



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF INSURANCE

**COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2012**

Release Date: February 28, 2013

Summary of Findings:

Total this audit:	10
Total last audit:	3
Repeated from last audit:	3

SYNOPSIS

- The Department of Insurance (Department) did not fully comply with the requirements of the Workers' Compensation Act.
- The Department did not fully comply with the requirements of the Illinois Pension Code.
- The Department did not fully comply with the requirements of the Illinois Insurance Code.
- The Department did not fully comply with the requirements of the Health Carrier External Review Act.
- The Department did not adequately document and monitor its awards and grants program.
- The Department did not maintain proper segregation of duties over processing of insurance privilege tax refunds.

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

**DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2012**

EXPENDITURE STATISTICS	2012	2011	2010
Total Expenditures.....	\$ 42,113,703	\$ 34,821,478	\$ 29,816,392
OPERATIONS TOTAL.....	\$ 37,573,656	\$ 32,504,810	\$ 28,769,641
% of Total Expenditures.....	89.2%	93.3%	96.5%
Personal Services.....	18,022,867	15,873,014	15,053,918
Other Payroll Costs (FICA, Retirement).....	11,842,194	9,198,397	8,598,203
All Other Operating Expenditures.....	7,708,595	7,433,399	5,117,520
REFUNDS.....	\$ 4,540,047	\$ 2,316,668	\$ 1,046,751
% of Total Expenditures.....	10.8%	6.7%	3.5%
Total Receipts.....	\$ 453,009,821	\$ 414,158,251	\$ 424,006,958
Average Number of Employees (not examined).....	263	260	240

SELECTED ACTIVITY MEASURES (not examined)	2012	2011	2010
Consumer Market Division			
New/Renewal Licenses Processed	112,486	86,269	25,477
Market Conduct Examinations completed	19	42	11
Closed Consumer Complaint Files	9,132	9,283	10,284
Financial-Corporate Regulatory Division			
Financial Statement Analysis Annual	369	386	376
Field Financial Examinations	71	75	79
Pension Fund Examinations completed	89	119	81

AGENCY DIRECTOR
During Examination Period: Michael McRaith, Jack Messmore, Andrew Stolfi, Robert Wagner, Andrew Boron Currently: Andrew Boron

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

NEED TO COMPLY WITH WORKERS' COMPENSATION ACT

The Department of Insurance (Department) did not fully comply with the requirements of the Workers' Compensation Act (Act). We noted the following:

Failure to implement a system for the detection and prevention of fraud, waste, and abuse

- The Workers Compensation Fraud Unit (WCFU) did not procure and implement a system utilizing advanced analytics for the detection and prevention of fraud, waste, and abuse.
- The WCFU's fiscal year 2012 Annual Report submitted on June 29, 2012, did not contain recommendations regarding opportunities for additional fraud, waste, and abuse detection and prevention.
- The Department did not propose rules that would ensure medical providers submit standardized claims; require all employers and insurers to accept electronic claims for payment of medical services on or before June 30, 2012; and ensure confidentiality of electronic claim information. (Finding 1, pages 11-13)

Failure to propose rules

We recommended the Department procure and implement a system utilizing advanced analytics, ensure that the required reporting information is included in the Annual Report, and submit draft rules to ensure compliance with the Act.

Department agrees with auditors

Department management concurred with our finding and stated they have released a Request for Information to procure a system utilizing advanced analytics.

NEED TO COMPLY WITH PENSION CODE REQUIREMENTS

The Department did not comply with the requirements of the Illinois Pension Code. Some of the conditions noted during our examination follow:

Reviews not conducted

- The Department's Public Pension Division did not examine all pension funds once every three years as required.
- The Department did not submit completed pension fund examinations to the Chief Executive Officer of the municipality or the Fire Protection District as required for 10 of 25 (40%) cases sampled.
- The Department did not receive pension fund annual statements with an actuarial statement applicable to the plan year for 7 of 25 (28%) cases sampled.
- The Department did not bill for annual compliance fees under \$20.

Annual updates not performed

- The Department did not make an annual update and determination of tax levies for the Police and Firefighter pension funds during fiscal years 2011 and 2012. (Finding 2, pages 14-17)

We recommended the Department ensure compliance with the requirements of the Pension Code.

Department agrees with auditors

Department management concurred with our finding and stated they will seek legislation to provide the resources needed to fully implement the actuarial requirements and the three year compliance audit cycle.

NEED TO COMPLY WITH ILLINOIS INSURANCE CODE

The Department did not comply with the requirements of the Illinois Insurance Code. Some of the conditions noted during our examination follow:

Untimely reviews

- The Department did not approve or deny life, accident, and health policy forms on a timely basis for all 25 cases sampled. These policy forms were approved or denied between 39 and 282 days beyond the 60-day requirement.

Reports not submitted

- The Department did not receive accident and health expense reports for 16 of 75 (21%) cases sampled.

Failure to assess penalties

- The Department failed to assess civil penalties to accident or health insurance carriers who did not submit required reports by the due date.
- The Department did not make the submitted information publicly available on its website or such other media as appropriate in a form useful for consumers as required. (Finding 3, pages 18-21) **This finding was first reported in 2006.**

We recommended the Department ensure compliance with the requirements of the Insurance Code. Further, the Department should establish consistent procedures and adequate controls over monitoring of submission of policy forms, reports and financial statements.

Department agrees with auditors

Department management concurred with our finding and recommendation. *(For the previous Department response, see Digest Footnote #1.)*

NEED TO IMPROVE COMPLIANCE WITH HEALTH CARRIER EXTERNAL REVIEW ACT

The Department did not comply with the requirements of the Health Carrier External Review Act (Act). We noted the following:

Untimely report submissions and failure to assess civil penalties

- The Department did not receive external review reports from health carriers for 20 of 50 cases sampled.
- The Department failed to assess a civil penalty to health carriers who did not submit the required reports by the due date. (Finding 4, pages 22-23)

We recommended the Department ensure compliance with the Act by strictly monitoring submission of health carrier external review reports and assessing a civil penalty for late or non-submission of the required reports by the due date.

Department agrees with auditors

Department management concurred with our finding and stated that they have instituted a new reporting program which allows for better monitoring of report submissions.

INTERNAL CONTROL WEAKNESSES IN THE GRANT MONITORING PROGRAM

The Department did not adequately document and monitor its awards and grants program. We noted the following:

Untimely reporting of expenditures and refunding of unused funds

- Seven of 25 (28%) monthly cost expenditure reports of grantees tested were not properly supported.
- 21 of 25 (84%) monthly cost expenditure reports of grantees tested were not submitted timely to the Department or were not submitted at all.
- One of 25 (4%) of the grantees tested did not return unspent funds of \$2,069 within 45 days from the termination of the grant period. The unspent funds were returned 31 days late.
- One of 25 (4%) grant agreements tested was not signed by the Director.
- For five of 25 (20%) grant agreements tested, the total expenditures and unspent grant amounts cannot be determined for each individual grant as the Department did not segregate its monitoring process per grant. (Finding 8, pages 30-32)

We recommended the Department ensure proper monitoring of its grants and awards program to comply with the terms of the grant agreement and the State Officers and Employees Money Disposition Act. Further, the Department should develop adequate documentation of the amount approved for each grant, its expenditures and unspent amount for proper monitoring of expenditures and timely collection of refunds.

Department agrees with auditors

Department management concurred with our finding and stated that they have instituted a new process which is better documented with required reporting and monitoring of those required reports with a spreadsheet.

**LACK OF SEGREGATION OF DUTIES OVER
PROCESSING INSURANCE PRIVILEGE TAX
REFUNDS**

Internal Control Weakness

The Department did not have proper segregation of duties over processing of insurance privilege tax refunds.

Insurance Privilege Tax Refunds

We noted that of the 25 tax refund vouchers reviewed, 16 (64%) vouchers represented insurance privilege tax refunds. Further, there is only one employee who: 1) receives the requests for insurance privilege tax refunds, 2) reviews and prepares the refund authorization memo, and 3) approves the refund for payment. The same employee also maintains and updates the Department records on insurance privilege taxes. The individual amounts of insurance privilege tax refunds vouchers reviewed during the examination ranged from \$20,599 to \$305,744. (Finding 9, pages 33-34)

We recommended the Department ensure proper segregation of duties by allocating sufficient staff to process, review, approve, and record tax refunds.

Department agrees with auditors

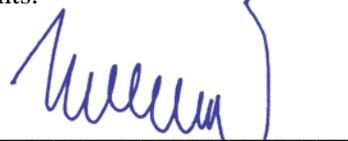
Department management concurred with our finding and stated that they have recently filled a position involved with the processing of insurance privilege tax refunds which will provide additional segregation of duties and has also implemented an additional approval level for the issuance of these refunds.

OTHER FINDINGS

The remaining findings pertain to: 1) failure to maintain timesheets in compliance with the State Officials and Employees Ethics Act, 2) failure to perform and submit employee performance evaluations in a timely manner, 3) failure to comply with Internal Auditing Standards, and 4) failure to comply with the Identity Protection Act. We will follow up on these findings during our next examination of the Department.

AUDITORS' OPINION

We conducted a compliance examination of the Department as required by the Illinois State Auditing Act. The Department has no funds that require an audit leading to an opinion of financial statements.



WILLIAM G. HOLLAND
Auditor General

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SPECIAL ASSISTANT AUDITORS

E. C. Ortiz & Co., LLP were our special assistant auditors.

DIGEST FOOTNOTES

#1 – NEED TO COMPLY WITH ILLINOIS INSURANCE CODE

2010: The Department concurs with this finding. It is the responsibility of the Department to ensure that final action is taken on all policy form filings within the timeframes prescribed by statute. The Department has already implemented several critical path processes for expediting the approval/disapproval of certain filing types and has expanded existing staff responsibilities to include the review and approval/disapproval of life, accident and health insurance policy forms. We will continue to seek appropriate staffing levels needed to consistently meet the timeframes required by 215 ILCS 5/143.