. However, as noted in the finding, the reasons for delays were not documented so we could not determine when the invoice was a "proper bill". The Department still has a responsibility to comply with the Illinois Administrative Code and Department policy to ensure vouchers are processed, approved and paid in a timely manner.

06-11 **<u>FINDING</u>:** (Time sheets not maintained for union employees in compliance with the State Officials and Employees Ethics Act)

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

The Department expended $39,725,118 for payroll and related costs and had an average of approximately 500 union employees during fiscal year 2006.

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."

The Department's official timekeeping system is the Central Management Services (CMS) payroll system, which tracks time using a "negative" approval, whereby the employee is assumed to be working unless noted otherwise. No time sheets for the CMS system documenting the time spent each day on official State business to the nearest quarter hour were maintained.

During the engagement period, the Department implemented an additional timekeeping system that is primarily used to track time for merit compensation employees. This system does track time employees spend on State business, but is not used for union employees and is not the official timekeeping system for the Department. It is also not reconciled to the official CMS timekeeping system. Department management stated they plan to begin negotiations with the unions to extend the additional system to the union employees.

By not maintaining appropriate time sheets, the Department is not monitoring union employees' time spent on official state business as required to comply with the Act. (Finding Code No. 06-11, 05-12, DPR 04-7, DFI 04-2)

<u>RECOMMENDATION</u>:

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

<u>DEPARTMENT RESPONSE</u>:

Concur. We are reviewing and addressing the timekeeping procedures for all IDFPR union employees.

06-12 <u>FINDING</u>: (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 19 out of 25 (76%) employees sampled did not have a performance evaluation performed on a timely basis. These untimely evaluations included 5 evaluations that were not prepared during the fiscal year and 14 evaluations completed between 7 to 211 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' creditable service date, while Banks and Real Estate had evaluations due by the creditable service date.

Department personnel stated they have conducted evaluation training sessions for management and supervisory staff during fiscal year 2006. Supervisors receive a 30-day reminder before every performance evaluation is due, but evaluations continue to be untimely.

Without performance evaluations there is no documented basis for promotion, demotion, discharge, layoff, recall, or reinstatement. (Finding Code No. 06-12, 05-13, DPR 04-6, 03-4, 01-4, 99-17, 97-20, 95-17, 93-26, BRE 04-9)

<u>RECOMMENDATION</u>:

We continue to 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.

<u>DEPARTMENT RESPONSE</u>:

Concur. In January 2006, a training session was conducted for supervisors and they were provided with the Department's first procedure for ensuring the accurate and consistent completion of performance evaluations which included a comprehensive review of department approved standards.

Currently, supervisors receive a 30-day reminder before every performance evaluation is due. Further, the Secretary and Chief of Staff regularly inform the supervisors of the requirement for completing performance evaluations on a timely basis. Additionally, every quarter the Director of Human Resources personally contacts all supervisors who have accrued past due evaluations.

The Division of Human Resources is scheduling all supervisors for intensive, two-day training sessions to be delivered by a CMS specialist in performance evaluations during 2007 and 2008.

Finally, the Department will develop and implement a policy on performance evaluations.

06-13 **<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 2 of 5 (40%) out-of-country travel vouchers tested, totaling $1,964, were not approved in advance by the Chairman of the Governor's Travel Control Board. One of the vouchers was for travel to Mexico in order to address questions and concerns related to the Transfer of Money Act (TOMA) and to build relationships with Mexican companies. Travel to Mexico occurred January 26 - 27, 2006, but was not approved by the Chairman of the Governor's Travel Control Board until June 8, 2006. The second voucher is for travel to Canada and Scotland to conduct inspections of pharmacies that participate in the I-SaveRx program. Travel to Canada and Scotland occurred June 18 – 26, 2006, but was not approved by the Chairman of the Governor's Travel Control Board until June 21, 2006. Travel for this voucher was requested and approved as being for travel to Canada and travel to London only, which did not match the actual travel.

  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.

- We noted the Department did not have procedures to ensure mileage reported on travel vouchers appeared reasonable. 28 out of 322 (9%) of travel vouchers tested contained potentially excess mileage reimbursements. Two employees submitted vouchers that included potentially 2,687 miles in excess of expected mileage. These overages resulted in overpayments totaling $1,193. No explanation for the excessive mileage was documented by the Department on the travel vouchers by the travelers or the employees' supervisors. The Department did not consider the mileage excessive under travel circumstances and did not seek reimbursement from the employees.

- 1 out of 10 (10%) of the top travelers tested was not listed on the Form TA-2. 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 the Chicago office, but spent the majority of working time in Peoria, was not listed on the TA-2 form.

- The Department did not file Form TA-2 with the Legislative Audit Commission on a timely basis. Form TA-2 for the period January 1 through June 30, 2006 was not filed until July 26, 2006, 11 days late.

  The State Finance Act (30 ILCS 105/12-3) requires that a TA-2 form be filed with the Legislative Audit Commission no later than each July 15 for the period from January 1 through June 30 of that year and no later than each January 15 for the period from July 1 through December 31, of the preceding year.

State law provides that insurance examiners working for the Division of Insurance be directly paid for their travel by the insurance company being examined, and when the examination is out of state, reimbursements shall comply with Federal travel guidelines. We tested a sample of 25 out-of-state insurance examination travel vouchers for compliance with travel policies established by the U.S. General Services Administration and noted the following:

- 2 out of 25 (8%) travel vouchers tested contained an overcharge for mileage reimbursement. These vouchers included 392 miles overcharge resulting in overpayments totaling $159.

- 5 out of 25 (20%) travel vouchers tested failed to follow the federal travel reimbursement guidelines for per diem. These vouchers resulted in overpayments totaling $172.

- 1 out of 25 (4%) travel vouchers tested failed to follow the federal travel reimbursement guidelines for lodging expenses. This voucher resulted in an overpayment totaling $39.

- 1 out of 25 (4%) travel vouchers tested did not contain the signature of the immediate supervisor.

The Illinois Insurance Code (215 ILCS 5/408(3)) requires that all lodging and travel expenses shall be in accordance with applicable travel regulations published by the Department of Central Management Services and approved by the Governor's Travel Control Board, except that out-of-state lodging and travel expenses related to examinations shall be in accordance with travel rates prescribed under paragraph 301-7.2 of the Federal Travel Regulations for reimbursement of subsistence expense incurred during official travel. All lodging and travel expenses may be reimbursed directly upon the authorization of the Director.

During our testing of license and liability forms, we noted the Department had inconsistent requirements. Various divisions 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 Banking 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 divisions 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. The Department attributed the inaccurate and late filing of the Form TA-2 to oversight. They further stated the instances of incorrect voucher completion were due to human error and Department oversight. The Department stated the inconsistent requirements between divisions related to documenting licenses and liability insurance for each employee is due to the consolidation of the four legacy agencies.

Failure to comply with travel rules and regulations could result in excessive or unauthorized travel. (Finding Code No. 06-13, 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 both in-state and out-of-state travel vouchers prior to reimbursement. The Department should seek reimbursement from employees for travel overcharges that are identified. 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:

The Department does enforce the travel regulation requirements with the exceptions as noted by the audit. The out of country exceptions as noted were due to very limited advance notice of the travel requirement.

The Department plan is to attempt to process the electronic travel request for these limited advance notice situations, by working with the GOMB and the Travel Control Board, by providing explanation for short notice and requesting approval based on immediate need for travel.

The Fiscal office did review issues related to potential overcharges by employees by contacting both the employee and supervisor. After reviewing reasons for additional expense, it was our belief there were no overcharges based on responses provided.

Policy and procedures were established relating to the personal vehicle usage when traveling on State business. A statement was added to all travel vouchers used by employees which has the following certification included on the travel voucher. "I certify that I have a valid driver's license and the minimum insurance coverage required pursuant to Section 10-101(b) of the Illinois Vehicle Code". This statement satisfied the Travel Control requirements set forth in Section 3000.300 of the State Travel Guide and reduced work load of having to prepare a separate document for each employee stating they are covered. Their signed travel voucher indicates required coverage.

06-14 <u>FINDING</u>: (Inaccurate property control records)

The Department did not maintain complete and accurate property control records.

The Department had property and equipment totaling $14,305,902 at June 30, 2006. We selected a sample of 65 equipment items from 23 Department locations as of June 30, 2006 to test whether the equipment was in the correct location and was properly maintained on the Department's inventory system. As a result of our testing, we noted the following:

- 12 of 65 (18%) items were located at sites other than the location listed on the Department's property control listing.

- 11 of 65 (17%) items were obsolete or unusable, but still maintained on the property control listings.

- 3 of 65 (5%) items did not contain an accurate description on the property control listings, making it difficult to reconcile listings to physical observation.

During our review of the *Agency Report of State Property* forms (C-15) submitted to the Illinois Office of the Comptroller for fiscal year 2006, we noted the Department reported incorrect additions, deletions, and capital lease amounts. The C-15 forms understated additions by $122,275, understated deletions by $236, and overstated capital leases by $506,105. These errors led to inaccurate amounts reported on the Department's *Capital Asset Summary* form (SCO-538) submitted to the Comptroller for GAAP reporting purposes.

The State Property Control Act (30 ILCS 605/4 and 6.02) requires the Department be accountable for the supervision, control and inventory of all property under its jurisdiction and control. In addition, the Statewide Accounting Management System (SAMS) Procedure 29.10.10 (page 1 of 3) requires agencies to keep detailed records of property supporting amounts provided to the Office of the Comptroller. Furthermore, good internal control procedures require the proper tracking of property and equipment. The Department has procedures to track the movement of equipment throughout the Department, but these procedures were not followed in all cases.

Department management stated that many of the property control issues noted above were a result of errors during the consolidation of legacy agencies' property control systems into one system. Additional errors were due to oversight on the part of the property control supervisor. Revised C-15 and SCO-538 forms were prepared and submitted to the Office of the Comptroller.

Failure to maintain accurate property control records increases the potential for theft or misappropriation of State assets. In addition, property improperly included on the Department's inventory may result in inaccurate fixed assets reports and misstated financial information. (Finding Code No. 06-14)

RECOMMENDATION:

We recommend the Department implement procedures to ensure property control records are accurate, including frequent physical observation and reconciliation to property control records. Also, the Department should delete all obsolete or unusable items and transfer those items to the Department of Central Management Services Surplus Property.

DEPARTMENT RESPONSE:

Concur. The Department is in the process of filling the Property Control Supervisor's position.

Disposal of obsolete equipment is subject to CMS scheduling. Many times a pick up time and date is not available, nor a priority, with CMS unless or until a large amount is accumulated.

The Department plans on addressing the accurate description issue with the full time Supervisor.

Until the consolidation, the Department did not have a standardized, populated, consolidated, inventory control system. As a result, we have been in the process of successfully merging records from multiple systems and methods. It is anticipated to be fully assimilated by the end of 2007.

The Department is in the process of creating detailed procedures.

06-15 FINDING: (Controls over telecommunication services and expenditures)

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

The Department expended $855,826 for telecommunications services during fiscal year 2006. During our testing, we noted the following:

- In 22 out of 40 (55%) 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 four to six months after the statement date. The Department paid these invoices prior to receiving approval from the responsible reviewer. In addition, 2 of the 40 (5%) vouchers tested were not reviewed at all.

- The Department had not distributed detailed telecommunication billings related to January through June to agency supervisors until after the end of the fiscal year.

- During our review of telephone credit card cancellations, we noted the Department failed to submit any *Telephone Credit Card Request* forms to the Department of Central Management Services after employee separation. During our review of separated employees, we noted four separated employees with telephone credit cards, none of which were cancelled by the Department.

- During our review of pager assignments, we noted 3 of 30 (10%) of pagers were lost upon employee separation, not in the custody of the employee on Department listings, or nonfunctional. Monthly pager service was not canceled for any of these pagers.

- 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 DCMS on all telecommunications needs. Specific responsibilities of a telecommunications coordinator are: review all communications requests within the Agency to ensure compliance with DCMS 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, billings were distributed and approved untimely due to difficulties in determining supervisory responsibility for individual billings. Additionally, pagers and calling cards were not properly canceled due to oversight.

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. 06-15, 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, along with a cell phone and pager usage policy. Further, the Department should appoint a permanent Telecommunications Coordinator to ensure monitoring of charges and services, as well as adherence to DCMS guidelines and Department policies.

DEPARTMENT RESPONSE:

Concur. The Department began addressing this issue last year and has assigned personnel to work specifically on the telecom issue.

Under consolidation and separations, the Department began an extensive name by name and phone number review to ensure accurate records. The Department assigned a Telecom Coordinator.

The Department will create delegation procedures to further distribute billings in a timely manner. In addition, we have requested CMS explore the possibilities of individual users accessing, and downloading, monthly billing statements however, this ability currently does not exist.

06-16 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 3 out of 12 (25%) 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 3 out of 12 (25%) 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. The forms were filed from 8 to 10 days late.

- In 5 out of 12 (42%) accident files reviewed for the examination period, the employee did not report the accident to the Department within two working days as required by the Department's Vehicle Policy.

- In 6 out of 12 (50%) accident files reviewed for 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 2006. 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 43 (2%) 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 17 out of 43 (40%) automotive invoice vouchers tested, the expenses incurred were not reported on the Monthly Automotive Cost Report for that particular State vehicle.

- In 10 out of 43 (23%) automotive invoice vouchers tested, the charge ticket was not provided with the voucher or the Monthly Automotive Cost Report.

- In 10 out of 43 (23%) automotive invoice vouchers tested, the charge ticket or the Monthly Automotive Cost Report did not have the employee's signature.

- In 2 out of 43 (5%) automotive invoice vouchers tested, employees were reimbursed for fuel purchases for a State vehicle without submitting a travel voucher.

- In 3 out of 43 (7%) automotive invoice vouchers tested, the Monthly Automotive Cost Report did not match the vendor invoice.

- In 24 out of 43 (56%) automotive invoice vouchers tested, an automobile description, license plate number, vehicle ID, or any other means to identify the 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 Financial Institutions did not complete Monthly Automotive Cost Reports until May 2006.

- In 4 out of 25 (16%) vehicles tested for proper vehicle maintenance, 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 5,416 to 9,768 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.

- The Department incurred maintenance charges on a vehicle after the vehicle was sent to the Department of Central Management Services (DCMS) for surplus. During our testing of maintenance performed on Department vehicles, we noted gasoline purchases made in late September and October for a vehicle that was sent to DCMS for surplus on September 16, 2005, according to Department property records. Total gasoline purchases made after the vehicle was documented as sent to DCMS surplus were $158. Additionally, we noted an oil change for this particular vehicle was performed on October 7, 2005 for $31. Total maintenance charges paid but not incurred by the Department for this vehicle were $189.

- In 4 out of 62 (6%) personally assigned vehicles tested, the vehicle was driven less than 5,000 miles during the fiscal year. This indicates that the vehicle is not being utilized enough to justify the assignment.

In a response to a prior finding, the Department stated it would ensure future accident files were completed, reviewed and maintained by departmental staff and filed with Central Management Services and the Illinois Department of Transportation in a timely manner. Current delays in reporting were a result of drivers reporting information to the Vehicle Coordinator in an untimely manner.

Department officials further stated there were several issues contributing to the problems noted including procedures not being followed, a lack of standardized procedures during the examination period, and a need to more efficiently allocate resources. The Department stated that due to the consolidation, the Department is currently reviewing and revising all legacy agencies' policies and procedures and just completed draft Department-wide policies and procedures at the end of fiscal year 2006.

Department officials were unresponsive when questioned as to why the Department was unable to compel employees to follow existing policies and procedures as noted in the previous four compliance examinations dating back to fiscal year 2003.

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. 06-16, 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, Department management should take a stronger stand to ensure that employees comply with Department policies over the operation of automotive equipment and expenditures.

DEPARTMENT RESPONSE:

Concur. The Department is in the process of reviewing and approving an extensive policy to address ongoing audit issues.

The timely reporting is essentially attributable to drivers submitting their reports to Administrative Services. As a result, additional controls, reporting, and tracking processes will be put in place, in order that these issues do not re-occur.

06-17 FINDING: (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 62 employee vehicle assignments during fiscal year 2006 and noted the following:

- In 50 out of 62 (81%) vehicle assignments reviewed during fiscal year 2006, 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.

- In 12 out of 62 (19%) vehicle assignments sampled, there was no certification on file with the Department.

- 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 and just completed draft Department-wide policies and procedures at the end of fiscal year 2006. In addition, the Department continues to work with 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. 06-17, 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. The Department will revise its current policies to reflect the rules and regulations contained in the Illinois Vehicle Code to establish the following: certification forms must be completed by travelers, i.e., employees, and filed with DFPR that ensure that licensure and automobile liability insurance are based on vehicle assignment, rather than travel reimbursement. In addition, travelers must complete a certification form attesting to licensure and automobile liability coverage for the traveler's use of a State assigned vehicle. Further, if an employee declines to submit the appropriate certification forms, his/her authority to use a State assigned vehicle will be removed**.**

06-18 **<u>FINDING</u>:** (Deficiencies identified with the CLEAR computer system)

The Department's Division of Banking'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 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.

- 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.

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 working with the contractor responsible for the development of the CLEAR system to develop an additional financial system component that will provide for adequate documentation and to address other deficiencies within the system. 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. 06-18, 05-18, BRE 04-2)

<u>RECOMMENDATION</u>:

We recommend the Department's Division of Banks continue to work with the contractor to conclude its evaluation of the CLEAR system and develop a corrective action plan to enhance the system to ensure that it meets the needs of the users.

<u>DEPARTMENT RESPONSE</u>:

Previously the department stated we are working with the contactor responsible for the development of the CLEAR system to develop additional financial components to track fees accurately and to be able to reconcile payments. Currently, we are in the process of developing the processes and system changes needed to ensure accurate tracking of payments. In addition, we are developing the process of how reconciliation with the Treasurer's Office and Comptroller's Office will be accomplished in CLEAR. The Fiscal Division is creating a usage policy and revenue procedures for the CLEAR based on the new revenue enhancements. Additionally, changes in the security configuration and operation in CLEAR will be implemented to make its security more like ILES. These actions will correct the deficiencies found in this audit finding.

06-19 <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 115 servers and 1,137 PCs to run its critical applications. The Divisions of Banking 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.

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 portions of the disaster contingency plan cannot be completed until a final determination is made on which services will be moved to DCMS.

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. 06-19, 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:

The move of DFPR servers to CMS is expected to be completed no later than August 31. DFPR and CMS are negotiating an agreement regarding the handling of DFPR servers upon their relocation to CMS. The agreement, which is expected to be formalized in 2007, explicitly assigns Disaster Recovery responsibilities to CMS.

The disaster recovery plan in progress will be modified to reflect CMS's responsibility for all of the recovery of the Agency's hardware, operating systems and applications. The Agency has purchased, and received, satellite phones for senior management to communicate in the event of a disaster. Plans to test the phones on a regular basis have been approved. Instructions for use have been written. Emergency contact lists for IT employees and senior staff have been developed and approved for use along with a plan for keeping the information current. The emergency phone message lines for employees are operational, the pass-codes have been reset, and directions on how to use them and who may use them have been approved. DFPR continues to work with CMS staff to resolve off-site vaulting problems in Chicago (CMS expects a site ready 7/1/07). DFPR has arranged for other interim off-site storage in the meantime. Encryption software has been purchased and tested for laptops and USB devices storing copies of the plan. A copy of the Velocity Client has been requested from CMS for use in securing off-site recovery facilities from non-Agency personnel (pending CMS delivery).

06-20 **FINDING:** (Failure to establish a Savings Bank Examiner Training Foundation)

The Department's Division of Banking 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 they did not feel the Foundation was necessary and would seek legislation to remedy the statutory requirement. Currently, the Department employs no savings bank examiners, as these duties are performed by financial institutions examiners. As of the end of fieldwork, no legislation had been introduced.

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. 06-20, 05-22, BRE 04-8, 02-6)

RECOMMENDATION:

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

DEPARTMENT RESPONSE:

Concur. Draft legislation was resubmitted to management that will delete Section 9007 from the Savings Bank Act. This amendment will repeal the requirement for establishment of a Savings Bank Examiner Training Foundation. Establishment of a foundation is not feasible due to a lack of authority for funding the foundation. The proposed legislation is anticipated to be introduced during the fall session.

06-21 FINDING: (Noncompliance with Residential Mortgage License Act of 1987)

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

- Five out of 5 (100%) Board members did not timely file a statement with the Commissioner regarding current business transactions or other affiliations with licensees under the Act for 2006.

  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 2,158 licensees. According to the Agency's "MB – Audits Received Report – MB Only Report" as of June 30, 2006, thirteen (52%) of the licensees tested did not submit an annual audit report within 90 days of their fiscal year end. 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 Department has a large volume of statements to input. Although letters are sent if audit reports are late, the Division is still in the process of logging audit reports from a year ago.

In the prior year's finding, two of five Board members terms had expired. During the current examination period, no Board member was serving under an expired term.

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. Although letters are sent if audit reports are late, the Division is still in the process of logging audit reports from a year ago.

Failure to enforce the Act results in Board members 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. 06-21, 05-23, BRE 04-12, 02-3)

RECOMMENDATION:

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

DEPARTMENT RESPONSE:

Concur. Mortgage Board members' terms have been renewed and the conflict of interest declarations have been filed timely. Additionally, new board members have been appointed by the Department.

The Department has developed written procedures to ensure that all Mortgage Banking licensees' Annual Audit Reports are received. If audit reports are not received during the required timeframe, the Department mails a certified notification letter of deficiency.

06-22 <u>FINDING</u>: (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 122 of the 996 (12%) residential mortgage licensees required to have an examination. The 122 examinations were late as follows:

- 25 were 1 to 5 months late
- 10 were 6 to 10 months late
- 24 were 11 to 15 months late
- 32 were 16 to 20 months late
- 27 were 21 to 25 months late
- 4 were 26 to 30 months late

Department personnel stated due to staff shortages, the Department has not been able to complete all examinations in the required timeframe. Although additional examiners were hired during the year, much of their initial time was spent on training and educational courses due to the highly technical industry.

Failure to conduct examinations could result in licensees conducting business not in compliance with the Residential Mortgage License Act. (Finding Code No. 06-22, 05-24, BRE 04-14)

<u>RECOMMENDATION</u>:

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

<u>DEPARTMENT RESPONSE</u>:

Concur. The Department acquired several new Mortgage Banking examiners during calendar year 2006. However, most of the new examiners were not available during the initial months of 2006 due to their training and educational courses. Mortgage Banking Examination is a highly technical and very specialized profession. The Department has cleared the backlog of examinations and as a result all examinations will be up to date within fiscal year 2008. The Department will ensure examinations are conducted within the required timeframe and that licensees are in compliance with the Residential Mortgage License Act of 1987.

The Department anticipates that all examinations are conducted within the required timeframe and to ensure licensees are in compliance with the Residential Mortgage License Act of 1987.

06-23 **FINDING:** (Failure to ensure receipt of annual statements from viatical settlement providers)

The Department failed to receive annual statements from viatical settlement providers.

During our examination of annual statements received by the Department for the calendar year ended December 31, 2005, we noted that the Department failed to receive annual statements from 5 of 13 (38%) viatical settlement providers licensed by the State. Additionally, 1 of 8 (13%) statements received was 33 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.

During the engagement period, the Department adopted rules regarding specific statements to be filed with the Department. However, because there is no provision for penalty for failure to submit annual statements in a timely manner, statements continue to be filed late or not at all.

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. 06-23, 05-26, DOI 04-2)

RECOMMENDATION:

We recommend the Department seek remedies for a provider's failure to submit the required forms in a timely manner, such as fines or penalties.

DEPARTMENT RESPONSE:

Concur. We are addressing this problem by assigning a senior staff position to assume responsibility for the oversight of viatical settlement company regulation. This staff, among other things, will oversee and coordinate the reporting process. As part of this process we will establish parameters to levy penalties for late filings.

06-24 FINDING: (Untimely approval or denial of life, accident, and/or health insurance policy forms)

The Department's Division of Insurance failed to approve/deny life, accident, and/or health insurance policy forms submitted by insurance companies in a timely manner as required by the Illinois Insurance Code.

During our testing, we noted that 15 out of 15 (100%) policy forms reviewed were not approved or denied on a timely basis. These policy forms were approved or denied between 26 to 139 days later than the maximum 90 day time period.

The Illinois Insurance Code (Code) (215 ILCS 5/143) states, "In all cases the Director shall approve or disapprove any such form within 60 days after submission unless the Director extends by not more than an additional 30 days the period within which he shall approve or disapprove any such form by giving written notice to the insurer of such extension before expiration of the initial 60 days period."

According to Department personnel, the policy forms were not being approved or disapproved within the required timeframe due to a shortage in staff. In addition, many of these reviews are complex and lengthy.

By not approving or disapproving life, accident, or health insurance policy forms in a timely manner as required by the Code, the Department is not properly supervising and regulating insurance companies operating within the State. (Finding Code No. 06-24)

RECOMMENDATION:

We recommend the Department implement procedures to ensure life, accident, and/or health insurance policy forms are properly approved or disapproved in a timely manner as required by the Code.

DEPARTMENT RESPONSE:

Concur. The Division of Insurance agrees that this continues to be a problem and will continue to strive to meet this requirement. In an effort to address this issue we have taken steps to fill a supervisory position over the LAH Compliance Unit.

In March, 2007, consistent with the practices of other states, the Division instituted a consumer-focused process for the certification of life and annuity filings.

06-25 **<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 once 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 they sought legislative remedy to the statutory requirement during the spring and fall sessions, with Senate Bill 2608 and House Bill 2576. This Legislation was tabled. A new bill, Senate Bill 472, has been introduced in the spring 2007 session.

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. 06-25, 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:

For the past several years the Department has attempted to pursue legislative resolution to this finding and are confident this can be accomplished in 2007.

When this portion of the Medical Practice Act was written, the Internet did not exist nor was it contemplated that new technology would eventually cause this requirement to become antiquated.

The Department does post a summary of all disciplines on our Web-Site which is available to everyone.

06-26 FINDING: (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 247 (43%) license inspections during fiscal year 2006, but could not document that any of the remaining 326 (57%) licensees under this Act had been inspected during fiscal year 2006. 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 inspections were not performed due to staff shortages. Department personnel further stated the Act expires at the end of this year. The Legislature is currently considering legislation to extend the Act an additional 10 years. An amendment to that legislation will remove the mandatory inspection provision.

The Department's noncompliance with this mandate could allow the remaining 326 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. 06-26, 05-32, DPR 04-21)

RECOMMENDATION:

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, or seek legislative remedy from the statutory requirements. Further, the Department should establish a fee for these inspections as required by the Act.

DEPARTMENT RESPONSE:

Concur. The Department has sponsored legislation, HB 128 that will abolish the requirement that mandatory inspections of home health care equipment providers be inspected annually.

06-27 <u>FINDING</u>: (Failure to enforce ethics continuing professional education requirements for certified public accountants)

The Department did not enforce the ethics continuing professional education (CPE) requirement for certified public accountants (CPA).

The Illinois Public Accounting Act (Act) (225 ILCS 450/16(c)), effective July 2, 2004, requires every licensed certified public accountant shall complete, each 3 years, not less than 120 hours of continuing professional education. The Act further states, "Of the 120 hours, not less than 4 hours shall be courses covering the subject of professional ethics."

The regulations to enforce the 4 hour CPE ethics requirement were adopted on August 1, 2005. The Professions and Occupations Administrative Code (Code) (68 Ill. Adm. Code 1420.80(h)) also states, "No carry over of continuing education hours is allowed from one prerenewal period to another."

On May 3, 2006, the Department declared that the 4 hour CPE ethics requirement would not be enforced by the Department until the next full renewal cycle for CPAs (October 1, 2006 through September 30, 2009). Furthermore, for those CPAs that had already taken the 4 hour ethics course in good faith during the current renewal cycle (October 1, 2003 through September 30, 2006), the Department will accept the 4 hour ethics course to be carried over to the next full renewal cycle, in violation of regulations.

Department management stated that historically it has not required additional continuing education requirements to be completed by a licensee during or in any portion of their renewal cycle, which expires on September 30, 2006. The Department believes it is imperative that licensees should receive official notification by the Department regarding statutory requirements which have an impact on their license in a timely manner, and the Department consistently utilizes renewal notices as a primary source of notification of a licensee of statutory changes impacting their respective profession. The Department further stated that it would be unnecessarily burdensome to require licensed CPAs to complete a 4 hour ethics course prior to September 30, 2006.

By not complying with the Illinois Public Accounting Act, the Department is not properly overseeing the training of certified public accountants, and is in noncompliance with the Act and the Administrative Code. (Finding Code No. 06-27)

<u>RECOMMENDATION</u>:

We recommend the Department enforce all provisions of the Illinois Public Accounting Act in a timely manner. Further, the Department should work with the legislature to make the effective date of legislation affecting professional licensing requirements coincide with licensing renewal period if it believes that an earlier interim implementation of statutory requirements is impractical.

DEPARTMENT RESPONSE:

The Department disagrees with this finding as we are enforcing this provision with the 2009 renewal. The Rules for the Administration of the Public Accounting Act which define the required ethics continuing professional education and defined approved program providers were not adopted until August 1, 2005.

As a matter of fairness to the licensees it was never intended to enforce this new provision during mid-cycle of the 2006 renewal as this would not have afforded the licensee the full 36 months as allowed by statute.

AUDITOR COMMENT:

As part of our examination, we do not test compliance based on "intent", but based on compliance with State law. Based on the plain meaning of the statute and rules, the Department did not comply with the Illinois Public Accounting Act and the Administrative Code.

06-28 <u>FINDING</u>: (Department Boards not fully staffed)

The Secretary of the Department did not appoint the required number of members to the various Boards in order to fill vacancies.

- The Secretary of the Department did not appoint three members to the Social Work Examining and Disciplinary Board in order to fill vacancies. Vacancies existed for two public members since November 2002 and one licensed social worker since March 2002. The Clinical Social Work and Social Work Practice Act (Act) (225 ILCS 20/6) states, "The Director shall appoint a Social Work Examining and Disciplinary Board consisting of 9 persons who shall serve in an advisory capacity to the Director. The Board shall be composed of 5 licensed clinical social workers…, two licensed social workers, and 2 members of the public who are not regulated under this Act or a similar Act and who clearly represent consumer interests."

- The Secretary of the Department did not appoint a member to the Board of Nursing in order to fill a vacancy and allowed Board positions to be held by individuals with expired terms. During our testing we noted that four of ten (40%) positions were held by individuals with expired terms. One of ten (10%) positions has been vacant since October 2005. The Nursing and Advanced Practice Nursing Act (Act) (225 ILCS 65/10-25) states, "The Director shall appoint the Board of Nursing which…shall be composed of 7 registered professional nurses, 2 licensed practical nurses and one public member..." In addition, the Act states, "Members shall be appointed for a term of 3 years. No member shall be eligible for appointment to more than 2 consecutive terms…"

- The Department's Division of Professional Regulation was not in compliance with the provisions of the Pharmacy Practice Act of 1987 (Act) (225 ILCS 85/10) regarding the State Board of Pharmacy. During our testing we noted one of nine (11%) positions (licensed pharmacist) has been vacant since December 2005 and one of nine (11%) positions (licensed pharmacist) was held by an individual with term that expired April 2004. The Act states that the State Board of Pharmacy "shall consist of 9 members, 7 of whom shall be licensed pharmacists…in good standing in this State, a graduate of an accredited college of pharmacy or hold a Bachelor of Science degree in Pharmacy and have at least 5 years' practical experience in the practice of pharmacy…There shall be 2 public members, who shall be voting members, who shall not be licensed pharmacists in this State or any other state." Members are to be appointed by the Governor.

- The Secretary of the Department did not appoint a member to the Board of Orthotics, Prosthetics, and Pedorthics (Board) in order to fill a vacancy and allowed Board positions to be held by individuals with expired terms. During our testing we noted that four of six (67%) positions were held by individuals with expired terms. We also noted that one of six (17%) positions (public consumer) has been vacant since February 2001. The Orthotics, Prosthetics, and Pedorthics Practice Act (Act) (225 ILCS 84/25) states the Board, "shall consist of 6 voting members to be appointed by the Director. Three members shall be practicing licensed orthotists, licensed prosthetists, or licensed pedorthists. These members may be licensed in more than one discipline and their appointments must equally represent all 3 disciplines. One member shall be a member of the public who is a consumer of orthotic, prosthetic, or pedorthic professional services. One member shall be a public member who is not licensed under this Act or a consumer of services licensed under this Act. One member shall be a licensed physician."

- The Department's Division of Financial Institutions was not in compliance with the provisions of the Currency Exchange Act (Act) (205 ILCS 405/22.03) regarding the Board of Currency Exchange Advisers. During our testing we noted that seven out of seven (100%) board positions were vacant. We noted that one position has been vacant since January 1997, two positions have been vacant since January 1998, two positions have been vacant since January 1999, and two positions have been vacant since January 2001. Department personnel stated they were unaware of when the Board last met. The Act states, "There shall be a Board of Currency Exchange Advisers composed of 7 members, no more than 4 of whom may be members of the same political party, to be appointed by the Governor as follows: 3 persons who are familiar with and associated in the field of currency exchanges, 2 of whom shall have been actively engaged in the management of currency exchanges for at least 5 years prior to the date of appointment; one person who is a public aid recipient at the time of appointment; and 3 persons who shall represent the public." The Act further states the Board shall have the following duties:

    - To obtain from the Director such reports concerning the supervision and regulation of currency exchanges as they consider desirable.
    - To advise the Governor and the Director on problems concerning currency exchanges.
    - To foster the interest and cooperation of currency exchanges in improvement of their services to the people of the State of Illinois.
    - To advise of the Governor and the Director upon appointments and employment of personnel in connection with the supervision and regulation of currency exchanges.

- The Department's Division of Banking 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 as 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 they are currently reviewing qualified candidates to fill the vacancies. Department management stated it is difficult to find willing candidates to fill the positions. Reappointments were not made due to oversight.

Failure to appoint Board members may prevent the Boards from carrying out their mandated duties of regulating these professions or companies in accordance with the Acts cited. Board members should be appointed in a timely manner in order to properly formulate the function of the Boards as intended. A full board is necessary to properly conduct meetings and operate effectively and efficiently. (Finding Code No. 06-28, 05-25, BRE 04-16)

RECOMMENDATION:

We recommend the Secretary appoint qualifying members to these Boards as required by the Acts cited and reappoint applicable Board members in a timely manner. In those cases where the Governor's Office is required to appoint the Board members we recommend the Department work with the Governor's Office to fill Board vacancies by appointing qualified members to the Boards.

DEPARTMENT RESPONSE:

Concur. The Department agrees with the recommendation and will continue to work with the Office of the Governor to ensure more timely appointments to the various Boards/Committees.

06-29 FINDING: (Recommendations presented in the Management Audit of Group Workers' Compensation Self-Insured Pools not implemented)

The Department did not fully implement three 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 regulations currently in draft form. Department officials have represented that changes in regulations cannot be sought pending resolution of outstanding lawsuits. (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 9 active pools as of June 30, 2006, 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 regulations currently in draft form. Department officials have represented that changes in regulations cannot be sought pending resolution of outstanding lawsuits. (Recommendation 5)

- 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 $564,018 of these funds has been collected through June 30, 2006. 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, 2006, 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)

In the prior examination, we found that financial examinations of the pools were not filed in accordance with statutory requirements. During the current examination period, our sample testing indicated that financial examination of the pools was filed in accordance with statutory requirements.

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. 06-29, 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; and

- Seek a statutory increase to the Insolvency Fund assessments, or show cause why such an increase is not considered necessary.

DEPARTMENT RESPONSE:

All pools currently have members with homogeneous risks. However, DOI will continue to seek to enact rules to formalize this requirement. All pools with members currently meet the statutory payroll requirement, but DOI will continue to seek to enact rules to allow waivers for pools with no members. Based on current projections, the insolvency fund is adequate to pay all losses for which the fund is responsible. DOI will continue to evaluate the need to increase the assessments.

AUDITOR COMMENT:

While all active pools have gross payrolls in excess of the statutory requirements, the pools in runoff (not active) do not meet these requirements and continue to subject the Department to unexpected risks.

We disagree with the Department's response indicating the insolvency fund is adequate to pay all losses for which the fund is responsible. Management had previously indicated that estimated claims outstanding against the fund amounted to $1.1 million; however, funds available to pay these claims at June 30, 2006 totaled only $375,000.

PRIOR FINDINGS NOT REPEATED (STATE COMPLIANCE)

06-30 **FINDING:** (Incorrect calculation of credit to State Banks and foreign banking corporations)

During the prior engagement period, 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.

During the current period, our sample testing noted the Department properly calculated the refund credit to State banks and foreign banking corporations. In addition, the $1,205,000 understatement was applied against fiscal year 2006 fees. (Finding Code No. 05-2)

06-31 **FINDING:** (Transfers to General Revenue Fund not in accordance with State law)

During the prior engagement period, transfers were made to the General Revenue Fund (GRF) totaling $399,000 from the Illinois State Medical Disciplinary Fund and the Professions Indirect Cost Fund which were not in accordance with State law.

During the current period, our sample testing did not disclose any instances where the Department made transfers that violated State law. (Finding Code No. 05-3)

06-32 **FINDING:** (Inadequate documentation for allocation of interagency costs)

During the prior engagement period, 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 cots of a contract to investigate the circumstances of a fire without documentation to support the share of costs allocated to the Department.

The interagency agreement with the State Fire Marshal ended in fiscal year 2005 and is no longer applicable. As a result, this finding is not repeated. (Finding Code No. 05-4, DPR 04-3)

06-33 **FINDING:** (Inadequate controls over revenue processing at the Division of Banks and Real Estate)

During the prior engagement period, the Department's Division of Banks and Real Estate (Division) did not have adequate controls over its revenue processing. Deficiencies included failure to log checks and incomplete reconciliation processes.

During the current period, controls over revenue processing improved and our sample testing did not disclose any instances where the Division failed to log checks or perform complete reconciliations. (Finding Code No. 05-8, BRE 04-4)

06-34 **<u>FINDING</u>:** (Amounts reported on Agency Fee Imposition Report Forms do not agree to Department Records)

During the prior engagement period, the Department did not properly report fees collected on the 2005 Agency Fee Imposition Report.

During the current period, our sample testing did not disclose any instances where the Department incorrectly reported fees on the 2006 Agency Fee Imposition Report. (Finding Code No. 05-9, BRE 04-5)

06-35 **<u>FINDING</u>:** (Inadequate computer security administration function)

During the prior engagement period, the Department did not have an adequate computer security administration function.

The Department approved new security policies and procedures and we did not identify any significant computer security administrative deficiencies. (Finding Code No. 05-20)

06-36 **<u>FINDING</u>:** (Improper destruction of examination workpapers)

During the prior engagement period, the Department's Office of Banks and Real Estate, Banking Division destroyed workpapers from prior year trust company examinations before completing the current year's examination.

During the current period, our sample testing noted the Banking Division drafted policies to address the maintenance and safekeeping of all corporate fiduciary examination workpapers. We also noted no instances in which the Division destroyed workpapers before completing the current year's examination. (Finding Code No. 05-21)

06-37 **<u>FINDING</u>:** (Reports relating to professional conduct and capacity of podiatric physician)

During the prior engagement period, the Department failed to develop rules consistent with the Podiatric Medical Practice Act of 1987 (Act) (225 ILCS 100/26(A)). The Department's rules (Ill. Adm. Code 1360) were not consistent with the requirements of the Act regarding reporting requirements.

During the current period, our sample testing noted the Department's rules were amended, effective March 1, 2006, to be consistent with reporting requirements of the Act. (Finding Code No. 05-28, DPR 04-17, 03-16)

06-38 **FINDING:** (Failure to employ an Assistant Drug Compliance Coordinator)

During the prior engagement period, the Department did not employ an Assistant Drug Compliance Coordinator, as required by the Wholesale Drug Distribution Licensing Act (Act) (225 ILCS 120/50(c)).

During the current period, our sample testing noted the Department sought legislative remedy. Public Act 94-0942 removed this requirement from the Act. (Finding Code No. 05-29, DPR 04-18, 03-17)

06-39 **FINDING:** (Fees charged for roofing licensure inconsistent with Roofing Industry Act)

During the prior engagement period, the Department failed to charge fees for the roofing industry license in accordance with the Illinois Roofing Industry Act (Act) (225 ILCS 335/7).

During the current period, our sample testing noted the Department sought legislative remedy. Public Act 94-0254 amended the fee language of the Act to be consistent with Department rules. (Finding Code No. 05-30, DPR 04-19, 03-18)

06-40 **FINDING:** (Clinical Psychologists Licensing and Disciplinary Board (Board) not fully staffed)

During the prior engagement period, 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 had existed since July 2003 for one public member who is not a licensed health care provider.

During the current period, our sample testing noted the Director appointed an individual to fill the Board vacancy, effective April 14, 2006. (Finding Code No. 05-31, DPR 04-20)

06-41 **FINDING:** (Failure to comply with a provision of the Illinois Dental Practice Act)

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

During the current period, our sample testing noted the Department established a care and treatment program for impaired dentists. Department rules establishing the care and treatment program were adopted December 2006. (Finding Code No. 05-33, DPR 04-22)

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.

Certified Public Accountants & Advisors

Sikich™
Professional Services & Support

Members of American Institute of
Certified Public Accountants &
Illinois CPA Society

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, 2006, 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, 2006, 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, 2006 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 October 30, 2006 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, 2006 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
October 30, 2006

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

INDIVIDUAL NONSHARED FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006
(Expressed in Thousands)

SECURITY DEPOSIT FUND - 1109

ASSETS		
Cash and cash equivalents	$	586
Investments		879,170
Total assets	$	879,756
LIABILITIES		
Other liabilities	$	879,756
Total liabilities	$	879,756

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, 2006

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, 2006, 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.

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, 2006, the Department had the following investments:

	Fair Value (Thousands)	**Weighted Average Maturity (Years)**
Investment Type		
U.S. Treasury Bills	$ 16,337	.18
U.S. Treasury Notes	564,461	2.87
U.S. Treasury Bonds	152,087	14.56
U.S. Treasury Strips	13,365	5.33
U.S. Agency Obligations	83,721	3.50
Municipal Debt	38,087	4.86
Corporate Debt Securities	9,995	7.25
Total Fair Value	878,053	
Non-negotiable Certificates of Deposit with maturities of greater than 90 days at time of purchase	1,117	
	$ 879,170	

3. DEPOSITS AND INVESTMENTS – Continued

b. Investments - Continued

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.

	Fair Value (Thousands)	Credit Rating (Moody's)
Investment Type		
U.S. Agency Obligations	$ 983	AA2
	82,090	AAA
	648	AGN
	$ 83,721	
Municipal Debt	$ 53	AA1
	7,522	AA2
	30,512	AAA
	$ 38,087	
Corporate Debt Securities	$ 4,108	AA2
	3,422	AA3
	2,465	AAA
	$ 9,995	

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

For the Year Ended June 30, 2006
(Expressed in Thousands)

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
SECURITY DEPOSIT FUND - 1109				
ASSETS				
Cash and cash equivalents	$ 4,066	$ 38,579	$ 42,059	$ 586
Investments	1,164,212	240,312	525,354	879,170
Total assets	$ 1,168,278	$ 278,891	$ 567,413	$ 879,756
LIABILITIES				
Other liabilities	$ 1,168,278	$ 278,891	$ 567,413	$ 879,756

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 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
  Savings Due to Reorganization in Accordance with Executive Order #6 (Not Examined)
  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 Savings Due to Reorganization in Accordance with Executive Order #6 and 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, 2006
(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	$ 783
State Planning Grants Health Care Access for the Uninsured	93.256	202
TOTAL EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2006		$ 985

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, 2006

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 awards 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 February 28, 2007, 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 2006 - BY FUND

Fourteen Months Ended August 31, 2006

	Appropriations (Net After Transfers)	Expenditures Through June 30, 2006	Lapse Period Expenditures July 1 to August 31, 2006	Total Expenditures	Balances Lapsed
Public Acts 94-0015 and 94-0798					
APPROPRIATED FUNDS					
DIVISION OF FINANCIAL INSTITUTIONS					
Financial Institution Fund - 0021	$ 3,723,300	$ 2,942,753	$ 181,954	$ 3,124,707	$ 598,593
TOMA Consumer Protection Fund - 0241	20,000	-	-	-	20,000
Credit Union Fund - 0243	2,458,500	2,033,093	91,918	2,125,011	333,489
Total - Division of Financial Institutions	6,201,800	4,975,846	273,872	5,249,718	952,082
DIVISION OF INSURANCE					
Senior Health Insurance Program Fund - 0396	800,000	739,651	38,896	778,547	21,453
Public Pension Regulation Trust Fund - 0546	779,700	691,757	32,142	723,899	55,801
Insurance Producers' Administration Fund - 0922	7,554,600	6,610,095	286,560	6,896,655	657,945
Insurance Financial Regulation Fund - 0997	9,978,300	8,905,573	395,349	9,300,922	677,378
Total - Division of Insurance	19,112,600	16,947,076	752,947	17,700,023	1,412,577
DIVISION OF BANKING					
Savings and Residential Finance Regulatory Fund - 0244	4,388,200	2,834,710	155,639	2,990,349	1,397,851
Pawnbroker Regulation Fund - 0562	86,600	71,773	3,257	75,030	11,570
Bank and Trust Company Fund - 0795	13,337,600	12,052,226	586,163	12,638,389	699,211
Total - Division of Banking	17,812,400	14,958,709	745,059	15,703,768	2,108,632

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
APPROPRIATIONS FOR FISCAL YEAR 2006 - BY FUND

Fourteen Months Ended August 31, 2006

	Appropriations (Net After Transfers)	Expenditures Through June 30, 2006	Lapse Period Expenditures July 1 to August 31, 2006	Total Expenditures	Balances Lapsed
DIVISION OF PROFESSIONAL REGULATION					
General Professions Dedicated Fund - 0022	$ 3,297,300	$ 2,838,346	$ 167,283	$ 3,005,629	$ 291,671
Illinois State Pharmacy Disciplinary Fund - 0057	1,915,400	1,756,717	96,607	1,853,324	62,076
Illinois State Medical Disciplinary Fund - 0093	3,778,000	3,050,865	154,919	3,205,784	572,216
Registered CPA Administration and Disciplinary Fund - 0151	473,600	280,748	13,262	294,010	179,590
Professional Regulation Evidence Fund - 0192	30,000	-	-	-	30,000
Professions Indirect Cost Fund - 0218	33,692,900	24,646,531	2,402,541	27,049,072	6,643,828
Nurse Dedicated and Professional Fund - 0258	1,309,200	1,010,933	52,287	1,063,220	245,980
Optometric Licensing and Disciplinary Committee Fund - 0259	460,200	322,040	17,344	339,384	120,816
Appraisal Administration Fund - 0386*	741,200	582,073	13,576	595,649	145,551
Auction Regulation Administration Fund - 0641*	195,000	113,353	3,288	116,641	78,359
Home Inspector Administration Fund - 0746*	86,800	57,920	2,681	60,601	26,199
Real Estate Audit Fund - 0750*	40,000	-	-	-	40,000
Illinois State Dental Disciplinary Fund - 0823	817,000	653,373	35,668	689,041	127,959
Real Estate Research and Education Fund - 0849*	70,000	19,612	-	19,612	50,388
Real Estate License Administration Fund - 0850*	2,906,600	2,427,993	128,044	2,556,037	350,563
Design Professional Administration and Investigation Fund - 0888	802,700	493,826	30,833	524,659	278,041
Illinois State Podiatric Disciplinary Fund - 0954	11,000	1,800	125	1,925	9,075
Total - Division of Professional Regulation	50,626,900	38,256,130	3,118,458	41,374,588	9,252,312
TOTAL - ALL APPROPRIATED FUNDS	$ 93,753,700	75,137,761	4,890,336	80,028,097	$ 13,725,603

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
APPROPRIATIONS FOR FISCAL YEAR 2006 - BY FUND

Fourteen Months Ended August 31, 2006

	Appropriations (Net After Transfers)	Expenditures Through June 30, 2006	Lapse Period Expenditures July 1 to August 31, 2006	Total Expenditures	Balances Lapsed
NON-APPROPRIATED FUNDS					
DIVISION OF INSURANCE					
Insurance Premium Tax Refund Fund - 0378	N/A	$ 1,016,854	$ -	$ 1,016,854	N/A
Department of Insurance Federal Trust Fund - 0673	N/A	150,986	50,290	201,276	N/A
Group Self-Insurers Workers Compensation Fund - 0739	N/A	727,434	-	727,434	N/A
Total - Division of Insurance		1,895,274	50,290	1,945,564	
DIVISION OF BANKING					
Real Estate Recovery Fund - 0629	N/A	7,820	-	7,820	N/A
Total - Division of Banking		7,820	-	7,820	
TOTAL - ALL NON-APPROPRIATED FUNDS		1,903,094	50,290	1,953,384	
GRAND TOTAL - ALL FUNDS		$ 77,040,855	$ 4,940,626	$ 81,981,481	

* In fiscal year 2006, the previous Division of Banks and Real Estate was reorganized into the Division of Banking, with all real estate activities transferring to the Division of Professional Regulation. These funds were previously listed under the Division of Banks and Real Estate in the prior examination report.

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

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
APPROPRIATIONS FOR FISCAL YEAR 2006 - BY MAJOR OBJECT CODE

Fourteen Months Ended August 31, 2006

Public Acts 94-0015 and 94-0798	Appropriations (Net After Transfers)	Expenditures Through June 30, 2006	Lapse Period Expenditures July 1 to August 31, 2006	Total Expenditures	Balances Lapsed
APPROPRIATED FUNDS					
Personal services	$ 48,259,700	$ 43,649,935	$ 2,042,123	$ 45,692,058	$ 2,567,642
Retirement - employee contribution	309,800	277,185	-	277,185	32,615
Retirement - employer contribution	3,776,700	3,406,134	162,368	3,568,502	208,198
Social security	3,679,100	3,134,196	148,244	3,282,440	396,660
Group insurance	11,893,700	10,407,527	459,130	10,866,657	1,027,043
Contractual services	11,583,500	7,670,325	822,711	8,493,036	3,090,464
Travel	3,096,200	1,598,906	159,222	1,758,128	1,338,072
Commodities	344,000	94,811	7,817	102,628	241,372
Printing	434,000	178,170	19,487	197,657	236,343
Equipment	804,300	168,330	188,361	356,691	447,609
Electronic data processing	4,486,500	1,327,241	631,214	1,958,455	2,528,045
Telecommunications	1,332,400	740,148	115,678	855,826	476,574
Operation of automotive equipment	243,300	187,705	47,626	235,331	7,969
Lump sum	1,913,600	1,040,011	52,158	1,092,169	821,431
Awards and grants	1,125,000	1,110,746	-	1,110,746	14,254
Refunds	471,900	146,391	34,197	180,588	291,312
TOTAL - APPROPRIATED FUNDS	$ 93,753,700	75,137,761	4,890,336	80,028,097	$ 13,725,603

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
APPROPRIATIONS FOR FISCAL YEAR 2006 - BY MAJOR OBJECT CODE

Fourteen Months Ended August 31, 2006

	Appropriations (Net After Transfers)	Expenditures Through June 30, 2006	Lapse Period Expenditures July 1 to August 31, 2006	Total Expenditures	Balances Lapsed
NON-APPROPRIATED FUNDS					
Lump sum	N/A	$ 150,986	$ 50,290	$ 201,276	N/A
Awards and grants	N/A	735,254	-	735,254	N/A
Refunds	N/A	1,016,854	-	1,016,854	N/A
TOTAL - NON-APPROPRIATED FUNDS		1,903,094	50,290	1,953,384	
GRAND TOTAL - ALL FUNDS		$ 77,040,855	$ 4,940,626	$ 81,981,481	

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

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

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

	2006			2005		
	Public Acts 94-0015 and 94-0798			Public Acts 93-0842 and 93-070		
	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	$ 3,723,300	$ 3,124,707	$ 598,593	$ 3,524,905	$ 3,359,631	$ 165,274
TOMA Consumer Protection Fund - 0241	20,000	-	20,000	20,000	-	20,000
Credit Union Fund - 0243	2,458,500	2,125,011	333,489	3,505,851	3,071,482	434,369
Total - Division of Financial Institutions	6,201,800	5,249,718	952,082	7,050,756	6,431,113	619,643
DIVISION OF INSURANCE						
Senior Health Insurance Program Fund - 0396	800,000	778,547	21,453	600,000	466,036	133,964
Public Pension Regulation Trust Fund - 0546	779,700	723,899	55,801	802,700	734,631	68,069
Insurance Producers' Administration Fund - 0922	7,554,600	6,896,655	657,945	11,680,955	10,169,148	1,511,807
Insurance Financial Regulation Fund - 0997	9,978,300	9,300,922	677,378	16,178,825	14,433,138	1,745,687
Total - Division of Insurance	19,112,600	17,700,023	1,412,577	29,262,480	25,802,953	3,459,527
DIVISION OF BANKING						
General Revenue Fund - 0001	-	-	-	1,310,371	1,305,116	5,255
Savings and Residential Finance Regulatory Fund - 0244	4,388,200	2,990,349	1,397,851	3,865,855	3,606,852	259,003
Pawnbroker Regulation Fund - 0562	86,600	75,030	11,570	125,716	106,612	19,104
Bank and Trust Company Fund - 0795	13,337,600	12,638,389	699,211	17,217,255	16,156,025	1,061,230
Total - Division of Banking	17,812,400	15,703,768	2,108,632	22,519,197	21,174,605	1,344,592

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

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

	2006			2005		
	Public Acts 94-0015 and 94-0798			Public Acts 93-0842 and 93-070		
	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	$ 3,297,300	$ 3,005,629	$ 291,671	$ 3,407,800	$ 3,299,942	$ 107,858
Illinois State Pharmacy Disciplinary Fund - 0057	1,915,400	1,853,324	62,076	1,173,900	1,074,967	98,933
Illinois State Medical Disciplinary Fund - 0093	3,778,000	3,205,784	572,216	3,444,200	3,304,439	139,761
Registered CPA Administration and Disciplinary Fund - 0151	473,600	294,010	179,590	473,600	152,324	321,276
Professional Regulation Evidence Fund - 0192	30,000	-	30,000	80,000	-	80,000
Professions Indirect Cost Fund - 0218	33,692,900	27,049,072	6,643,828	11,727,546	11,285,433	442,113
Nurse Dedicated and Professional Fund - 0258	1,309,200	1,063,220	245,980	1,522,000	1,304,854	217,146
Optometric Licensing and Disciplinary Committee Fund - 0259	460,200	339,384	120,816	464,800	380,473	84,327
Appraisal Administration Fund - 0386*	741,200	595,649	145,551	755,653	581,136	174,517
Auction Regulation Administration Fund - 0641*	195,000	116,641	78,359	279,329	198,060	81,269
Home Inspector Administration Fund - 0746*	86,800	60,601	26,199	271,367	219,785	51,582
Real Estate Audit Fund - 0750*	40,000	-	40,000	100,000	-	100,000
Illinois State Dental Disciplinary Fund - 0823	817,000	689,041	127,959	810,750	761,645	49,105
Real Estate Research and Education Fund - 0849*	70,000	19,612	50,388	70,000	3,668	66,332
Real Estate License Administration Fund - 0850*	2,906,600	2,556,037	350,563	3,423,610	3,197,613	225,997
Design Professional Administration and Investigation Fund - 0888	802,700	524,659	278,041	892,550	663,276	229,274
Illinois State Podiatric Disciplinary Fund - 0954	11,000	1,925	9,075	11,000	523	10,477
Total - Division of Professional Regulation	50,626,900	41,374,588	9,252,312	28,908,105	26,428,138	2,479,967
TOTAL - ALL APPROPRIATED FUNDS	$ 93,753,700	80,028,097	$ 13,725,603	$ 87,740,538	79,836,809	$ 7,903,729

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

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

	2006			2005		
	Public Acts 94-0015 and 94-0798			Public Acts 93-0842 and 93-070		
	Appropriations (Net After Transfers)	Total Expenditures	Balances Lapsed	Appropriations (Net After Transfers)	Total Expenditures	Balances Lapsed
NON-APPROPRIATED FUNDS						
DIVISION OF INSURANCE						
Insurance Premium Tax Refund Fund - 0378	N/A	1,016,854	N/A	N/A	1,819,571	N/A
Department of Insurance Federal Trust Fund - 0673	N/A	201,276	N/A	N/A	177,812	N/A
Group Self-Insurers Workers Compensation Fund - 0739	N/A	727,434	N/A	N/A	-	N/A
Total - Division of Insurance		1,945,564			1,997,383	
DIVISION OF BANKING						
Real Estate Recovery Fund - 0629	N/A	7,820	N/A	N/A	21,500	N/A
Total - Division of Banking		7,820			21,500	
TOTAL - ALL NON-APPROPRIATED FUNDS		1,953,384			2,018,883	
GRAND TOTAL - ALL FUNDS		$ 81,981,481			$ 81,855,692	
APPOINTED STATE OFFICERS' SALARIES						
General Revenue Fund - 0001	$ 437,700	$ 271,711	$ 165,989	$ 437,700	$ 250,811	$ 186,889
Bank and Trust Company Fund - 0795	117,345	117,345	-	115,700	115,700	-
Total - State Officers' Salaries	$ 555,045	$ 389,056	$ 165,989	$ 553,400	$ 366,511	$ 186,889

* In fiscal year 2006, the previous Division of Banks and Real Estate was reorganized into the Division of Banking, with all real estate activities transferring to the Division of Professional Regulation. These funds were previously listed under the Division of Banks and Real Estate in the prior examination report.

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

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

	Fiscal Year	
	2006	2005
	Public Acts 94-0015 and 94-0798	Public Acts 93-0842 and 93-070
APPROPRIATED FUNDS		
Appropriations (net of transfers)	$ 93,753,700	$ 87,740,538
Expenditures:		
Personal services	45,692,058	46,599,681
Retirement - employee contribution	277,185	828,340
Retirement - employer contribution	3,568,502	7,471,933
Social security	3,282,440	3,353,131
Group insurance	10,866,657	10,374,162
Contractual services	8,493,036	3,963,300
Travel	1,758,128	1,767,361
Commodities	102,628	124,747
Printing	197,657	147,273
Equipment	356,691	159,112
Electronic data processing	1,958,455	1,627,986
Telecommunications	855,826	1,095,848
Operation of automotive equipment	235,331	201,898
Lump sum	1,092,169	622,028
Awards and grants	1,110,746	1,314,466
Refunds	180,588	185,543
Total expenditures	80,028,097	79,836,809
Lapsed balances	$ 13,725,603	$ 7,903,729
NON-APPROPRIATED FUNDS		
Expenditures:		
Lump sum	$ 201,276	$ 177,812
Awards and grants	735,254	21,500
Refunds	1,016,854	1,819,571
Total expenditures - non-appropriated funds	$ 1,953,384	$ 2,018,883

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, 2006

	Liquidated Currency Exchange Fund 1133	Official Advance Fund 1249	Bank Examiner's Education Fund 1296	Total
Cash Balance at July 1, 2005	$ 36,260	$ 10,363	$ 198,882	$ 245,505
Receipts	160,043	7,188	107,073	274,304
Disbursements	(122,125)	(7,188)	(142,385)	(271,698)
Cash Balance at June 30, 2006	$ 74,178	$ 10,363	$ 163,570	$ 248,111

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

Liquidated Currency Exchange Fund	Corus Bank
Official Advance Fund	Chase Bank
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, 2006

Property balance, July 1, 2005	$ 15,329,889
Additions:	
Purchases	476,259
Transfers in	-
Total additions	476,259
Deductions:	
Deletions	(63,657)
Transfers out	(1,436,589)
Total deductions	(1,500,246)
Property balance, June 30, 2006	$ 14,305,902

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, 2006 and 2005

	2006	2005
Division of Financial Institutions:		
Financial Institution Fund - 0021	$ 8,549,035	$ 8,806,764
Credit Union Fund - 0243	63,556	5,075,284
Subtotal - Division of Financial Institutions	8,612,591	13,882,048
Division of Insurance:		
General Revenue Fund - 0001	318,424,025	350,384,826
Fire Prevention Fund - 0047	19,502,933	19,319,568
Department of Insurance State Trust Fund - 0382	16,868	266,496
Senior Health Insurance Program Fund - 0396	809,150	433,250
Protest Fund - 0401	11,314,454	9,495,161
Industrial Commission Operations Fund - 0534	13,582,151	22,992,471
Public Pension Regulation Trust Fund - 0546	1,449,418	1,307,682
Department of Insurance Federal Trust Fund - 0673	214,525	141,513
Group Self-Insurers Workers Compensation Fund - 0739	385,970	461,961
Insurance Producers' Administration Fund - 0922	22,653,163	21,235,522
Insurance Financial Regulation Fund - 0997	19,067,278	20,250,288
Subtotal - Division of Insurance	407,419,935	446,288,738
Division of Banking:		
General Revenue Fund - 0001	15,001,000	-
Savings and Residential Finance Regulatory Fund - 0244	10,794,244	11,844,030
Pawnbroker Regulation Fund - 0562	161,170	13,577
Bank and Trust Company Fund - 0795	23,058,513	23,461,721
Subtotal - Division of Banking	49,014,927	35,319,328

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

For the Years Ended June 30, 2006 and 2005

	2006	2005
Division of Professional Regulation:		
General Revenue Fund - 0001	$ 178	$ -
General Professions Dedicated Fund - 0022	12,731,960	9,446,390
Illinois State Pharmacy Disciplinary Fund - 0057	5,117,051	1,892,387
Illinois State Medical Disciplinary Fund - 0093	4,982,256	11,642,300
Registered CPA Administration and Disciplinary Fund - 0151	479,211	211,859
Nurse Dedicated and Professional Fund - 0258	9,917,293	2,457,771
Optometric Licensing and Disciplinary Committee Fund - 0259	927,410	151,361
Paper and Printing Revolving Fund - 0308	2,010	1,340
Appraisal Administration Fund - 0386*	2,771,145	728,223
Real Estate Recovery Fund - 0629*	68,014	85,711
Auction Regulation Administration Fund - 0641*	624,525	45,725
Auction Recovery Fund - 0643*	4,000	10,500
Home Inspector Administration Fund - 0746*	302,096	1,148,285
Illinois State Dental Disciplinary Fund - 0823	246,186	3,107,169
Real Estate License Administration Fund - 0850*	7,368,675	8,312,829
Design Professional Administration and Investigation Fund - 0888	1,314,420	1,199,024
Hearing Instrument Dispenser Examining and Disciplinary Fund - 0938	31,230	1,890
Illinois State Podiatric Disciplinary Fund - 0954	52,442	485,521
Subtotal - Division of Professional Regulation	46,940,102	40,928,285
Total - All Funds	$ 511,987,555	$ 536,418,399

* In fiscal year 2006, the previous Division of Banks and Real Estate was reorganized into the Division of Banking, with all real estate activities transferring to the Division of Professional Regulation. These funds were previously listed under the Division of Banks and Real Estate in the prior examination report.

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, 2006 and 2005

	2006		2005	
Division of Financial Institutions:				
Licenses fees and registration:				
Credit union administrative fees	$ 61,596		$ 5,007,917	
Financial institution licenses and fees	3,816,469		3,926,399	
Retaliatory fees	2,703,728		3,357,913	
Financial institution examination fees	1,213,075		1,107,421	
Credit union examination fees	1,960		6,275	
		$ 7,796,828		$ 13,405,925
Fines, penalties or violations		815,763		476,123
Subtotal - Division of Financial Institutions		8,612,591		13,882,048
Division of Insurance:				
Privilege insurance tax		204,412,951		206,498,034
Retaliatory tax		111,952,102		138,864,978
Licenses fees and registration:				
Industrial Commission Operations Fund surcharges	13,582,151		22,992,471	
Insurance producer licenses and fees	22,091,981		20,990,617	
Regulatory insurance licenses and fees	19,067,278		20,250,288	
Pensions filing fees	1,458,068		1,307,682	
Insurance performance examination fees	385,970		706,866	
		56,585,448		66,247,924
Protest fees		11,307,097		9,495,161
Fire marshal tax		19,502,933		19,319,568
Federal government grant		809,150		433,250
Surety bonds		214,525		141,513
Court and anti-trust distributions		16,868		266,496
Fines, penalties, interest		2,560,572		5,021,640
Miscellaneous		58,289		174
Subtotal - Division of Insurance		407,419,935		446,288,738
Division of Banking:				
Licenses fees and registration:				
Bank examination fees	13,897,669		14,643,860	
Mortgage banking registrations	5,954,339		5,826,593	
Loan originator licenses and fees	2,833,833		3,378,223	
EDP examination fees	3,410,226		3,488,537	
Corporate fiduciary registrations	2,246,651		2,328,611	
International bank examination fees	2,819,450		2,333,125	
Savings and loan supervisory fees	1,116,861		1,270,840	
Corporate fiduciary receivership fees	399,599		399,999	
Thrift registration fees	52,594		61,719	
Mortgage banking examination fees	189,762		291,154	
Mortgage banking full service fees	317,250		246,450	
Savings and loan examination fees	201,863		268,835	
Miscellaneous banking fees	213,460		198,686	
Pawnbroker licenses and fees	160,420		13,560	

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, 2006 and 2005

	2006		2005	
Miscellaneous international banking fees	$ 46,300		$ 40,150	
Miscellaneous trust company fees	16,250		25,750	
Check printer fees	2,400		2,600	
		$ 33,878,927		$ 34,818,692
Fines, penalties or violations		15,133,600		490,982
Miscellaneous		2,400		9,654
Subtotal - Division of Banking		49,014,927		35,319,328
Division of Professional Regulation:				
Licenses fees and registration:				
General professions licenses and fees	12,731,960		9,446,390	
Medical licenses and fees	4,982,256		11,642,300	
Dental licenses and fees	246,186		3,107,169	
Nursing licenses and fees	9,917,293		2,457,771	
Pharmacy licenses and fees	5,117,051		1,892,387	
Design professional licenses and fees	1,314,420		1,199,024	
Podiatric physician licenses and fees	52,442		485,521	
CPA licenses and fees	479,211		211,859	
Optometrics licenses and fees	927,410		151,361	
Audiologists license fees	31,230		1,890	
Real estate licenses and fees	6,880,389		7,891,854	
Home inspector licenses and fees	302,096		1,148,285	
Appraisal licenses and fees	2,771,145		658,100	
Timeshare registration fees	337,550		320,450	
Land sales fees	222,750		105,525	
Auctioneer licenses and fees	624,525		45,725	
Printing fees	2,010		1,340	
		46,939,924		40,766,951
Fines, penalties or violations		-		161,334
Miscellaneous		178		-
Subtotal - Division of Professional Regulation		46,940,102		40,928,285
Total		$ 511,987,555		$ 536,418,399

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, 2006

Fund	Receipts Per Department Records	Plus Deposits in Transit Beginning of Year	Less Deposits in Transit End of Year	Transfers/ Adjustments Other Funds	Deposits Per Comptroller Records
General Revenue Fund - 0001	$ 333,425,203	$ 93,533	$ (731,651)	$ (1,221,740)	$ 331,565,345
Financial Institution Fund - 0021	8,549,035	45,680	(40,625)	-	8,554,090
General Professions Dedicated Fund - 0022	12,731,960	555,338	(161,655)	(31,538)	13,094,105
Fire Prevention Fund - 0047	19,502,933	-	-	-	19,502,933
Illinois State Pharmacy Disciplinary Fund - 0057	5,117,051	32,670	(33,920)	(2,179)	5,113,622
Illinois State Medical Disciplinary Fund - 0093	4,982,256	1,665,971	(21,225)	(58,200)	6,568,802
Registered CPA Administration and Disciplinary Fund - 0151	479,211	4,628	(42,620)	(470)	440,749
Professions Indirect Cost Fund - 0218	-	-	-	50	50
Credit Union Fund - 0243	63,556	475	(1,875)	-	62,156
Savings and Residential Finance Regulatory Fund - 0244	10,794,244	448,412	(397,042)	40	10,845,654
Nurse Dedicated and Professional Fund - 0258	9,917,293	47,078	(62,642)	280	9,902,009
Optometric Licensing and Disciplinary Committee Fund - 0259	927,410	8,122	(13,375)	6,350	928,507
Paper and Printing Revolving Fund - 0308	2,010	-	-	(767)	1,243
Insurance Premium Tax Refund Fund - 0378	-	-	-	1,221,740	1,221,740
Department of Insurance State Trust Fund - 0382	16,868	-	-	-	16,868
Appraisal Administration Fund - 0386	2,771,145	93,550	(27,875)	-	2,836,820
Senior Health Insurance Program Fund - 0396	809,150	-	-	-	809,150
Protest Fund - 0401	11,314,454	2,085	(9,442)	-	11,307,097
Industrial Commission Operations Fund - 0534	13,582,151	-	-	-	13,582,151
Public Pension Regulation Trust Fund - 0546	1,449,418	126,168	(117,518)	-	1,458,068
Pawnbroker Regulation Fund - 0562	161,170	3,060	(300)	-	163,930
Real Estate Recovery Fund - 0629	68,014	100	(3,932)	-	64,182
Auction Regulation Administration Fund - 0641	624,525	825	(2,050)	-	623,300
Auction Recovery Fund - 0643	4,000	-	-	-	4,000
Department of Insurance Federal Trust Fund - 0673	214,525	-	-	-	214,525
Group Self-Insurers Workers Compensation Fund - 0739	385,970	-	(9,390)	-	376,580
Home Inspector Administration Fund - 0746	302,096	14,475	(4,850)	-	311,721
Bank and Trust Company Fund - 0795	23,058,513	14,536	(9,450)	-	23,063,599
Illinois State Dental Disciplinary Fund - 0823	246,186	17,976	(21,125)	(2,898)	240,139

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, 2006

Fund	Receipts Per Department Records	Plus Deposits in Transit Beginning of Year	Less Deposits in Transit End of Year	Transfers/ Adjustments Other Funds	Deposits Per Comptroller Records
Real Estate License Administration Fund - 0850	$ 7,368,675	$ 140,231	$ (231,890)	$ (75)	$ 7,276,941
Design Professional Administration and Investigation Fund - 0888	1,314,420	15,870	(6,105)	2,453	1,326,638
Insurance Producers' Administration Fund - 0922	22,653,163	551,095	(549,197)	-	22,655,061
Hearing Instrument Dispenser Examining and Disciplinary Fund - 0938	31,230	90	(135)	-	31,185
Illinois State Podiatric Disciplinary Fund - 0954	52,442	2,624	(305)	-	54,761
Insurance Financial Regulation Fund - 0997	19,067,278	6,681,701	(7,807,906)	-	17,941,073
	$ 511,987,555	$ 10,566,293	$ (10,308,100)	$ (86,954)	$ 512,158,794

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 Net 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:

Division of Financial Institutions

Credit Union Fund (0243) expenditures decreased $946,471 (31%) from fiscal year 2005 to 2006 as a result of shifting administrative employees and related expenses to the Professions Indirect Cost Fund (0218).

Division of Insurance

Senior Health Insurance Program Fund (0396) expenditures increased $312,511 (67%) from fiscal year 2005 to 2006 as a result of extensive changes to Medicare coverage. With the extensive changes, the Department spent additional money in fiscal year 2006 for training and seminars to educate Illinois' seniors covered under the Medicare program. The largest portion of the increase was spent on media advertising to promote the SHIP program.

Insurance Premium Tax Refund Fund (0378) (non-appropriated) expenditures decreased $802,717 (44%) from fiscal year 2005 to 2006 as a result of fluctuations in the amount of refunds of annual premium tax collections.

Group Self-Insurers Workers Compensation Fund (0739) (non-appropriated) expenditures increased $727,434 from $0 from fiscal year 2005 to 2006 as a result of cases settled to compensate eligible employees when their group workers' compensation self-insured pool is unable to pay their claims dues to financial insolvency.

Insurance Producers' Administration Fund (0922) expenditures decreased $3,272,493 (32%) from fiscal year 2005 to 2006 as a result of shifting administrative employees and related expenses to the Professions Indirect Cost Fund (0218).

Insurance Financial Regulation Fund (0997) expenditures decreased $5,132,216 (36%) from fiscal year 2005 to 2006 as a result of shifting administrative employees and related expenses to the Professions Indirect Cost Fund (0218).

Division of Banking

General Revenue Fund (0001) expenditures decreased $1,305,116 (100%) from fiscal year 2005 to 2006 as a result of a payout of a lawsuit in fiscal year 2005. This fund normally has no expenditures.

Savings and Residential Finance Regulatory Fund (0244) expenditures decreased $616,503 (17%) from fiscal year 2005 to 2006 as a result of shifting administrative employees and related expenses to the Professions Indirect Cost Fund (0218).

Bank and Trust Company Fund (0795) expenditures decreased $3,517,636 (22%) from fiscal year 2005 to 2006 as a result of shifting administrative employees and related expenses to the Professions Indirect Cost Fund (0218).

Division of Professional Regulation

Illinois State Pharmacy Disciplinary Fund (0057) expenditures increased $778,357 (72%) from fiscal year 2005 to 2006 as a result of a grant that was paid during fiscal year 2006 only.

Registered CPA Administration and Disciplinary Fund (0151) expenditures increased $141,686 (93%) as a result of paying for a full year of payroll as compared to the prior year where only six months of payroll were paid from this fund.

Professions Indirect Cost Fund (0218) expenditures increased $15,763,639 (140%) as a result of shifting administrative employees and related expenses from various funds to this fund.

Nurse Dedicated and Professional Fund (0258) expenditures decreased $241,634 (19%) as a result of a reduced headcount.

Home Inspector Administration Fund (0746) expenditures decreased $159,184 (72%) from fiscal year 2005 to 2006 as a result of shifting administrative employees and related expenses to the Professions Indirect Cost Fund (0218).

Real Estate License Administration Fund (0850) expenditures decreased $641,576 (20%) from fiscal year 2005 to 2006 as a result of shifting administrative employees and related expenses to the Professions Indirect Cost Fund (0218).

Design Professional Administration and Investigation Fund (0888) expenditures decreased $138,617 (21%) as a result of a reduced headcount.

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 Net Appropriations, Expenditures, and Lapsed Balances by Major Object 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 – employee contribution expenditures decreased $551,155 (67%) from fiscal year 2005 to 2006 as a result of changes in the AFSCME contract regarding union employees.

Retirement – employer contribution expenditures decreased $3,903,431 (52%) from fiscal year 2005 to 2006 as a result of lowering the established pension contribution rate.

Contractual services expenditures increased $4,529,736 (114%) from fiscal year 2005 to 2006 as a result of the consolidation of facility management at the Department of Central Management Services. In fiscal year 2006, these expenditures were billed to the Department by the Department of Central Management Services and paid through the contractual services appropriation, whereas, the funds were directly transferred to the Department of Central Management Services in fiscal year 2005.

Equipment expenditures increased $197,579 (124%) from fiscal year 2005 to 2006 as a result of purchase of digital microfilm readers, digital copiers, office equipment and a vehicle during fiscal year 2006.

Electronic data processing expenditures increased $330,469 (20%) from fiscal year 2005 to 2006 as a result of consolidating IT services and the transfer of employees to the Department of Central Management Services. Costs previously paid from personal services and telecommunications appropriations were paid from electronic data processing appropriations during fiscal year 2006.

Telecommunications expenditures decreased $240,022 (22%) from fiscal year 2005 to 2006 as a result of the consolidation of IT services at the Department of Central Management Services. These expenditures also decreased due to reduced telecommunications rates during fiscal year 2006.

Lump sum expenditures increased $470,141 (76%) from fiscal year 2005 to 2006 as a result of extensive changes to Medicare coverage. With the extensive changes, the Department spent additional money in fiscal year 2006 through the Senior Health Insurance Program (SHIP) for training and seminars to educate Illinois' seniors covered under the Medicare program. The largest portion of the increase was spent on media advertising to promote the SHIP program. Additionally, a full year of payroll was expended in fiscal year 2006 for CPA program administration as compared to the prior year where only six months of payroll were paid from this object code.

Awards and Grants expenditures decreased $203,720 (15%) from fiscal year 2005 to 2006 as a result of a payout for a lawsuit within the Division of Banking that occurred in fiscal year 2005.

Awards and Grants (non-appropriated) expenditures increased $713,754 (3,320%) from fiscal year 2005 to 2006 as a result of cases settled to compensate eligible employees when their group workers' compensation self-insured pool is unable to pay their claims dues to financial insolvency.

Refunds (non-appropriated) decreased $802,717 (44%) from fiscal year 2005 to 2006 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

Credit Union Fund (0243) receipts decreased $5,011,728 (99%) from fiscal year 2005 to 2006 as a result of a timing difference in the receipt of the annual Credit Union Administrative Fee payments. These payments were not billed until December 2006, and are still being received by the Department.

Division of Insurance

Senior Health Insurance Program Fund (0396) receipts increased $375,900 (87%) from fiscal year 2005 to 2006 as a result of the Department receiving additional funding via the 2006 annual federal budget.

Industrial Commission Operations Fund (0534) receipts decreased $9,410,320 (41%) from fiscal year 2005 to 2006 as a result of several payments to this fund being paid under protest.

Division of Banking

General Revenue Fund (0001) receipts increased $15,001,000 from $0 from fiscal year 2005 to 2006 as a result of a fine levied against a foreign bank in conjunction with the State of New York and federal government examination of said bank.

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:

General Professions Dedicated Fund (0022) receipts increased $3,285,570 (35%) from fiscal year 2005 to 2006 due to the renewal cycle of many professions, with renewals during fiscal year 2006.

Illinois State Pharmacy Disciplinary Fund (0057) receipts increased $3,224,664 (170%) from fiscal year 2005 to 2006 due to the renewal cycle of registered pharmacists, with renewals during fiscal year 2006.

Illinois State Medical Disciplinary Fund (0093) receipts decreased $6,660,044 (57%) from fiscal year 2005 to 2006 due to the renewal cycle of the medical profession, with renewals during fiscal year 2005.

Registered CPA Administration and Disciplinary Fund (0151) receipts increased $267,352 (126%) from fiscal year 2005 to 2006 due to the renewal cycle of the public accountant profession, with renewals during fiscal year 2006 and the new registered designation required for CPA's.

Nurse Dedicated and Professional Fund (0258) receipts increased $7,459,522 (304%) from fiscal year 2005 to 2006 due to the renewal cycles of nursing professions, with renewals during fiscal year 2006.

Optometric Licensing and Disciplinary Committee Fund (0259) receipts increased $776,049 (513%) from fiscal year 2005 to 2006 due to the renewal cycle of the optometrist profession, with renewals during fiscal year 2006.

Appraisal Administration Fund (0386) receipts increased $2,042,922 (281%) from fiscal year 2005 to 2006 due to the renewal cycle of the appraisal profession, with renewals during fiscal year 2006.

Auction Regulation Administration Fund (0641) receipts increased $578,800 (1,266%) from fiscal year 2005 to 2006 due to the renewal cycle of the auction regulation profession, with renewals during fiscal year 2006.

Home Inspector Administration Fund (0746) receipts decreased $846,189 (74%) from fiscal year 2005 to 2006 due to renewal cycle of the home inspector profession, with renewals during fiscal year 2005.

Illinois State Dental Disciplinary Fund (0823) receipts decreased $2,860,983 (92%) from fiscal year 2005 to 2006 due to the renewal cycle of the dentist and hygienist professions, with renewals during fiscal year 2005.

Illinois State Podiatric Disciplinary Fund (0954) receipts decreased $433,079 (89%) from fiscal year 2005 to 2006 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.

Division of Financial Institutions

Credit union administrative fees decreased $4,946,321 (99%) from fiscal year 2005 to 2006 as a result of a timing difference in the receipt of the annual Credit Union Administrative Fee payments. These payments were not billed until December 2006, and are still being received by the Department.

Fines, penalties, or violations increased $339,640 (71%) from fiscal year 2005 to 2006 due to an increase in fines levied during fiscal year 2006.

Division of Insurance

Industrial Commissions Operations Fund surcharges decreased $9,410,320 (41%) from fiscal year 2005 to 2006 due to several payments to this fund being paid under protest.

Insurance performance examination fees decreased $320,896 (45%) from fiscal year 2005 to 2006 due to less examinations being performed throughout the year as compared to fiscal year 2005.

Federal government grant increased $375,900 (87%) from fiscal year 2005 to 2006 due to increasing the federal Senior Health Insurance grant given to the Department for fiscal year 2006.

Fines, penalties, interest decreased $2,461,068 (49%) from fiscal year 2005 to 2006 due to more producer licenses being renewed timely, leading to less tax return audits by the Department.

Division of Banking

International bank examination fees increased $486,325 (21%) from fiscal year 2005 to 2006 due to an increase in bank assets on which the fees are based.

Fines, penalties, or violations increased $14,642,618 (2,982%) from fiscal year 2005 to fiscal year 2006 as a result of a fine levied against a foreign bank in conjunction with the State of New York and federal government examination of said bank.

Division of Professional Regulation

General profession licenses and fees increased $3,285,570 (35%) from fiscal year 2005 to 2006 due to the renewal cycle of many professions, with renewals during fiscal year 2006.

Medical licenses and fees decreased $6,660,044 (57%) from fiscal year 2005 to 2006 due to the renewal cycle of the medical profession, with renewals during fiscal year 2005.

Dental licenses and fees decreased $2,860,983 (92%) from fiscal year 2005 to 2006 due to the renewal cycle of the dentist and hygienist professions, with renewals during fiscal year 2005.

Nursing licenses and fees increased $7,459,522 (304%) from fiscal year 2005 to 2006 due to the renewal cycles of nursing professions, with renewals during fiscal year 2006.

Pharmacy licenses and fees increased $3,224,664 (170%) from fiscal year 2005 to 2006 due to the renewal cycle of registered pharmacists, with renewals during fiscal year 2006.

Podiatric physician licenses and fees decreased $433,079 (89%) from fiscal year 2005 to 2006 due to renewal cycles for podiatrist profession, with renewals during fiscal year 2005.

CPA licenses and fees increased $267,352 (126%) from fiscal year 2005 to 2006 due to the renewal cycle of the public accountant profession, with renewals during fiscal year 2006 and the new registered designation required for CPA’s.

Optometrics licenses and fees increased $776,049 (513%) from fiscal year 2005 to 2006 due to the renewal cycle of the optometrist profession, with renewals during fiscal year 2006.

Home inspector licenses and fees decreased $846,189 (74%) from fiscal year 2005 to 2006 due to the renewal cycle of the profession, with renewals during fiscal year 2005.

Appraisal licenses and fees increased $2,113,045 (321%) from fiscal year 2005 to 2006 due to the renewal cycle of the profession, with renewals during fiscal year 2006.

Auctioneer licenses and fees increased $578,800 (1,266%) from fiscal year 2005 to 2006 due to the renewal cycle of the profession, with renewals during fiscal year 2006.

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 2006 for lapse period expenditures exceeding 20% and $15,000 of total expenditures are detailed below.

Equipment expenditures of $188,361 (53%) during the lapse period resulted from invoice payments for two digital microfilm reader/printers, six digital copiers, the purchase and installation of modular office equipment, and for a vehicle all ordered prior to June 30 and paid during the lapse period.

Electronic Data Processing expenditures of $631,214 (32%) during the lapse period resulted from invoice payments for equipment and services ordered prior to June 30 and paid during the lapse period.

Operation of Automotive expenditures of $47,626 (20%) during the lapse period resulted from invoice payments for vehicle repairs and fuel incurred prior to June 30 and paid during the lapse period.

Lump Sum expenditures (non-appropriated) of $50,290 (25%) during the lapse period resulted from consulting services associated with a pilot project to assist small employers to offer health insurance. These services were provided during the last three months of the fiscal year but the invoices were 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, 2006 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	Savings and Residential Finance Regulatory Fund 0244
Current	$ 288	$ 148	$ 16	$ 3	$ 225	$ 44	$ 280
31-60	4,781	14	7	-	1	3	-
61-120	1,571	42	2	-	1	-	1
121-180	1,756	18	4	-	1	3	6
181-365	10,560	37	12	-	1	1	39
Over 365	4,675	-	46	2	2	21	89
Accounts Receivable Gross Balance	23,631	259	87	5	231	72	415
Less: Estimated Uncollectibles	(6,529)	-	-	(2)	-	-	-
Accounts Receivable Net Balance	$ 17,102	$ 259	$ 87	$ 3	$ 231	$ 72	$ 415

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	Nurse Dedicated and Professional Fund 0258	Optometric Licensing and Disciplinary Committee Fund 0259	Appraisal Administration Fund 0386	Public Pension Regulation Trust Fund 0546	Real Estate Recovery Fund 0629	Auction Recovery Fund 0643	Home Inspector Administration Fund 0746
Current	$ 8	$ 2	$ 5	$ -	$ 3	$ -	$ -
31-60	4	1	-	227	-	-	-
61-120	1	-	-	-	-	-	-
121-180	-	-	-	-	-	-	15
181-365	-	-	2	-	25	-	-
Over 365	6	-	31	-	1,265	13	-
Accounts Receivable Gross Balance	19	3	38	227	1,293	13	15
Less: Estimated Uncollectibles	-	-	(15)	-	(1,115)	-	-
Accounts Receivable Net Balance	$ 19	$ 3	$ 23	$ 227	$ 178	$ 13	$ 15

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

ANALYSIS OF ACCOUNTS RECEIVABLE

Aging Schedule	Bank and Trust Company Fund 0795	Illinois State Dental Disciplinary Fund 0823	Design Professional Administration and Investigation Fund 0888	Insurance Producers' Administration Fund 0922	Insurance Financial Regulation Fund 0997	Total
Current	$ 6,939	$ 50	$ 14	$ 92	$ 8,812	$ 16,929
31-60	1	-	-	-	1	5,040
61-120	1	-	-	1	14	1,634
121-180	-	-	-	-	5	1,808
181-365	2	43	-	1	-	10,723
Over 365	7	26	-	5	12	6,200
Accounts Receivable Gross Balance	6,950	119	14	99	8,844	42,334
Less: Estimated Uncollectibles	-	-	-	(5)	(13)	(7,679)
Accounts Receivable Net Balance	$ 6,950	$ 119	$ 14	$ 94	$ 8,831	$ 34,655

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

AGENCY FUNCTIONS AND PLANNING PROGRAM

For the Year Ended June 30, 2006

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:

- Continue to consolidate the 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 Unit 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 BANKING

The Division of Banking 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, 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, Bureau of Community Relations, and the Bureau of Residential Finance.

In fiscal year 2006, the previous Division of Banks and Real Estate was reorganized into the Division of Banking, with all real estate activities transferring to the Division of Professional Regulation.

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, 2006 and 2005

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

Division/Unit	2006	2005
Division of Insurance	231	239
Division of Banking	157	193
Division of Professional Regulation	211	174
Division of Financial Institutions	63	59
Executive Office	6	5
Fiscal Operations Unit	29	31
Information Technology Unit	34	46
Human Resources Unit	13	13
Legal Unit	29	30
Legislative Affairs Unit	6	7
Administrative Services Unit	25	28
TOTAL	804	825

SAVINGS DUE TO REORGANIZATION IN ACCORDANCE WITH EXECUTIVE ORDER #6
(Not Examined)
For the Year Ended June 30, 2005

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 following is an estimate prepared by Department management of the savings due to the reorganization in accordance with Executive Order #6 for the year ended June 30, 2005.

Reduction in staffing		
Reduced positions	121	
Average personal services and related fringe benefit costs	$ 74,052	
		$ 8,960,292
Elimination of real property lease for Department of Financial Institutions		484,000
Total savings due to reorganization		$ 9,444,292

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

SERVICE EFFORTS AND ACCOMPLISHMENTS
(Not Examined)
For the Year Ended June 30, 2006

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 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.

Evaluation and Licensing

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.

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 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.

Division of Financial Institutions

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

	FY06 Actual	FY05 Actual	FY04 Actual
Consumer Credit Division			
Number of licensees	2,212	2,017	1,859
Number of exams completed	2,249	1,830	1,480
Currency Exchange Division			
Number of licensed exchanges	830	865	901
Number of exams completed	719	655	729
Credit Union Division			
Number of licensees	347	367	381
Number of exams completed	242	313	304

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

	FY06 Actual	FY05 Actual	FY04 Actual
Financial/Corporate Division			
Financial Statement Analysis Annual	425	437	496
Field Financial Examinations	86	92	113
Pension Fund Examinations completed	60	56	80
Consumer Services Division			
New/Renewal Licenses Processed	64,810	66,823	66,618
Market Conduct Examinations completed	22	32	25
Closed Consumer Complaint Files	11,397	12,696	14,217

Division of Banking

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 Community Relations coordinates programs to keep the public informed and protected and to provide consumers and communities with public information.

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

	FY06 Actual	FY05 Actual	FY04 Actual
Bureau of Banks and Trust Companies			
Number of Domestic Commercial Banks	464	470	492
Number of Foreign Bank Offices	13	15	15
Number of Domestic Corporate Fiduciaries	196	197	203
Number of Financial Information Systems Entities	513	522	544
Number of Pawnbroker Licensees	202	207	207
Number of Examinations Performed	489	542	568
Number of Applications Reviewed	306	336	320
Percentage of Newly Chartered Banks That Chose a State vs. National Charter	78%	100%	100%
Percentage of Pawnshop Complaints Investigated Within Established Time Frames	100%	100%	100%
Bureau of Community Relations			
Number of Banking and Mortgage Complaints Received	1,152	N/A	N/A

N/A – New bureau for fiscal year 2006

	FY06 Actual	FY05 Actual	FY04 Actual
Bureau of Residential Finance			
Number of Residential Mortgage Licensees	2,168	1,899	2,012
Number of Savings and Loans	4	5	6
Number of Savings Banks	40	46	48
Number of Service Corporations	24	35	38
Number of Thrift Examinations	34	29	31
Number of Mortgage Examinations	157	422	557
Number of License Applications Processed	288	367	436

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

	FY06 Actual	FY05 Actual	FY04 Actual
Division of Licensing and Testing			
Phone Calls Received by Call Center	252,263	248,126	311,368
New Licenses Issued	88,721	54,598	57,257
License Renewals Received	335,781	276,535	279,651
Initial Applications Received	160,327	62,469	57,144
Average Call Center Waiting Time (minutes)	8.2	8.3	5.5
Percentage of Mail-In Renewals Processed	55.0%	74.8%	61.6%
Percentage of E-Batch Renewals Processed	5.5%	2.2%	5.7%
Percentage of Touch Tone Renewals Processed	6.5%	7.5%	14.5%
Percentage of Internet Credit Card Renewals Processed	33.0%	15.5%	18.2%

	FY06 Actual	FY05 Actual	FY04 Actual
Division of Enforcement			
Complaints Received	9,682	9,195	9,781
Complaints Closed	9,381	9,548	11,205
Cases Closed at Investigations	4,937	431	323
Cases Referred to Prosecutions	2,029	3,590	6,368
Cases Closed at Prosecutions	1,214	1,293	1,270
Licensees Placed on Probation	419	488	590
Percentage of Complaints Closed	104.0%	104.0%	115.0%
Percentage of Complaints to Investigations	95.0%	95.0%	15.0%
Percentage of Cases Referred to Closure in Prosecutions	22.0%	39.0%	13.0%
Percentage of Child Support Cases Processed	1.1%	3.0%	3.0%
Percentage of Illinois Student Assistance Commission Cases Processed	2.8%	5.0%	5.0%
Percentage of Revenue Cases Processed	2.0%	1.0%	1.0%