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**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE**

**COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2018**

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

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2018**

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AGENCY OFFICIALS

Director

Through January 16, 2017	Anne Melissa Dowling, Acting
January 17, 2017 to December 12, 2018	Jennifer Hammer
December 13, 2018 to January 25, 2019	Karin Zosel, Acting
January 26, 2019 to March 10, 2019	Kevin Fry, Acting
March 11, 2019 to present	Robert Muriel, Acting

Chief Deputy Director

Through April 30, 2017	James Stephens
May 1, 2017 to present	Vacant

Chief Operating Officer

Through November 12, 2017	Vacant
November 13, 2017 to December 12, 2018	Karin Zosel
December 13, 2018 to present	Vacant

Chief Legal Counsel

Through February 16, 2017	Amy Condo
February 17, 2017 to February 27, 2019	Paulette Dove
February 28, 2019 to present	Robert Moore, Acting

Chief Fiscal Officer

Through April 16, 2018	Jane Bachman
April 17, 2018 to March 15, 2019	Rob Havens, Acting
March 16, 2019 to present	Vacant

Chief Deputy Director of Product Lines

Through November 12, 2017	Vacant
November 13, 2017 to February 22, 2018	Brett Gerger
February 23, 2018 to present	Vacant

Deputy Director, Financial Corporate Regulatory

Through January 25, 2019	Kevin Fry
January 26, 2019 to March 10, 2019	Vacant
March 11, 2019 to present	Kevin Fry

Deputy Director, P&C Products

Through November 12, 2017	Brett Gerger
November 13, 2017 to November 15, 2017	Vacant
November 16, 2017 to present	William McClintock

**STATE OF ILLINOIS
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AGENCY OFFICIALS (Continued)

Deputy Director, Health Products

Through February 17, 2017	Paulette Dove
February 18, 2017 to March 14, 2017	Vacant
March 15, 2017 to January 15, 2018	Jeffrey Scott
January 16, 2018 to July 1, 2018	Vacant
July 2, 2018 to present	Jennifer Reif

Deputy Director, Life and Annuities Products

Through present	Michael Chrysler
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Deputy Director, Public Pension

Through April 19, 2017	Mary Jane Adkins
April 20, 2017 to May 3, 2017	Vacant
May 4, 2017 to February 28, 2018	Elaine Keller (interim)
March 1, 2018 to December 31, 2018	Scott Brandt
January 1, 2019 to present	Vacant

Deputy Director, Information Technology

Through August 15, 2016	Steve Buche
August 16, 2016 to November 30, 2016	Vacant
December 1, 2016 to present	Greg Doerfler

Deputy Director, Legislative Affairs

Through March 15, 2017	Jeffery Scott
March 16, 2017 to April 30, 2017	Vacant
May 1, 2017 to November 12, 2017	Karin Zosel
November 13, 2017 to June 10, 2018	Robert Stefanski
June 11, 2018 to October 8, 2018	Vacant
October 9, 2018 to present	Jerome Clarke

Chief Internal Auditor

Through May 31, 2017	Thaddeus Huskey
June 1, 2017 to present	Vacant

Deputy Director, Consumer Education & Protection

Through December 14, 2018	Michael Rohan
December 15, 2018 to present	Vacant

Deputy Director, Enforcement/Investigations

Through April 30, 2017	Bill Blumthal
May 1, 2017 to May 31, 2017	Vacant
June 1, 2017 to present	Michael Maher

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AGENCY OFFICIALS (Continued)

**Executive Director, Get Covered Illinois
(Health Care Insurance Exchange Program)**
Through present

Karen Woods

Agency offices are located at:

320 West Washington Street
Springfield, IL 62767

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



Illinois Department of Insurance

JB PRITZKER
Governor

ROBERT H. MURIEL
Acting Director

March 29, 2019

Adelfia LLC
400 E. Randolph Street, Suite 700
Chicago, Illinois 60616

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the State of Illinois, Department of Insurance. 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 State of Illinois, Department of Insurance's compliance with the following assertions during the two-year period ended June 30, 2018. Based on this evaluation, and to the best of our information and belief, we assert that during the years ended June 30, 2018 and June 30, 2017, the State of Illinois, Department of Insurance has materially complied with the assertions below.

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

Yours truly,

State of Illinois, Department of Insurance

SIGNED ORIGINAL ON FILE

Robert H. Muriel
Acting Director

SIGNED ORIGINAL ON FILE

Rob Havens
Assistant Chief Fiscal Officer

SIGNED ORIGINAL ON FILE

Fred Moore
Acting General Counsel

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
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COMPLIANCE REPORT

SUMMARY

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

ACCOUNTANT'S REPORT

The Independent Accountant's Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations or disclaimers, but does contain a modified opinion on compliance and identifies material weaknesses over internal control over compliance.

SUMMARY OF FINDINGS

<u>Number of</u>	<u>Current</u>	<u>Prior</u>
Findings	<u>Report</u>	<u>Report</u>
Repeated Findings	11	5
Prior Recommendations Implemented or Not Repeated	3	4
	2	5

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS (STATE COMPLIANCE)			
2018-001	13	Failure to Perform Required Examinations of Police and Firefighter Pension Funds	Material weakness and Material noncompliance
2018-002	15	Inadequate Controls over the Timeliness of Approving and Denying of Insurance and HMO Company Policy Forms	Material weakness and Material noncompliance
2018-003	17	Overstocking of Postage Inventory	Material weakness and Material noncompliance
2018-004	19	Inadequate Internal Audit Function	Material weakness and Material noncompliance

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SCHEDULE OF FINDINGS (Continued)

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
2018-005	24	Failure to Assess Penalties and Interest to Insurance Companies	Significant deficiency and Noncompliance
2018-006	26	Failure to Procure and Implement a Fraud Prevention and Detection Information System	Significant deficiency and Noncompliance
2018-007	28	Inadequate Controls over Reporting	Significant deficiency and Noncompliance
2018-008	31	Inadequate Controls over Employee Performance Evaluations	Significant deficiency and Noncompliance
2018-009	33	Inadequate Controls over Surplus Equipment Items	Significant deficiency and Noncompliance
2018-010	35	Noncompliance with Federal Grant Agreements	Significant deficiency and Noncompliance
2018-011	38	Inadequate Controls over Voucher Processing	Significant deficiency and Noncompliance

PRIOR FINDINGS NOT REPEATED

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
A	40	Noncompliance with the Requirements of the Illinois Insurance Code
B	40	Noncompliance with the Requirements of the Managed Care Reform and Patient Rights Act

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EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on March 5, 2019. Attending were:

Department of Insurance

Kevin Fry – Acting Director
Rob Havens – Acting Chief Fiscal Officer
Doug Hollis – Assistant Deputy Director
Greg Doerfler – Chief Information Officer
Stephanie Fuller – Project Manager
Chris Tavernor – Executive II
Jack Rakers – CMS Chief Internal Auditor
Natalie Lambert – CMS Internal Auditor

Office of the Auditor General

Janis Van Durme, CPA – Senior Audit Manager

Adelfia LLC

Stella Marie Santos, CPA – Partner
Gilda Priebe, CPA, CIA, CFE, CGMA – Partner
Annabelle Abueg, CISA – Partner

The responses to the recommendations were provided by Stephanie Fuller, Project Manager, in a correspondence dated March 29, 2019.



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

Honorable Frank J. Mautino
Auditor General
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois, Department of Insurance’s compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the two years ended June 30, 2018. The management of the State of Illinois, Department of Insurance is responsible for compliance with these requirements. Our responsibility is to express an opinion on the State of Illinois, Department of Insurance’s compliance based on our examination.

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

- E. Money or negotiable securities or similar assets handled by the State of Illinois, Department of Insurance on behalf of the State or held in trust by the State of Illinois, Department of Insurance have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act (the Audit Guide). Those standards, the Act, and the Audit Guide require that we plan and perform the examination to obtain reasonable assurance about whether the State of Illinois, Department of Insurance complied, in all material respects, with the specified requirements listed above. An examination involves performing procedures to obtain evidence about whether the State of Illinois, Department of Insurance complied with the specified requirements listed above. The nature, timing and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance, whether due to fraud or error.

We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on the State of Illinois, Department of Insurance's compliance with specified requirements.

Our examination disclosed the following material noncompliance with the compliance requirement listed in the first paragraph of this report during the two years ended June 30, 2018. As described in item 2018-003 in the accompanying schedule of findings, the State of Illinois, Department of Insurance did not comply with requirements regarding obligating, expending, receiving, and using public funds in the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt or use (requirement B). As described in items 2018-001 through 2018-004 in the accompanying schedule of findings, the State of Illinois, Department of Insurance did not comply with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations (requirement C). Compliance with such requirements is necessary, in our opinion, for the State of Illinois, Department of Insurance to comply with the requirements listed in the first paragraph of this report.

In our opinion, except for the material noncompliance described in the preceding paragraph, the State of Illinois, Department of Insurance complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the two years ended June 30, 2018. However, the results of our procedures disclosed instances of noncompliance with the requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as items 2018-005 through 2018-011.

The State of Illinois, Department of Insurance's responses to the findings identified in our examination are described in the accompanying schedule of findings. The State of Illinois, Department of Insurance's responses were not subjected to the procedures applied in the compliance examination and, accordingly, we express no opinion on the responses.

The purpose of this report on compliance is solely to describe the scope of our testing and the results of that testing in accordance with the requirements of the Audit Guide issued by the Illinois Office of the Auditor General. Accordingly, this report is not suitable for any other purpose.

Internal Control

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were have not been identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements listed in the first paragraph of this report on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2018-001 through 2018-004 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2018-005 through 2018-011 to be significant deficiencies.

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

The State of Illinois, Department of Insurance's responses to the internal control findings identified in our examination are described in the accompanying schedule of findings. The State of Illinois, Department of Insurance's responses were not subjected to the procedures applied in the compliance examination and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Audit Guide, issued by the Illinois Office of the Auditor General. Accordingly, this report is not suitable for any other purpose.

Supplementary Information for State Compliance Purposes

Our examination was conducted for the purpose of forming an opinion on compliance with the requirements listed in the first paragraph of this report. The accompanying supplementary information for the years ended June 30, 2018 and June 30, 2017 in Schedules 1 through 6 and the Analysis of Operations Section is presented for purposes of additional analysis. We have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the June 30, 2018 and June 30, 2017 accompanying supplementary information in Schedules 1 through 6. However, we do not express an opinion on the accompanying supplementary information.

We have not applied procedures to the June 30, 2016 accompanying supplementary information in Schedules 3 through 6, and in the Analysis of Operations Section, and accordingly, we do not express an opinion or provide any assurance on it.

SIGNED ORIGINAL ON FILE

Chicago, Illinois
March 29, 2019

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2018**

CURRENT FINDINGS – STATE COMPLIANCE

2018-001. **FINDING** (Failure to Perform Required Examinations of Police and Firefighter Pension Funds)

The Department of Insurance's (Department) Public Pension Division did not perform required examinations of police and firefighters pension funds once every three years as required by the Illinois Pension Code (Code).

As of June 30, 2018, there were 656 police and firefighters pension funds which were required to be examined once every three years. As a result of testing, we noted the following:

- Two (0.3%) pension funds have been examined three times since 2004. As a result, in the 14 years since 2004, the Department did not complete one examination for each of the two funds.
- 230 (35%) pension funds have been examined on two occasions since 2004. As a result, in the 14 years since 2004, the Department did not complete two examinations for each of the 230 funds.
- 383 (58%) pension funds have been examined on one occasion since 2004. As a result, in the 14 years since 2004, the Department did not complete three examinations for each of the 383 funds.
- 36 (5%) pension funds were currently under examination as of the end of the audit period. Seventeen of the 36 pension fund examinations currently under examination at the end of the audit period were the funds' initial examination. Formed between 2008 and 2012, these 17 pension funds did not have 1 or 2 examinations conducted by the Department in the 6-10 years since the date of their formation. The remaining 18 pension funds were in the process of their second examination and one pension fund on its third examination since 2004. As a result, in the 14 years since 2004, the Department did not complete three examinations for each of the 19 funds.
- One (0.2%) pension fund has not been examined. The pension fund was formed in 2011. As a result, in the 7 years since 2011, the Department did not complete two examinations for the fund.

The Code (40 ILCS 5/1A-104(a)) requires the Public Pension Division to make periodic examinations and investigations of all pension funds. Section 1A-104(b) of the Code further requires the Public Pension Division to examine or investigate each pension fund established under Article 3 (Police) or Article 4 (Firefighters) of the Code once every 3 years.

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CURRENT FINDINGS – STATE COMPLIANCE (Continued)

Department management indicated the noncompliance with the three audit cycle requirements of the Code was due to the Public Pension Division operating with inadequate staff levels, which would require significant additional appropriations that are unlikely to be granted in the near future. As a result, the Department will be seeking legislative relief from the three year requirement to shift the examinations to a risk-based process, requiring an examination of each pension fund every five years.

Failure to perform the required examination of a pension fund every three years has resulted in the Department not being able to fully monitor that pension funds and represents noncompliance with the Code. (Finding Code No. 2018-001, 2016-002, 2014-002, 12-2)

RECOMMENDATION

We recommend the Department perform the pension fund examinations every three years as required by the Code or continue to seek a legislative change.

DEPARTMENT RESPONSE

The Department accepts the finding and notes it is pursuing legislation to amend the Illinois Pension Code to shift to a risk-based audit approach requiring an audit of each pension fund every five years. Further, the Department's Pension Division has taken steps to properly train all Audit Group employees on the requirements of the applicable section of the Illinois Pension Code. Additionally, the Department has hired three employees, procured two vendor contracts, and is utilizing the \$1,000,000 Pension Lump Sum appropriation to address these issues. The Department has also taken steps to implement electronic audit workpaper software that will increase productivity of the Audit Group and streamline the audit process.

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CURRENT FINDINGS – STATE COMPLIANCE (Continued)

2018-002. **FINDING** (Inadequate Controls over the Timeliness of Approving and Denying of Insurance and HMO Company Policy Forms)

The Department of Insurance (Department) did not maintain adequate controls over the timeliness of approving and denying insurance and Health Maintenance Organization (HMO) company policy forms.

Specifically, we noted the following:

- 17 of 40 (43%) life, accident, and health policy forms filed by insurer companies were not approved or disapproved by the Department within the required 60-day time period after the form's submission. The Department approved the policy forms between 8 to 432 days late.

The Illinois Insurance Code (Code) (215 ILCS 5/143(1)) requires the Department's Director to approve or disapprove life, accident, and health policy forms within 60 days after submission, unless the Director extends the period by not more than an additional 30 days.

- 10 of 18 (56%) HMO group contracts, evidence of coverage, endorsement, rider, bylaw or other policy forms were not approved or disapproved by the Department within the required 60-day time period after the form's submission. The Department approved the policy forms between 1 to 113 days late.

The Health Maintenance Organization Act (215 ILCS 125/4-13) requires the Department's Director to approve or disapprove an HMO group contract, evidence of coverage, endorsement, rider, bylaw, or other matter incorporated by reference or an application blank within 60 days after submission, unless the Director extends the period by not more than an additional 30 days.

Department management stated the filings were not approved within the 60-day statutory timeline due to various circumstances that arise that may warrant the Department to request additional documentation from the insurers or may require actuarial review. The Department believes these circumstances are beyond the Department's control, and while the Code provides a possible extension of a filing review by 30 days, the Department does not formally extend the review of filings to any specific time period as the review and approval of company filings continues in the same manner regardless of the number of days involved.

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CURRENT FINDINGS – STATE COMPLIANCE (Continued)

By not approving or disapproving life, accident, health insurance, or HMO policy forms in a timely manner as required by the Illinois Insurance Code or the Health Maintenance Organization Act, insurance and HMO companies' distribution of their products to the market may be delayed and represents noncompliance with the State law. (Finding Code No. 2018-002)

RECOMMENDATION

We recommend the Department comply with the statutory requirements of the Illinois Insurance Code and the Health Maintenance Organization Act.

DEPARTMENT RESPONSE

The Department accepts the finding and notes while the statutory requirement to approve product filings within 60 days is important for efficient marketplace regulation, both the insurance industry and regulators agree that thorough reviews of product filings need to occur before they are presented to Illinois consumers. The Department acknowledges the filings were not approved within the 60-day statutory timeline due to various circumstances that may warrant the Department to request additional documentation from the insurers or may require actuarial review. The Department believes these circumstances are beyond the Department's control, and while the Code provides a possible extension of a filing review by 30 days, the Department does not formally extend the review of filings to any specific time period as the review and approval of company filings continues in the same manner regardless of the number of days involved.

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CURRENT FINDINGS – STATE COMPLIANCE (Continued)

2018-003. **FINDING** (Overstocking of Postage Inventory)

The Department of Insurance (Department) did not comply with the Illinois Procurement Code regarding the maximum stocking level of postage inventory allowed.

During testing, we noted the Department had approximately 1.5 years of postage inventory based on average usage over the examination period on hand at June 30, 2018. We noted the following postage transactions during the examination period:

Fiscal Year 2017	
Beginning Balance:	\$ 3,935
Purchases:	150,000
Usage:	(42,616)
Ending Balance:	\$ 111,319

Fiscal Year 2018	
Beginning Balance:	\$ 111,319
Purchases:	0
Usage:	(44,466)
Ending Balance:	\$ 66,853

The Illinois Procurement Code (30 ILCS 500/50-55) requires every State agency to inventory or stock no more than a 12-month need of supplies. In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide reasonable assurance that resources are used efficiently and effectively. Further, good cash management controls include maintaining only the minimum inventory level needed to allow for continuing operations without experiencing a disturbance.

Department management stated because of the budget impasse and the possibility of the impasse continuing, the Department felt it was in its best interest to purchase additional postage to allow the Department to continue mailings to conduct daily business, such as responding to consumer and company inquiries and mailing of invoices/billing, which is critical to the Department's operation.

Failure to maintain a reasonable minimum inventory level of postage resulted in a reduction in cash available within the State Treasury to pay current costs of the State and may have resulted in additional, unnecessary interest costs being charged to the State. (Finding Code No. 2018-003)

**STATE OF ILLINOIS
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CURRENT FINDINGS – STATE COMPLIANCE (Continued)

RECOMMENDATION

We recommend the Department comply with the Illinois Procurement Code regarding the maximum level of stocking requirements for its supply of postage.

DEPARTMENT RESPONSE

The Department accepts this finding and notes that the additional postage was purchased to allow the Department to continue mailings to conduct daily business, such as responding to consumer and company inquiries and mailing of invoices/billings, critical to the Department's operations. Resulting from the budget impasse and the possibility of that impasse continuing, the Department felt it in their best interest to purchase this additional postage. The Department sends hundreds of dollars' worth of certified mail daily, associated with summons' and other statutory requirements. Much of this postage was utilized. Department funding is comprised solely of Dedicated, Other State monies. No General Revenue appropriated monies are utilized by the Department. The purchase was made due to the fear of lack of appropriation, again due to the potential continuation of the budget impasse.

**STATE OF ILLINOIS
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CURRENT FINDINGS – STATE COMPLIANCE (Continued)

2018-004. **FINDING** (Inadequate Internal Audit Function)

The Department of Insurance (Department) failed to adhere to provisions in the Fiscal Control and Internal Auditing Act (Act).

The Act requires each designated State agency to maintain a full-time program of internal auditing (30 ILCS 10/2001(a)). The Department of Insurance, as a Department of State government created in the Civil Administrative Code (Code) (20 ILCS 5/5-15), is a designated State agency required to maintain a full-time program of internal auditing (30 ILCS 10/1003 (a)). The Act also states “[a]gencies which do not have full-time internal audit programs may have internal audits performed by the Department of Central Management Services” (30 ILCS 10/2001 (b)).

The Act was originally a Legislative Audit Commission initiative designed to address deficiencies noted in a May 1988 management audit of Illinois’ State Programs of Internal Auditing. The audit report’s conclusions and recommendations and the legislation that became the Act (House Bill 2031 of the 86th General Assembly which was signed into law as P.A. 86-936) demonstrated an understanding that agencies which are not required to have their own full-time program of internal auditing could obtain internal auditing assistance from an agency such as the Department of Central Management Services (CMS). In other words, each designated State agency must have a full-time program of internal auditing and each State agency that is not so designated is not required to have a full-time program of internal auditing but may receive internal audit services from CMS.

In 2003, by Executive Order (2003-10) the Governor transferred the internal auditors from the various State agencies and consolidated them into the Illinois Office of Internal Audit at CMS. In 2009, the General Assembly unanimously rejected this consolidation of internal audit authority in CMS and directed that the internal auditors and their functions be returned to their respective designated State agencies (P.A. 96-795, effective July 1, 2010).

On January 15, 2018, the Department entered into an agreement with CMS’ Bureau of Internal Audit to provide the Department with internal auditing services. As of the end of our fieldwork (February 11, 2019), CMS’ Chief Internal Auditor was acting as Chief Internal Auditor for eight State agencies (CMS, Agriculture, Corrections, Financial and Professional Regulation, Human Rights, Insurance, Labor, and Illinois Finance Authority), each of which is a designated State agency under the Act required to have a Chief Internal Auditor appointed by the agency head and to maintain a full-time program of internal auditing.

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CURRENT FINDINGS – STATE COMPLIANCE (Continued)

During testing, we noted the following:

- The Department’s Director has not appointed an individual to fill the Department’s chief internal auditor position. This position was vacated on May 31, 2017, 395 days prior to the end of the examination period on June 30, 2018.

The Act (30 ILCS 10/2002(a)) requires the Director to appoint a chief internal auditor.

Department officials indicated the exception noted above was due to the Department being unable to attract qualified candidates for the position of Chief Internal Auditor.

- The Department and CMS did not obtain the Governor’s approval for CMS to provide professional internal auditing services to the Department.

The Code (20 ILCS 405/405-293(a)) states that CMS “is responsible for providing professional services for or on behalf of State agencies for all functions transferred to the Department by Executive Order No. 2003-10. . .” Since the part of Executive Order 2003-10 related to internal audit was reversed by P.A. 96-795 this portion of the Section is not applicable in the circumstances. The Section goes on to state that CMS may “with the approval of the Governor, provide additional services to or on behalf of State agencies.” “Additional services” is not defined and no approval for CMS to provide internal auditing services specifically to the Department, a designated State agency under the Act, was obtained from the Governor.

Department and CMS officials also cited another provision in the Code (20 ILCS 405/405-15) as CMS’ authority to provide internal auditing services to State agencies upon the request of the Governor or the chief executive officer of a State agency. This provision of the Code was amended in 1991 (P.A. 87-817) to reconcile CMS’ responsibilities under the Code with those contained in the Act. Nothing in the legislative history indicates the intent of 20 ILCS 405/405-15 was to affect the duty of designated State agencies under the Act to appoint a Chief Internal Auditor and to maintain a full-time program of internal auditing.

Department officials indicated they disagree with the exception noted above.

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CURRENT FINDINGS – STATE COMPLIANCE (Continued)

- While testing the Expenses and Support Cost section of the intergovernmental agreement between the Department and CMS, we requested the Department provide us with sufficient and appropriate audit evidence related to costs of the Department's internal audit function from January 15, 2018, through the end of the examination period on June 30, 2018. We requested the documentation to substantiate (1) the authorization of CMS to use the Department's appropriation for processing payroll as allowed for under the intergovernmental agreement, and (2) that CMS only charged the Department for payroll services of CMS internal auditors who provided internal audit functions to the Department. The Department was unable to provide us with the documentation requested. Specifically, we noted the following:
 - In response to our requests, Department management indicated CMS does not bill the Department for its internal audit services and related assistance. As opposed to direct billing for services performed, the Department stated CMS charges costs for various Statewide services – such as labor relations, personnel, mail & messenger, procurement, and internal audit – to the Professional Services Fund. These costs are then allocated to each State agency based upon each agency's spend during the 2nd prior fiscal year and fund transfers are performed to move the cash from the State's various funds into the Professional Services Fund. (For example, the Department's Fiscal Year 2018 allocation costs of the Professional Services Fund were based on its proportionate share of the Fiscal Year 2016 actual costs of the above services.) Given this process, it does not appear the Department is monitoring the current costs of its internal audit function. As a result, we were unable to audit the cost of the Department's internal audit function to ensure the Department is accurately reimbursing CMS payroll costs as stipulated by the intergovernmental agreement.
 - Also, the Department granted CMS authorization through its intergovernmental agreement to charge the Department's appropriations for payroll costs associated with CMS' rendering of professional internal audit services to the Department; however, as indicated by the Department in its response to our requests, it is not the Department's nor CMS' intent to process any vouchers against the Department's appropriations. As a result, we believe there is a significant internal control risk with potentially delegating a State's appropriation authority unnecessarily.

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CURRENT FINDINGS – STATE COMPLIANCE (Continued)

The Act (30 ILCS 10/3001)) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls, to provide assurance that: (1) resources are utilized efficiently, effectively, and in compliance with applicable law; (2) obligations and costs are in compliance with applicable law; and (3) funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation.

Department officials indicated they disagree with the exception noted above.

Failure to establish a full-time internal audit program in accordance with the requirements of the Act – where the chief internal auditor develops a deep understanding of the Department’s functions and processes, oversees, and performs audits of the Department’s major systems of internal accounting and administrative controls on a periodic basis, and oversees and reviews major new and modifications to information systems prior to implementation – weakens the Department’s ability to assess its overall internal control environment and represents noncompliance with State law. Further, the establishment of the Department's internal audit function by interagency agreement hinders the operational autonomy intended by the General Assembly for internal auditors. Department management cannot terminate an appointed chief internal auditor prior to the conclusion of their term without cause and a hearing before the Executive Ethics Commission, but management can terminate the interagency agreement with CMS at any time for any reason. Failure to obtain the approval of the Governor for expanding the professional services provided to the Department by CMS limits governmental oversight and represents noncompliance with the Code. Failure to adequately track internal audit costs and be able to provide the auditors with adequate cost support related to the Department’s internal audit function results in the auditors being unable to determine the Department’s compliance with the Act. Finally, granting CMS authorization to expend the Department’s payroll appropriations weakens the Department’s overall internal control environment and represents noncompliance with State law. (Finding Code No. 2018-004)

RECOMMENDATION

We recommend the following:

- The Department’s Director appoint a chief internal auditor and ensure a full-time program of internal auditing is in place and functioning at the Department.

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CURRENT FINDINGS – STATE COMPLIANCE (Continued)

- If another agency is to be relied upon to supplement internal audit functions at the Department, the Department should obtain written approval of the Governor for these services and ensure such services are provided in accordance with the Act's requirements.
- The Department implement policies and procedures to track internal audit costs, maintain documentation which adequately documents the costs of the Department's internal audit function, and ensure other agencies providing services to the Department are only reimbursed for allowable costs.
- Finally, the Department should not grant another agency the authority to process payroll against the Department's appropriations unnecessarily or without implementing and documenting proper controls.

DEPARTMENT RESPONSE

The Department agrees with this finding.

- For the Chief Internal Auditor appointment, the Department will work with the Department of Central Management Services to develop a responsive, effective, and sustainable long-term solution.
- The Department will work with the Department of Central Management Services to obtain written approval from the Governor's Office to supplement internal audit functions.
- The Department is working with the Department of Central Management Services to track the costs associated with the audit services and should have a plan to review the costs for reimbursement of federal monies.
- The Department will work with the Department of Central Management Services to revise the intergovernmental agreement to remove the portion on processing payroll.

AUDITOR COMMENT:

The Department indicates it will work with CMS to revise the intergovernmental agreement under which CMS' Chief Internal Auditor acts as the Chief Internal Auditor for the Department, as well as for numerous other agencies through other intergovernmental agreements. The auditors do not believe this arrangement meets the requirements of the Fiscal Control and Internal Auditing Act and, as a result, we are requesting a formal, written opinion from the Attorney General's Office on the matter.

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CURRENT FINDINGS – STATE COMPLIANCE (Continued)

2018-005. **FINDING** (Failure to Assess Penalties and Interest to Insurance Companies)

The Department of Insurance (Department) failed to assess penalties and interest to insurance companies who did not timely pay annual financial regulation fees or timely file required tax statements in accordance with the Illinois Insurance Code (Code).

Specifically, we noted the following:

- Three of 40 (8%) foreign or alien companies tested paid their annual financial regulation fees after the June 30, 2017 due date. The companies paid between 7 to 59 days late. The Department failed to assess penalties for these late payments, which were estimated to equal \$13,982.

The Illinois Insurance Code (Code) (215 ILCS 5/408(8)) requires each company's annual financial regulation fees to be paid no later than June 30 of each calendar year. Further, the Code (215 ILCS 5/412(7)) states that when an insurance company or domesticated affiliated group fails to pay the full amount of any fee of \$200 or more under Section 408 of the Code, there shall be added to the amount due as a penalty the greater of \$100 or an amount equal to 10% of the deficiency for each month or part of a month that deficiency remains unpaid.

- For 5 of 40 (13%) surplus line producer semi-annual tax statements tested, the Department failed to issue penalty and interest invoices for the late filing of the tax statements, totaling \$37,398. These tax statements related to the 08/01/16 filing period.
- For 7 of 40 (18%) surplus line producer semi-annual tax statements tested, we noted the Department did not correctly assess penalties for the late filing of the tax statements, totaling \$2,041. These tax statements related to the 08/01/16 and 02/01/17 filing periods.

For certain returns, the Code (215 ILCS 5/412(2)) requires the Department to add as a penalty \$400 or 10% of the amount of such tax, whichever is greater, for each month or part of a month of failure to file, the entire penalty not to exceed \$2,000 or 50% of the tax due, whichever is greater. The surplus line producer semi-annual tax statement form indicated the following penalties: (a) penalty for failure to file tax statement (\$400/month or 10% of tax, whichever is greater), (b) penalty for failure to pay tax (10% of tax due) and (c) interest on tax paid after due date (Current IRS rate: Minimum rate 12% per annum).

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CURRENT FINDINGS – STATE COMPLIANCE (Continued)

Department management stated the exceptions noted were due to staff members having competing priorities with other job duties as the calculation for assessing the penalties and interest was a manual process.

Failure to invoice and correctly assess penalties and interests on the late filing of tax returns and late payment of financial regulation fees results in a loss of State revenue, as well as under-utilizing a tool to enforce prompt filing. (Finding Code No. 2018-005)

RECOMMENDATION

We recommend the Department comply with the statutory requirements of the Illinois Insurance Code. We further recommend the Department seek the lost revenues owed to the State.

DEPARTMENT RESPONSE

2018-005- Bullet 1

The Department agrees with the finding. The incidences cited in the finding were for FY17. The automated penalty feature was inserted into the Accounting Management System (AMS) ahead of the FY18 collection. Now, when a Company pays a Financial Regulation Fee after the fixed due date of 6/30/XX, a penalty is automatically assessed. This finding has been solved prospectively.

2018-005 Bullet 2

The Department agrees with the finding. The incidences cited in the finding were for FY17. The automated penalty feature was inserted into the Accounting Management System (AMS) ahead of the FY18 collection. Now, when a Producer files a Surplus Lines tax statement after the fixed due date of 2/1/XX or 8/1/XX, a failure to file penalty is automatically assessed. For the Producers who never submit a tax statement, the Department generates an exception report to identify the non-filers and files for them to generate the penalty once the maximum penalty has been reached. This finding has been solved prospectively.

2018-005 Bullet 3

The Department agrees with the finding. The incidences cited in the finding were for FY17. The automated penalty feature was inserted into the Accounting Management System (AMS) ahead of the FY18 collection. Now, when a Producer files a Surplus Lines tax statement after the fixed due date of 2/1/XX or 8/1/XX, a failure to file penalty is automatically assessed. For the Producers who never submit a tax statement, the Department generates an exception report to identify the non-filers and files for them to generate the penalty once the maximum penalty has been reached. This finding has been solved prospectively.

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CURRENT FINDINGS – STATE COMPLIANCE (Continued)

2018-006. **FINDING** (Failure to Procure and Implement a Fraud Prevention and Detection Information System)

The Department of Insurance's (Department) Workers' Compensation Fraud Unit (WCFU) did not procure and implement a system utilizing advanced analytics inclusive of predictive modeling, data mining, social network analysis, and scoring algorithms for the detection and prevention of fraud, waste, and abuse during the examination period as required by the Worker's Compensation Act (Act). As of June 30, 2018, the number of days past compliance for the Department to implement the system was 2,373 days, or 6 ½ years.

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

Department management stated the Department does not collect the type of claims and medical data necessary to perform data mining or predictive modeling required by the Act. Additionally, this type of modeling would be costly and demand significant resources to implement. Thus, Department management considers legislative remedy of the statute to be the best course of action.

Failure to procure and implement the advanced analytics system is noncompliance with the Act and hinders the Department's ability in the detection and prevention of fraud, waste, and abuse. (Finding Code No. 2018-006, 2016-001, 2014-001, 12-1)

RECOMMENDATION

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

DEPARTMENT RESPONSE

The Department accepts the finding and notes the compliance challenges caused by the General Assembly's failure to provide for the necessary appropriation. Despite the fact that this has always been an unfunded mandate, the Department issued a Request for Information (RFI) regarding a system utilizing advanced analytics, inclusive of predictive modeling, data mining, social network analysis, and scoring algorithms for the detection and prevention of fraud, waste, and abuse (advanced analytics system) in 2012. The responses to the RFI did not assist the Department in procuring the advanced analytics system. In 2015, the Department again analyzed the viability of such a system. The Department concluded that it

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CURRENT FINDINGS – STATE COMPLIANCE (Continued)

does not have the data necessary to develop and utilize the data analytics system required by the Act. In 2016, the Department again tried to comply with this mandate, however the Department was unable to obtain the data due to strict confidentiality laws. The Department subsequently testified before the Legislative Audit Commission with regards to the predictive modeling and advanced analytics and the challenges to acquire the data needed to perform the analysis. In the 2016 Annual Report, the Workers' Compensation Fraud Unit recommended that Section 25.5(e5) of the Workers' Compensation Act, which contains the advanced analytics system requirement, be repealed. The Department continues to propose this course of action to the Governor's Office.

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CURRENT FINDINGS – STATE COMPLIANCE (Continued)

2018-007. **FINDING** (Inadequate Controls over Reporting)

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

During testing, we noted the following exceptions:

- The Department reported information on its Fiscal Years 2016 and 2017 Agency Workforce Reports (Report) which did not agree to the Reports' supporting documentation. Discrepancies were noted in the data and statistical percentages presented for 5 of 16 (31%) employee category groups within the 2016 Report and for 12 of the 16 (75%) employee category groups within the 2017 Report.

The State Employment Records Act (5 ILCS 410/15) requires State agencies to collect and maintain information and publish reports on its work force, including the number and statistical percentage of minorities, women, and persons with physical disabilities employed as professional employees, among others.

Department management stated the errors in the Agency Workforce Reports were due to the individual responsible for the report vacating the position leaving completion of the report to other Department staff who were not familiar with the process and report completion.

- The Department did not perform the reconciliations of the monthly Agency Contract Report (SC14 Report) and the monthly Obligation Activity Report (SC15 Report) for both Fiscal Years 2017 and 2018. Subsequently, the Department provided quarterly reconciliations (including for lapse period) for both Fiscal Years 2017 and 2018. During testing, we noted two of six (33%) SC14 and SC15 quarterly reports tested (both for June 30, 2017) had unreconciled differences of \$99,498 which had not been identified by the Department. After we brought the unreconciled differences to the Department's attention, the Department was able to identify the differences and adjusted the reconciliations accordingly.

The Statewide Accounting Management System (SAMS) Manual (Procedure 15.30.30) requires State agencies reconcile the Agency Contract Report and the Obligation Activity Report to internal records prior to the next month.

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CURRENT FINDINGS – STATE COMPLIANCE (Continued)

Department management indicated the original omission of the SC14 and SC15 obligation reconciliations being performed was due to employee oversight when the Administrative and Regulatory Shared Services Center at the Department of Revenue was disbanded. Errors in the quarterly reconciliation was due to employee error.

- The Department's Agency Report of State Property (Form C-15) for the fourth quarter of Fiscal Year 2018 reported a deletion of \$16,577 with a fully depreciated historical value of \$0 on the Department's property listing. This resulted in an overstatement of deletions and understatement in total property value by \$16,577 in the year ending Form C-15.

SAMS Manual (Procedure 29.10.30) requires State agencies to properly present in the Form C-15 for purposes of quarterly State property reporting, the total cost of State property, by category reflected on the agency's records as of reporting date and reconcile the beginning balance of State property to the ending balance.

Department management stated the error noted in the Form C-15 was due to employee error.

- The Department incorrectly reported the amount of fees on the Agency Fee Imposition Report for Fiscal Year 2017. One of 14 (7%) fees reported did not agree with Department's records. The effect of the difference resulted in the Department overstating reported fees for Fiscal Year 2017 by \$1,304,617. Auditors also noted 2 of 6 (33%) fund numbers on the Agency Fee Imposition Report for both Fiscal Years 2017 and 2018 did not agree with the Office of the Comptroller's Monthly Revenue Status Report (SB-04).

The State Comptroller Act (15 ILCS 405/16.2(a)) requires a State agency that imposes fees to file the Agency Fee Imposition Report with the Office of the Comptroller. SAMS Manual (Procedure 33.16.10) states the Agency Fee Imposition Report Form shall provide for the reporting by State agencies of the amount of revenue generated and funds into which the fees are deposited, among others. In addition, good internal controls require an agency to review all reports prepared from internal records for accuracy before submission.

Department management stated the discrepancies noted in the Agency Fee Imposition Report were due to oversight.

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CURRENT FINDINGS – STATE COMPLIANCE (Continued)

Failure to submit statutorily required reports accurately and in a timely manner prevents the appropriate oversight authorities from receiving relevant feedback and monitoring on programs and can have an effect on future decisions. (Finding Code No. 2018-007, 2016-004, 2014-006)

RECOMMENDATION

We recommend the Department strengthen its controls over reporting to ensure required reports are performed, and completed timely and accurately.

DEPARTMENT RESPONSE

2018-007 Bullet 1

The Department agrees with the finding. The Department has put in place a better process to complete the agency workforce reports. Additionally, while there was a high percentage of discrepancies many were off by 1 or 2 employees.

2018-007 Bullet 2

The Department agrees with the finding. Unreconciled differences within the Department's SC14 and SC15 quarterly reports were identified and the reconciliations were adjusted accordingly.

Reconciliation of the Agency Contract Reports and the Obligation Activity Reports for FY 2017 and 2018 have been completed. The Fiscal Office will continue to perform these reconciliations moving forward. The original omission of the SC14 and SC15 obligation reconciliations being performed was due to oversight when the Administrative and Regulatory Shared Services Center at the Department of Revenue was disbanded. CMS Internal Audit brought this to our attention during the course of their normal internal audit. The Department has since implemented a plan to comply with this finding.

2018-07 Bullet 3

The Department agrees with the finding. This appears to be an isolated incident in relation to Departmental inventory system reporting. We fully expect this issue to be rectified within the normal course of business over the coming fiscal year.

2018-07 Bullet 4

The Department agrees with the finding. The Department inadvertently reported the amount collected in Cost Containment fees rather than the amount transferred to the Illinois Financial Regulation Fund. The deficiency is noted and will be corrected going forward.

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CURRENT FINDINGS – STATE COMPLIANCE (Continued)

2018-008. **FINDING** (Inadequate Controls over Employee Performance Evaluations)

The Department of Insurance (Department) did not perform employee performance evaluations in a timely manner.

Specifically, we noted during our testing of 35 performance evaluations for 24 Departmental employees the following exceptions:

- Eleven (31%) performance evaluations for the period tested were not completed. Four performance evaluations pertain to Fiscal Year 2017 and seven performance evaluations pertain to Fiscal Year 2018.
- Nine (26%) performance evaluations for the employees tested were not completed timely by the Board. The employee evaluations were completed between 20 and 295 days late.

The Illinois Administrative Code (80 Ill. Admin. Code 302.270) requires an evaluation of employee performance be prepared by the Department not less often than annually, or in the case of an employee serving a six month probationary period, the Department is required to prepare and submit two evaluations, one at the end of the third month of the employee's probationary period and another 15 days before the conclusion thereof. In addition, prudent business practices require employee performance evaluations to be performed timely to communicate to employees the strengths and deficiencies in meeting their job responsibilities. We considered evaluations performed over 30 days after the end of the evaluation period to be untimely.

Department management stated the non-performance and untimely completion of performance evaluations were due to turnover in supervisory positions and competing priorities throughout the Department in Fiscal Years 2017 and 2018.

Employee performance evaluations are a systematic and uniform approach for the development of employees and communication of performance expectations to employees. Employee performance evaluations serve as a foundation and documentation for salary adjustments, promotions, demotions, discharges, layoff, recall, or reinstatement decisions. Without timely completion of an employee performance evaluation, the employee would not be provided with formal feedback or assessment of his or her performance, and areas for improvement and current year's performance goals and objectives may not be identified and communicated in a timely manner. (Finding Code No. 2018-008)

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CURRENT FINDINGS – STATE COMPLIANCE (Continued)

RECOMMENDATION

We recommend the Department evaluate its procedures for monitoring performance evaluations to ensure performance appraisals are completed timely.

DEPARTMENT RESPONSE

The Department accepts this finding and notes we have taken the following corrective actions:

- Drafted a new policy on evaluations with a due date 60 calendar days after the conclusion of the evaluation period.
- Drafted guidance to senior leadership that all supervisors have an objective in their evaluations to timely provide evaluations to subordinate staff.
- Drafted training for all supervisors on how to properly complete and conduct performance evaluations.
- Completed an audit of the electronic database and hard copy files, updated evaluation periods for all current employees, modified reports, and provided notice to all Deputy Directors of outstanding evaluations.
- Modified internal HR process for logging, filing, tracking, and notifying supervisors of due dates.

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CURRENT FINDINGS – STATE COMPLIANCE (Continued)

2018-009. **FINDING** (Inadequate Controls over Surplus Equipment Items)

The Department of Insurance (Department) did not adequately monitor and track surplus equipment items during the examination period.

Specifically, we noted the following exceptions:

- Three of 3 (100%) equipment items (a copier, a film scanner, and a map generator), which were considered no longer in use by the Department prior to the date of our listing-to-floor testing, had not been sent to the Department of Central Management Services. These items totaled \$38,709.
- One of 1 (100%) equipment item (a check validator), which was considered no longer in use by the Department prior to the date of our floor-to-listing testing, had not been sent to the Department of Central Management Services. The item totaled \$1,215.

In addition to the items noted during our physical testing of equipment, we noted the Department did not have an overall process in place for the monitoring or tracking of obsolete and transferable equipment items.

The Illinois Administrative Code (Code) (44 Ill. Admin Code 5010.600) defines transferable equipment as State-owned equipment which is no longer needed and or useful to the agency currently in possession of it. Further, the Code (44 Ill. Admin Code 5010.620) requires all agencies to regularly survey their inventories for transferable equipment and report any such equipment to the Property Control Division of the Department of Central Management Services.

Further, the Statewide Accounting Management System (SAMS) Manual (Procedure 29.10.10) states that assets that are obsolete, damaged or no longer used in operations should be identified by the Department and, if necessary, removed from the Department's asset records. The asset records should be reconciled to the results of the inventory and updated accordingly.

Department management stated the intention to report possession of currently unused, transferable items to the Department of Central Management Services was present, but the efficiency in terms of logistics costs related to the movement of such few items was taken into consideration.

Failure to monitor or track obsolete and transferable property may result in inaccurate property control records, misappropriation of assets, and represents noncompliance with the Code and the SAMS Manual. (Finding Code No. 2018-009)

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CURRENT FINDINGS – STATE COMPLIANCE (Continued)

RECOMMENDATION

We recommend the Department monitor its obsolete and transferable equipment items and report them to the Department of Central Management Services to ensure compliance with the Code and the SAMS Manual.

DEPARTMENT RESPONSE

The Department agrees with this finding. Moving forward the Department will create a procedure to track these unused/obsolete and transferrable equipment items.

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CURRENT FINDINGS – STATE COMPLIANCE (Continued)

2018-010. **FINDING** (Noncompliance with Federal Grant Agreements)

The Department of Insurance (Department) did not fully comply with provisions of the federal grant agreements under its purview during the examination period.

The Department entered into three grant agreements with the United States' Department of Health and Human Services Centers for Medicare and Medicaid Services during the examination period. These grant agreements governed the Health Insurance Enforcement and Consumer Protections Grant Program (CFDA 93.881), the Affordable Care Act Grants to States for Health Insurance Premium Review Program (CFDA 93.511), and the Affordable Care Act Consumer Assistance Program (CFDA 93.519). During Fiscal Years 2017 and 2018, the Department expended \$322,053 and \$199,484 under the terms of these grant agreements.

During our testing, we noted the following:

- For the Health Insurance Enforcement and Consumer Protections Grant Program, the annual Federal Financial Report (FFR) for the project period October 31, 2016 to October 30, 2017 was submitted on October 29, 2018 (272 days late). In addition, two pamphlets published by the Department during Fiscal Year 2018 did not include the required disclosure and disclaimer.

The Federal Financial Reporting section of the grant agreement required the submission of an annual FFR within 90 calendar days of the applicable year-end date (or 12-month period). Also, the Use of Data and Work Products section of the grant agreement required that all publications, press announcement, poster, and oral presentations that is related to the project must include a formal acknowledgment of support from the U.S. Department of Health & Human Services, citing the Funding Opportunity Number as identified on the Funding Opportunity Announcement and a disclaimer stating, "The contents provided are solely the responsibility of the authors and do not necessarily represent the official views of HHS or any of its agencies".

Department management stated the delay in the submission of the annual FFR was due to the online FFR form or module in the GrantSolutions system never being available to the Department and the missing required disclosure and disclaimer on the publications were due to oversight.

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CURRENT FINDINGS – STATE COMPLIANCE (Continued)

- For the Affordable Care Act Grants to States for Health Insurance Premium Review Program, the quarterly progress reports due January 30, 2017 and April 30, 2017 were submitted on February 15, 2017 and May 23, 2017 (16 and 23 days late), respectively. Further, the Department did not submit the annual FFR for the reporting period ending September 30, 2016 to the federal government. Finally, the final FFR for the reporting period ending September 30, 2017 was submitted by the Department on February 14, 2018 (46 days late).

The Required Grant Reporting and the Required Financial Reports sections of the grant agreement required the submission of quarterly progress reports within 30 days after the end of the quarter period, an annual FFR within 30 calendar days of the applicable budget period end date, and a final FFR within 90 calendar days of the project period end date.

Department management stated the delay and/or non-submission of the quarterly progress reports and FFR reports were due to staffing issues.

- For the Affordable Care Act Consumer Assistance Program, the Department did not submit the quarterly data reports due August 15, 2016 and September 23, 2016, and the quarterly progress report due August 15, 2016. In addition, the quarterly progress report due September 23, 2016 and the final progress report due November 23, 2016 were submitted by the Department on July 14, 2017 (294 and 233 days late), respectively. Finally, the Department submitted the final FFR for the project period ending August 23, 2016 on June 12, 2017 (201 days late).

The Required Grant Reporting and the Required Financial Reports sections of the grant agreement required the submission of quarterly data and progress reports within 30 days after the end of the quarter period and a final FFR within 90 calendar days of the project period end date.

Department management stated the delay and/or non-submission of the quarterly data/progress reports and the final FFR report were due to the transition in the grant management team during the last months of the project.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2018**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

Additionally, the Fiscal Internal Control and Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that resources are used efficiently, effectively, and in compliance with applicable law.

Failure to adequately monitor adherence to the conditions contained within each grant agreement represents noncompliance with the terms of the grant and could result in sanctions from the federal government, which may include the withholding of federal funds, until each required report is submitted. (Finding Code No. 2018-010)

RECOMMENDATION

We recommend the Department strengthen its controls over the monitoring of its grant agreement requirements to ensure the requirements are adhered to.

DEPARTMENT RESPONSE

The Department agrees with these findings and has since trained current grant management staff on these procedures.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2018**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

2018-011. **FINDING** (Inadequate Controls over Voucher Processing)

The Department of Insurance (the Department) did not maintain adequate controls over its voucher processing.

During our voucher testing, we noted the following:

- For 4 of 40 (10%) vouchers tested, totaling \$1,182,678, the related Contract Obligation Documents (CODs) were not prepared. Copies of the signed contracts were also not submitted to the Illinois Office of the Comptroller (Comptroller).

The Illinois Procurement Code (30 ILCS 500/20-80(b)) and the Statewide Accounting Management System (SAMS) Manual (Procedure 15.10.40) requires the Department to file contracts exceeding \$20,000 with the Comptroller within 30 calendar days after execution. The SAMS Manual (Procedure 15.20.10) further states that obligation data submitted to the Comptroller is used to establish and maintain a file of individual obligations by agency and account. The Contract Obligation Document is used to obligate contracts, leases, purchase orders, sub-orders, and printing orders.

- Two of 40 (5%) vouchers tested, totaling \$27,609, were not approved within 30 days after the receipt of a proper bill. The vouchers were approved one and seven days late.

The Illinois Administrative Code (74 Ill. Adm. Code 900.70) requires the Department to review each vendor's invoice and either deny the bill in whole or in part, ask for more information necessary to review the bill, or approve the voucher in whole or in part within 30 days after the receipt of the bill.

- For 1 of 25 (4%) travel vouchers tested, totaling \$1,559, an out-of-state travel was requested 38 days before the commencement of travel (22 days late).

Department's Policy Manual (Chapter 5 Section 1) requires that for out-of-state travels, employees must submit a Request for Travel form a minimum of 60 days in advance of travel.

Department management stated the issues noted were due to employee oversight.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2018**

CURRENT FINDINGS – STATE COMPLIANCE (Continued)

Inadequate controls over voucher processing may result in inaccurate vouchers being processed and paid by the State. Further, it represents noncompliance with Department procedures and State regulations. Moreover, failure to approve vouchers timely could lead to late payment of expenditures that may subject the State to unnecessary interest charges. (Finding Code No. 2018-011)

RECOMMENDATION

We recommend the Department strengthen its controls over voucher processing to ensure compliance with State regulations and its own travel procedures. We also recommend the Department ensure all contracts over the threshold amounts are filed with the Comptroller.

DEPARTMENT RESPONSE

The Department agrees with this finding. Trained staff are in place to ensure timely submission of Contract Obligation documents. There are times within the normal course of business where payment of vouchers can be delayed. We strive to ensure timely processing. Additionally, there may be isolated last-minute travel requests.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2018**

PRIOR FINDINGS NOT REPEATED

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

During the prior examination, the Department did not fully comply with certain requirements of the Illinois Insurance Code. Specifically, we noted the following: (1) accident and health policy forms filed with the Department were not approved or disapproved within 60 days after submission; (2) the Department failed to issue penalty invoices for late filings of surplus line producer semi-annual tax statements; (3) the Department did not correctly assess penalties for surplus line producer semi-annual tax returns; (4) Health Maintenance Organization policy forms filed with the Department were not approved or disapproved within 60 days after submission; and (5) the Department failed to assess penalties to companies who had filed their annual financial regulation fees late.

During the current examination, this finding was split into two different findings. We reported the issues identified in (1) and (4) above with other similar matters in Finding 2018-002. We also reported the issues identified in (2), (3), and (5) above with other similar matters in Finding 2018-005. (Finding Code No. 2016-003, 2014-003, 12-3, 10-1, DFPR 08-15, DFPR 07-14, DFPR 06-24)

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

During the prior examination, the Department of Insurance (Department) did not include the Accreditation Association for Ambulatory Health Care in the list of accreditors on forms and documents posted on the Department's web site. In addition, the Department did not update the Illinois Administrative Code (Code) (50 Ill. Admin. Code 5430.130(b)) to include the Accreditation Association for Ambulatory Health Care as one of the accreditors from which a URO may receive accreditation and would pay a reduced application or renewal fee of \$1,500 instead of the \$3,000 regular registration or renewal fee.

During the current examination, we noted the Department included the Accreditation Association for Ambulatory Health Care in the list of accreditors on the required forms and documents and also updated the Code to include the Accreditation Association for Ambulatory Health Care. (Finding Code No. 2016-005)

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2018**

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

SUMMARY

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:

- Schedule of Appropriations, Expenditures and Lapsed Balances – Fiscal Year 2018
- Schedule of Appropriations, Expenditures and Lapsed Balances – Fiscal Year 2017
- Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
- Comparative Schedule of Receipts, Disbursements and Fund Balance (Cash Basis)
 - Locally Held Funds
- Schedule of Changes in State Property
- Comparative Schedule of Cash Receipts and Reconciliation of Cash Receipts to Deposits Remitted to the State Comptroller

- Analysis of Operations (Not Examined):

- Agency Functions and Planning Program (Not Examined)
- Analysis of Significant Variations in Expenditures (Not Examined)
- Analysis of Significant Variations in Receipts (Not Examined)
- Analysis of Significant Lapse Period Spending (Not Examined)
- Analysis of Accounts Receivable (Not Examined)
- Budget Impasse Disclosures (Not Examined)
- Alternative Financing in Lieu of Appropriations and Programs to Address Untimely Payments to Vendors (Not Examined)
- Interest Costs on Fiscal Year 2017 Invoices (Not Examined)
- Average Number of Employees (Not Examined)
- Service Efforts and Accomplishments (Not Examined)

The accountant's report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states the accountants have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the June 30, 2018 and June 30, 2017 accompanying supplementary information in Schedules 1 through 6. However, the accountants do not express an opinion on the supplementary information. The accountant's report also states that they have not applied procedures to the Analysis of Operations Section, and accordingly, they do not express an opinion or provide any assurance on it.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Expenditure Authority for Fiscal Year 2018**

For the Fifteen Months Ended September 30, 2018

<u>Public Act 100-0021</u>	<u>Expenditure Authority (Net of Transfers)</u>	<u>Expenditures Through June 30</u>	<u>Lapse Period Expenditures July 1 to September 30</u>	<u>Total Expenditures 15 Months Ended September 30</u>	<u>Balances Lapsed September 30</u>
<u>APPROPRIATED FUNDS</u>					
<u>George Bailey Memorial Fund - 0409</u>					
Lump sums and other purposes - Operational costs & expenses	\$ 100,000	\$ -	\$ -	\$ -	\$ 100,000
<u>Illinois Workers' Compensation Commission Operations Fund - 0534</u>					
Lump sums and other purposes - Operational costs & expenses	950,000	686,870	7,562	694,432	255,568
<u>Public Pension Regulation Trust Fund - 0546</u>					
Personal services	962,000	533,716	25,777	559,493	402,507
Retirement - employer contribution	520,000	271,290	(6,197)	265,093	254,907
Social security	74,000	38,590	1,863	40,453	33,547
Group insurance	360,000	139,431	6,402	145,833	214,167
Contractual services	25,000	11,292	-	11,292	13,708
Travel	30,000	4,256	32	4,288	25,712
Commodities	2,500	-	-	-	2,500
Printing	2,500	-	-	-	2,500
Equipment	5,000	340	-	340	4,660
Telecommunications	2,500	-	-	-	2,500
Lump sums and other purposes - Operational costs & expenses	500,000	365,059	10,100	375,159	124,841
Total - Public Pension Regulation Trust Fund - 0546	2,483,500	1,363,974	37,977	1,401,951	1,081,549

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Expenditure Authority for Fiscal Year 2018

For the Fifteen Months Ended September 30, 2018

	Expenditure Authority (Net of Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to September 30	Total Expenditures 15 Months Ended September 30	Balances Lapsed September 30
<u>Insurance Producer Administration Fund - 0922</u>					
Personal services	8,222,000	6,439,762	305,495	6,745,257	1,476,743
Retirement - employer contribution	4,441,000	3,297,685	(105,358)	3,192,327	1,248,673
Social security	629,000	467,948	22,354	490,302	138,698
Group insurance	2,952,000	1,852,682	77,730	1,930,412	1,021,588
Contractual services	1,850,000	915,247	78,831	994,078	855,922
Travel	125,000	19,645	4,020	23,665	101,335
Commodities	17,500	7,027	75	7,102	10,398
Printing	17,500	12,466	75	12,541	4,959
Equipment	47,500	15,365	598	15,963	31,537
Electronic data processing	2,571,300	1,991,517	62,398	2,053,915	517,385
Telecommunications	230,000	86,325	32,841	119,166	110,834
Operation of automotive equipment	5,000	709	45	754	4,246
Lump sums and other purposes - Get Covered Illinois (GCI)	1,000,000	643,771	20,551	664,322	335,678
Lump sums and other purposes - Operational costs & expenses	500,000	230,806	38,634	269,440	230,560
Refunds	100,000	45,656	(5,550)	40,106	59,894
Total - Insurance Producer Administration Fund - 0922	<u>22,707,800</u>	<u>16,026,611</u>	<u>532,739</u>	<u>16,559,350</u>	<u>6,148,450</u>

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Expenditure Authority for Fiscal Year 2018

For the Fifteen Months Ended September 30, 2018

	Expenditure Authority (Net of Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to September 30	Total Expenditures 15 Months Ended September 30	Balances Lapsed September 30
<u>Insurance Financial Regulation Fund - 0997</u>					
Personal services	10,150,000	7,958,382	372,616	8,330,998	1,819,002
Retirement - employer contribution	5,482,000	4,074,379	(123,646)	3,950,733	1,531,267
Social security	776,000	579,800	27,258	607,058	168,942
Group insurance	2,880,000	1,848,243	80,165	1,928,408	951,592
Contractual services	1,850,000	1,152,379	157,535	1,309,914	540,086
Travel	150,000	25,185	5,213	30,398	119,602
Commodities	17,500	5,370	-	5,370	12,130
Printing	17,500	1,589	-	1,589	15,911
Equipment	47,500	11,131	1,180	12,311	35,189
Electronic data processing	1,391,300	812,056	37,207	849,263	542,037
Telecommunications	215,000	84,483	29,076	113,559	101,441
Operation of automotive equipment	5,000	1,117	835	1,952	3,048
Lump sums and other purposes - Operational costs & expenses	250,000	196,240	4,832	201,072	48,928
Refunds	49,000	5,449	6,050	11,499	37,501
Total - Insurance Financial Regulation Fund - 0997	<u>23,280,800</u>	<u>16,755,803</u>	<u>598,321</u>	<u>17,354,124</u>	<u>5,926,676</u>
Subtotal - Appropriated Funds	<u>\$ 49,522,100</u>	<u>\$ 34,833,258</u>	<u>\$ 1,176,599</u>	<u>\$ 36,009,857</u>	<u>\$ 13,512,243</u>

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Expenditure Authority for Fiscal Year 2018

For the Fifteen Months Ended September 30, 2018

	Expenditure Authority (Net of Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to September 30	Total Expenditures 15 Months Ended September 30	Balances Lapsed September 30
<u>NONAPPROPRIATED FUNDS</u>					
<u>Insurance Premium Tax Refund Fund - 0378</u>					
Refunds		2,709,082	-	2,709,082	
<u>Department of Insurance Federal Trust Fund - 0673</u>					
Enforcement & Consumer Protection Grant		219,068	167,596	386,664	
Exchange Establishment Grant - Stage 3 (for COC purposes)		70,126	-	70,126	
Total - Department of Insurance Federal Trust Fund - 0673		289,194	167,596	456,790	
<u>Group Workers' Compensation Pool Insolvency Fund - 0739</u>					
Awards and Grants Per P.A. 91-0757		565,458	-	565,458	
Subtotal - Nonappropriated Funds		3,563,734	167,596	3,731,330	
GRAND TOTAL - ALL FUNDS		\$ 38,396,992	\$ 1,344,195	\$ 39,741,187	

Note 1: Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the Department's records, and have been reconciled to the State Comptroller's records.
 Note 2: Expenditure amounts are vouchers approved for payment by the Department and submitted to the State Comptroller for payment to the vendor.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Expenditure Authority for Fiscal Year 2017**

For the Fifteen Months Ended September 30, 2017

	Expenditure Authority (Net of Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to September 30	Total Expenditures 15 Months Ended September 30	Balances Lapsed September 30
<u>Public Act 99-0524</u>					
<u>APPROPRIATED FUNDS</u>					
<u>George Bailey Memorial Fund - 0409</u>					
Lump sums and other purposes - Operational costs & expenses	\$ 100,000	\$ -	\$ -	\$ -	\$ 100,000
<u>Illinois Workers' Compensation Commission Operations Fund - 0534</u>					
Lump sums and other purposes - Operational costs & expenses	950,000	722,915	28,151	751,066	198,934
<u>Public Pension Regulation Trust Fund - 0546</u>					
Personal services	1,000,000	585,259	22,933	608,192	391,808
Retirement - employer contribution	446,000	260,946	10,227	271,173	174,827
Social security	76,500	42,939	1,681	44,620	31,880
Group insurance	360,000	188,836	6,880	195,716	164,284
Contractual services	25,000	9,697	1,025	10,722	14,278
Travel	30,000	1,575	65	1,640	28,360
Commodities	2,500	-	-	-	2,500
Printing	2,500	-	-	-	2,500
Equipment	5,000	620	-	620	4,380
Telecommunications	2,500	-	-	-	2,500
Lump sums and other purposes - Operational costs & expenses	500,000	323,352	9,000	332,352	167,648
Total - Public Pension Regulation Trust Fund - 0546	2,450,000	1,413,224	51,811	1,465,035	984,965

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Expenditure Authority for Fiscal Year 2017

For the Fifteen Months Ended September 30, 2017

	Expenditure Authority (Net of Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to September 30	Total Expenditures 15 Months Ended September 30	Balances Lapsed September 30
<u>Insurance Producer Administration Fund - 0922</u>					
Personal services	10,000,000	7,670,476	342,788	8,013,264	1,986,736
Retirement - employer contribution	4,457,000	3,406,450	152,975	3,559,425	897,575
Social security	765,000	560,196	25,248	585,444	179,556
Group insurance	3,408,000	2,308,140	106,536	2,414,676	993,324
Contractual services	1,850,000	1,299,445	75,451	1,374,896	475,104
Travel	125,000	22,474	1,910	24,384	100,616
Commodities	20,000	4,368	636	5,004	14,996
Printing	20,000	1,885	-	1,885	18,115
Equipment	60,000	868	-	868	59,132
Electronic data processing	500,000	315,371	19,776	335,147	164,853
Telecommunications	230,000	110,212	20,337	130,549	99,451
Operation of automotive equipment	5,000	634	465	1,099	3,901
Lump sums and other purposes - Shared services center	500,000	10,466	-	10,466	489,534
Lump sums and other purposes - Get Covered Illinois (GCI)	1,000,000	345,026	24,942	369,968	630,032
Lump sums and other purposes - Operational costs & expenses	750,000	219,185	17,049	236,234	513,766
Refunds	100,000	41,110	639	41,749	58,251
Total - Insurance Producer Administration Fund - 0922	<u>23,790,000</u>	<u>16,316,306</u>	<u>788,752</u>	<u>17,105,058</u>	<u>6,684,942</u>

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Expenditure Authority for Fiscal Year 2017

For the Fifteen Months Ended September 30, 2017

	Expenditure Authority (Net of Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to September 30	Total Expenditures 15 Months Ended September 30	Balances Lapsed September 30
<u>Insurance Financial Regulation Fund - 0997</u>					
Personal services	11,100,000	8,525,799	426,621	8,952,420	2,147,580
Retirement - employer contribution	4,947,000	3,812,568	190,592	4,003,160	943,840
Social security	849,000	622,486	31,450	653,936	195,064
Group insurance	3,288,000	2,193,142	96,413	2,289,555	998,445
Contractual services	1,850,000	1,032,427	246,387	1,278,814	571,186
Travel	150,000	26,213	1,782	27,995	122,005
Commodities	20,000	3,446	-	3,446	16,554
Printing	20,000	6,268	-	6,268	13,732
Equipment	60,000	5,228	3,370	8,598	51,402
Electronic data processing	500,000	157,522	42,039	199,561	300,439
Telecommunications	215,000	102,598	20,369	122,967	92,033
Operation of automotive equipment	5,000	-	-	-	5,000
Lump sums and other purposes - Operational costs & expenses	250,000	7,671	1,919	9,590	240,410
Refunds	49,000	31,900	300	32,200	16,800
Total - Insurance Financial Regulation Fund - 0997	<u>23,303,000</u>	<u>16,527,268</u>	<u>1,061,242</u>	<u>17,588,510</u>	<u>5,714,490</u>
Subtotal - Appropriated Funds	<u>\$ 50,593,000</u>	<u>\$ 34,979,713</u>	<u>\$ 1,929,956</u>	<u>\$ 36,909,669</u>	<u>\$ 13,683,331</u>

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Expenditure Authority for Fiscal Year 2017

For the Fifteen Months Ended September 30, 2017

	Expenditure Authority (Net of Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to September 30	Total Expenditures 15 Months Ended September 30	Balances Lapsed September 30
<u>NONAPPROPRIATED FUNDS</u>					
<u>Insurance Premium Tax Refund Fund - 0378</u>					
Refunds		2,622,720	-	2,622,720	
<u>Department of Insurance Federal Trust Fund - 0673</u>					
Enforcement & Consumer Protection Grant		36,476	11,841	48,317	
Co-Op Agreement to Support Est. of ACA's Health Ins./Stage 4		5,084,196	-	5,084,196	
Consumer Assistance Grant Cycle II		10,920	-	10,920	
Health Ins. Rate Review Grant Cycle II		243,233	-	243,233	
Total - Department of Insurance Federal Trust Fund - 0673		<u>5,374,825</u>	<u>11,841</u>	<u>5,386,666</u>	
<u>Group Workers' Compensation Pool Insolvency Fund - 0739</u>					
Awards and Grants Per P.A. 91-0757		61,375	-	61,375	
Subtotal - Nonappropriated Funds		<u>8,058,920</u>	<u>11,841</u>	<u>8,070,761</u>	
GRAND TOTAL - ALL FUNDS		<u>\$ 43,038,633</u>	<u>\$ 1,941,797</u>	<u>\$ 44,980,430</u>	

Note 1: Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the Department's records, and have been reconciled to the State Comptroller's records.

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

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,
EXPENDITURES AND LAPSED BALANCES

For the Years Ended June 30, 2018, 2017 and 2016

	Fiscal Year		
	2018 PA 100-0021	2017 PA 99-0524	2016 PA 99-0524
George Bailey Memorial Fund			
Operations Fund - 0409			
<u>Appropriation (Net of Transfers)</u>	\$ 100,000	\$ 100,000	\$ -
<u>Expenditures</u>			
Lump sums and other purposes - Operational costs & expenses	-	-	-
Total Expenditures	-	-	-
<u>Lapsed Balances</u>	100,000	100,000	-
Illinois Workers' Compensation Commission			
Operations Fund - 0534			
<u>Appropriation (Net of Transfers)</u>	950,000	950,000	950,000
<u>Expenditures</u>			
Lump sums and other purposes - Operational costs & expenses	694,432	751,066	682,560
Total Expenditures	694,432	751,066	682,560
<u>Lapsed Balances</u>	255,568	198,934	267,440
Public Pension Regulation Trust Fund - 0546			
<u>Appropriation (Net of Transfers)</u>	2,483,500	2,450,000	2,450,000
<u>Expenditures</u>			
Personal services	559,493	608,192	663,390
Retirement - employer contribution	265,093	271,173	302,665
Social security	40,453	44,620	48,785
Group insurance	145,833	195,716	221,663
Contractual services	11,292	10,722	2,737
Travel	4,288	1,640	8,621
Commodities	-	-	48
Equipment	340	620	-
Lump sums and other purposes - Operational costs & expenses	375,159	332,352	374,008
Total Expenditures	1,401,951	1,465,035	1,621,917
<u>Lapsed Balances</u>	1,081,549	984,965	828,083

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,
EXPENDITURES AND LAPSED BALANCES

For the Years Ended June 30, 2018, 2017 and 2016

	Fiscal Year		
	2018 PA 100-0021	2017 PA 99-0524	2016 PA 99-0524
Insurance Producer Administration Fund - 0922			
<u>Appropriation (Net of Transfers)</u>	22,707,800	23,790,000	24,017,200
<u>Expenditures</u>			
Personal services	6,745,257	8,013,264	8,306,221
Retirement - employer contribution	3,192,327	3,559,425	3,784,919
Social security	490,302	585,444	604,569
Group insurance	1,930,412	2,414,676	2,472,894
Contractual services	994,078	1,374,896	1,117,825
Travel	23,665	24,384	17,919
Commodities	7,102	5,004	2,313
Printing	12,541	1,885	3,624
Equipment	15,963	868	27,704
Electronic data processing	2,053,915	335,147	165,703
Telecommunications	119,166	130,549	139,496
Operation of automotive equipment	754	1,099	518
Lump sums and other purposes - Shared services center	-	10,466	366,700
Lump sums and other purposes - Get Covered Illinois (GCI)	664,322	369,968	27,886
Lump sums and other purposes - Operational costs & expenses	269,440	236,234	272,685
Refunds	40,106	41,749	6,800
Total Expenditures	<u>16,559,350</u>	<u>17,105,058</u>	<u>17,317,776</u>
<u>Lapsed Balances</u>	<u>6,148,450</u>	<u>6,684,942</u>	<u>6,699,424</u>
Insurance Financial Regulation Fund - 0997			
<u>Appropriation (Net of Transfers)</u>	23,280,800	23,303,000	23,303,000
<u>Expenditures</u>			
Personal services	8,330,998	8,952,420	9,445,057
Retirement - employer contribution	3,950,733	4,003,160	4,318,830
Social security	607,058	653,936	689,414
Group insurance	1,928,408	2,289,555	2,565,482
Contractual services	1,309,914	1,278,814	1,130,211
Travel	30,398	27,995	33,118
Commodities	5,370	3,446	1,337
Printing	1,589	6,268	-
Equipment	12,311	8,598	29,223
Electronic data processing	849,263	199,561	59,066
Telecommunications	113,559	122,967	169,801
Operation of automotive equipment	1,952	-	437
Lump sums and other purposes - Operational costs & expenses	201,072	9,590	3,459
Refunds	11,499	32,200	40,359
Total Expenditures	<u>17,354,124</u>	<u>17,588,510</u>	<u>18,485,794</u>
<u>Lapsed Balances</u>	<u>5,926,676</u>	<u>5,714,490</u>	<u>4,817,206</u>

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,
EXPENDITURES AND LAPSED BALANCES

For the Years Ended June 30, 2018, 2017 and 2016

	Fiscal Year		
	2018 PA 100-0021	2017 PA 99-0524	2016 PA 99-0524
Grand Total - All Appropriated Funds			
Appropriations (Net of Transfers)	\$ 49,522,100	\$ 50,593,000	\$ 50,720,200
Total Expenditures	36,009,857	36,909,669	38,108,047
Lapsed Balances	13,512,243	13,683,331	12,612,153
<u>Non-Appropriated Funds</u>			
<u>Expenditures</u>			
Insurance Premium Tax Refund Fund - 0378	2,709,082	2,622,720	2,301,688
Department of Insurance Federal Trust Fund - 0673	456,790	5,386,666	13,109,721
Group Workers' Compensation Pool Insolvency Fund - 0739	565,458	61,375	16,050
Total Expenditures - Non-Appropriated Funds	3,731,330	8,070,761	15,427,459
Total Expenditures - All Appropriated and Non-Appropriated Funds	<u>\$ 39,741,187</u>	<u>\$ 44,980,430</u>	<u>\$ 53,535,506</u>
State Officers' Salaries - Director			
<u>Appropriation</u>	\$ 135,100	\$ 135,300	\$ 135,100
<u>Expenditures</u>	135,081	135,297	135,081
<u>Lapsed Balances</u>	<u>\$ 19</u>	<u>\$ 3</u>	<u>\$ 19</u>

Note 1: Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the Department's records, and have been reconciled to the State Comptroller's records.

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

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

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

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPARATIVE SCHEDULE OF RECEIPTS, DISBURSEMENTS
AND FUND BALANCE - LOCALLY HELD FUNDS
For Fiscal Years 2018, 2017 and 2016

	FISCAL YEAR		
	2018	2017	2016
Balance per Department, Beginning	\$ 921,687,955	\$ 1,066,835,230	\$ 959,983,879
Receipts	225,857,579	215,964,550	348,868,295
Disbursements	<u>(248,259,699)</u>	<u>(361,111,825)</u>	<u>(242,016,944)</u>
Balance per Department, Ending	<u>\$ 899,285,835</u>	<u>\$ 921,687,955</u>	<u>\$ 1,066,835,230</u>

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

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

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
SCHEDULE OF CHANGES IN STATE PROPERTY
For the Two Years Ended June 30, 2018**

Year Ended June 30, 2017

Balance per Department, Beginning	\$ 2,141,726
Additions	26,151
Deletions	(37,617)
Net transfers	<u>(71,232)</u>
Balance per Department, Ending	<u><u>\$ 2,059,028</u></u>

Year Ended June 30, 2018

Balance per Department, Beginning	\$ 2,059,028
Additions	38,833
Deletions	(1,327,222)
Net transfers	<u>(272,980)</u>
Balance per Department, Ending	<u><u>\$ 497,659</u></u>

The above balances consist of equipment and capital lease equipment.

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

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPARATIVE SCHEDULE OF CASH RECEIPTS AND
RECONCILIATION OF CASH RECEIPTS TO DEPOSITS REMITTED TO THE STATE COMPTROLLER**

For the Years Ended June 30, 2018, 2017 and 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
General Revenue Fund - 0001			
Privilege insurance tax	\$ 182,403,090	\$ 174,228,082	\$ 173,212,371
Retalitory tax	173,905,157	165,803,198	163,597,436
Surplus line tax	52,203,932	49,101,559	50,049,566
Independent procurement tax	12,528,084	11,913,621	6,990,291
Fines, penalties, interest	809,363	308,931	175,859
Miscellaneous	1,951	275	-
Total cash receipts per Department	<u>\$ 421,851,577</u>	<u>\$ 401,355,666</u>	<u>\$ 394,025,523</u>
Plus - In transit at Beginning of Year	10,485,928	921	3,547,962
Less - In transit at End of Year	871,189	10,485,928	921
Total cash receipts per State Comptroller's Records	<u><u>\$ 431,466,316</u></u>	<u><u>\$ 390,870,659</u></u>	<u><u>\$ 397,572,564</u></u>
Fire Prevention Fund - 0047			
Fire Marshal tax	\$ 28,106,953	\$ 27,704,498	\$ 27,466,850
Independent procurement tax	273,885	315,368	110,916
Total cash receipts per Department	<u>\$ 28,380,838</u>	<u>\$ 28,019,866</u>	<u>\$ 27,577,766</u>
Plus - In transit at Beginning of Year	2,575	-	3,010
Less - In transit at End of Year	2,238	2,575	-
Total cash receipts per State Comptroller's Records	<u><u>\$ 28,381,175</u></u>	<u><u>\$ 28,017,291</u></u>	<u><u>\$ 27,580,776</u></u>
Insurance Premium Tax Refund Fund - 0378			
Privilege insurance tax	\$ 2,649,000	\$ 2,713,000	\$ 2,417,000
Total cash receipts per Department	<u>\$ 2,649,000</u>	<u>\$ 2,713,000</u>	<u>\$ 2,417,000</u>
Plus - In transit at Beginning of Year	-	-	-
Less - In transit at End of Year	-	-	-
Total cash receipts per State Comptroller's Records	<u><u>\$ 2,649,000</u></u>	<u><u>\$ 2,713,000</u></u>	<u><u>\$ 2,417,000</u></u>
Protest Fund - 0401			
Protest fees	\$ 6,214	\$ 5,760	\$ -
Total cash receipts per Department	<u>\$ 6,214</u>	<u>\$ 5,760</u>	<u>\$ -</u>
Plus - In transit at Beginning of Year	-	-	5,586
Less - In transit at End of Year	-	-	-
Plus (Less) - Other Adjustments	-	-	5,912
Total cash receipts per State Comptroller's Records	<u><u>\$ 6,214</u></u>	<u><u>\$ 5,760</u></u>	<u><u>\$ 11,498</u></u>
Illinois Workers' Compensation Commission Operations Fund - 0534			
Industrial Commission Operations Fund surcharges	\$ 27,494,282	\$ 28,553,992	\$ 27,814,505
Total cash receipts per Department	<u>\$ 27,494,282</u>	<u>\$ 28,553,992</u>	<u>\$ 27,814,505</u>
Plus - In transit at Beginning of Year	-	-	-
Less - In transit at End of Year	250	-	-
Total cash receipts per State Comptroller's Records	<u><u>\$ 27,494,032</u></u>	<u><u>\$ 28,553,992</u></u>	<u><u>\$ 27,814,505</u></u>
Public Pension Regulation Trust Fund - 0546			
Pensions filing fees	\$ 2,116,210	\$ 2,058,266	\$ 2,017,060
Prior year refund	-	572	-
Total cash receipts per Department	<u>\$ 2,116,210</u>	<u>\$ 2,058,838</u>	<u>\$ 2,017,060</u>
Plus - In transit at Beginning of Year	260,965	116,543	198,174
Less - In transit at End of Year	226,425	260,965	116,543
Plus (Less) - Other Adjustments	-	-	(5,912)
Total cash receipts per State Comptroller's Records	<u><u>\$ 2,150,750</u></u>	<u><u>\$ 1,914,416</u></u>	<u><u>\$ 2,092,779</u></u>

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPARATIVE SCHEDULE OF CASH RECEIPTS AND
RECONCILIATION OF CASH RECEIPTS TO DEPOSITS REMITTED TO THE STATE COMPTROLLER**

For the Years Ended June 30, 2018, 2017 and 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Federal Trust Fund - 0673			
Federal government grant	\$ 236,416	\$ 6,858,653	\$ 17,103,209
Total cash receipts per Department	\$ 236,416	\$ 6,858,653	\$ 17,103,209
Plus - In transit at Beginning of Year	-	-	-
Less - In transit at End of Year	-	-	-
Total cash receipts per State Comptroller's Records	<u>\$ 236,416</u>	<u>\$ 6,858,653</u>	<u>\$ 17,103,209</u>
Group Workers' Compensation Pool Insolvency Fund - 0739			
Surety bonds	\$ 121,785	\$ 120,744	\$ 114,033
Total cash receipts per Department	\$ 121,785	\$ 120,744	\$ 114,033
Plus - In transit at Beginning of Year	-	-	-
Less - In transit at End of Year	-	-	-
Total cash receipts per State Comptroller's Records	<u>\$ 121,785</u>	<u>\$ 120,744</u>	<u>\$ 114,033</u>
Insurance Producers' Administration Fund - 0922			
Insurance producer licenses and fees	\$ 30,249,312	\$ 29,103,325	\$ 28,780,011
Fines, penalties, interest	2,120,911	4,943,220	1,661,812
Insurance performance examination fees	574,707	663,936	885,289
Miscellaneous	488,029	455,443	499,551
Prior year refund	224	-	30,895
Total cash receipts per Department	\$ 33,433,183	\$ 35,165,924	\$ 31,857,558
Plus - In transit at Beginning of Year	1,533,784	645,180	817,760
Less - In transit at End of Year	650,683	1,533,784	645,180
Total cash receipts per State Comptroller's Records	<u>\$ 34,316,284</u>	<u>\$ 34,277,320</u>	<u>\$ 32,030,138</u>
Insurance Financial Regulation Fund - 0997			
Regulatory insurance licenses and fees	\$ 22,750,384	\$ 39,999,708	\$ 23,777,463
Fines, penalties, interest	69,629	2,200	18,410
Miscellaneous	48,739	43,958	150,205
Total cash receipts per Department	\$ 22,868,752	\$ 40,045,866	\$ 23,946,078
Plus - In transit at Beginning of Year	7,446,896	28,357	1,615,054
Less - In transit at End of Year	4,857,450	7,446,896	28,357
Plus (Less) - Other Adjustments	-	438	-
Total cash receipts per State Comptroller's Records	<u>\$ 25,458,198</u>	<u>\$ 32,627,765</u>	<u>\$ 25,532,775</u>
Grand Total - All Funds			
Total cash receipts per Department	\$ 539,158,257	\$ 544,898,309	\$ 526,872,732
Plus - In transit at Beginning of Year	19,730,148	791,001	6,187,546
Less - In transit at End of Year	6,608,235	19,730,148	791,001
Plus (Less) - Other Adjustments	-	438	-
Total cash receipts per State Comptroller's Records	<u>\$ 552,280,170</u>	<u>\$ 525,959,600</u>	<u>\$ 532,269,277</u>

Note: Other Adjustments of \$438 for Fiscal Year 2017 represent prior year refunds and prior year warrant voids. Other adjustments of \$5,912 for Fiscal Year 2016 pertain to a reclassification from Pension filing fees to Protest fees.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2018**

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

The Department of Insurance (Department) was re-established on June 1, 2009 by Executive Order 2009-04 of the Governor. The Department was previously a part of the Department of Financial and Professional Regulation as the Division of Insurance. The Department is located at 320 West Washington Street, Springfield, Illinois, and at 122 South Michigan Avenue, 19th Floor, Chicago, Illinois. Anne Melissa Dowling served as Acting Director of the Department from June 2015 through January 2017. Jennifer Hammer has served as Director of the Department from January 2017 to December 12, 2018. Karin Zosel has served as Acting Director of the Department from December 13, 2018 to January 25, 2019. Kevin Fry has served as Acting Director of the Department from January 26, 2019 to March 10, 2019. Robert Muriel has served as Acting Director of the Department from March 11, 2019 to present.

Agency Functions

The Department'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 Department's vision is to embrace efficiency and innovation to educate and protect Illinois consumers and to encourage a vital and robust Illinois insurance market.

The Department is 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 5/22-109) and related laws and regulations (Title 50, Illinois Administrative Code). The Department's divisions are described below:

Office of Legal Affairs Division

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

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

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2018**

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

Legislative Affairs Division

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

- Develops the Department's legislative agenda;
- Coordinates the Department's comments on insurance legislation;
- Develops issue papers, fact sheets and bill reviews;
- Monitors legislation effecting the Department and the insurance industry;
- Negotiates controversial legislation with legislators, Governor's staff and special interest groups; and
- Handles constituent inquiries referred by legislators, legislative staff and the Governor's office.

Internal Audit Division

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

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

In December 2017, the Department executed an Intergovernmental Agreement (IGA) with Department of Central Management Services' (CMS) Internal Audit Division to provide internal audit services, effective January 15, 2018.

Finance Division

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

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2018**

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

Procurement and Administration Division

The Procurement and Administration Division provides support services to the entire Department and is responsible for Department procurement, record retention, and facilities oversight.

Human Resources Division

The Human Resources Division provides support services to the entire Department and is responsible for hiring, payroll, timekeeping, leaves of absence, FMLA compliance, performance evaluations, work schedules, group insurance, job descriptions, collective bargaining agreement compliance, union negotiations, and training. In addition, Human Resources manages personal services contracts, intern programs, and monitors compliance with State and federal labor/employment law. Human Resources also interacts with the EEO Officer and Ethics Officer to respond to reasonable accommodation requests, statutorily-mandated reports, training requirements, and implementation of action plans.

Property and Casualty Division

The Property and Casualty Division handles compliance and consumer complaints related to property/casualty and worker's compensation. In accordance with the Illinois Insurance Code, the compliance section reviews policy and form filings, manuals of rules and rates filed for identified lines of insurance, and oversees the operations of the Illinois Mine Subsidence Fund and the State's involuntary insurance markets (the Illinois Automobile Insurance Plan, the Illinois FAIR Plan Association, and the Illinois Workers Compensation Assigned Risk Plan). The complaints section assists consumers with any questions or issues relating to property and casualty insurance. The consumer complaints section uses an electronic system for intake, tracking, and processing of all complaints.

Life and Annuities Division

The Life and Annuities Division handles compliance and consumer complaints related to life and annuity products. In accordance with the Illinois Insurance Code, the compliance section reviews relevant policy and form filings, as well as company advertising and sales materials. The filings are submitted through a web-based System for Electronic Rate and Form Filing (SERFF), and all objections and communications related to the filings are handled through SERFF. The consumer complaints section assists consumers with any questions or issues relating to life and annuity products and uses an electronic system for intake, tracking, and processing of all complaints.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2018**

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

Health Products Division

The Health Products Division includes compliance, consumer complaints, external review, and the Office of Consumer Health Insurance (OCHI). In accordance with the Illinois Insurance Code, the health products compliance section reviews forms, policies, and rates filed by health insurance companies and health maintenance organizations. The filings are submitted through a web-based System for Electronic Rate and Form Filing (SERFF), and all objections and communications related to the filings are handled through SERFF. The consumer complaints team uses an electronic system for intake, tracking, and processing of all complaints. The compliance section also registers and oversees preferred provider administrators and utilization review organizations. The health consumer complaints section handles all written consumer complaints and coordinates responses from the relevant company. The external review section processes all requests for expedited and regular reviews in compliance with the Illinois External Review Act, 215 ILCS 180/1 et seq. OCHI staff handle inquiries from consumers that may not rise to the level of a formal complaint – OCHI staff is available to consumers by phone during regular Department office hours.

Financial/Corporate Regulatory Division

The Department's Financial and Corporate Regulatory Division is comprised of several sections as set forth below.

Financial Regulation Section

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

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2018**

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

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

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

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

Actuarial Services Section

The Actuarial Services Section of Financial and Corporate Regulatory Division include Life Actuarial led, Health Actuarial, and Property & Casualty Actuarial. The Actuarial Services team uses statistical analyses and actuarial modeling to determine the adequacy of loss reserves, cash flow testing, and proper valuation of assets of insurance companies licensed in the State of Illinois. The actuaries provide technical advice regarding transactions requiring prior approval and a wide variety of corporate and legislative proposals.

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

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

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2018**

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

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

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

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

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

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

Financial Examinations Section

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

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2018**

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

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

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

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

Corporate Regulations Section

The Corporate Regulation Section is responsible for the incorporation, formation, licensing, and registration of insurance entities and approval of other corporate transactions. For both FY2017 and FY2018, there are 585 Life, Accident & Health insurance companies licensed in Illinois. As of FY2017 and FY2018, there are 1,047 and 1,063 Property & Casualty insurance companies licensed in Illinois, respectively. Other registered entities include:

- 565 in FY2017 and 581 in FY2018 purchasing groups (organized to purchase commercial liability for the members)
- 112 in FY2017 and 113 in FY2018 foreign registered risk retention groups (insurance companies organized to write commercial liability insurance on behalf of their owner-members)

As of December 31, 2017, 715 resident and 1,380 non-resident surplus line producers were licensed. For FY2018, 806 resident and 1,571 non-resident surplus line producers were licensed. Those individuals may, under limited circumstances, negotiate insurance contracts with unauthorized insurers not protected by the Illinois Insurance Guaranty Fund. Pursuant to statutory authority, the Director has declared 118 unauthorized insurers ineligible for surplus lines producers use to date.

Public Pension Section

The Public Pension Section of the Financial and Corporate Regulatory Division regulates the suburban and downstate police and firefighter pension systems and collects vital information from those funds, as well as from large state, Cook County and Chicago pension systems,

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

including the Illinois Municipal Retirement System. The Section examines article 3 and 4 pensions, which are firefighter and police pension units from state governmental units with populations under 500,000. The Department's field examinations of pension fund documents and desk audits of annual statements are the principal processes under which the State protects the accrued pension benefits of active and retired public employees. The Department must also ensure the investments of Illinois public pension systems are in compliance with pension law.

Information Technology Division

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

Effective July 1, 2016, the IT functions of the Department were moved to directly report to the newly created Illinois Department of Information Technology (DoIT) with an Intergovernmental Agreement between the Department and DoIT.

The Information Technology (IT) Division, in conjunction with the support teams within DoIT, is responsible for a variety of support functions to help DOI meet its mission. These functions include Enterprise and Custom Solutions Support, Data Practice and Administration Support, Web Services, Information Security Services, Network Services, Data Center Operations, Customer Support Services and Enterprise Project Management services. The in-house IT team serving DOI supports more than 40 custom application solutions, administers numerous database systems, maintains DOI's Internet and Intranet sites, addresses end user requests, coordinates projects with the Enterprise Project Management office and participates in a variety of other innovative initiatives.

Consumer Education and Protection Division

The Division is responsible for consumer protection and education programs and non-financial regulatory functions. The division spends a significant portion of time conducting "on-site" market conduct examinations. In addition, the Department contracts with outside entities to conduct market conduct examinations. Staff is trained to perform their responsibilities in accordance with NAIC and Department guidelines.

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

Get Covered Illinois Division

Get Covered Illinois exists to assist consumers in shopping for and enrolling in health insurance by providing in person and web-based education and training. GCI also coordinates resources and community organizations with the common mission of assisting consumers with health insurance.

Investigations Division

The Investigation Division consists of three sections: the Workers Compensation Fraud, Producer Regulatory, and Licensing/Education & Testing.

Workers' Compensation Fraud Section

The Workers Compensation Fraud Section is charged with examining allegations of workers' compensation fraud and insurance non-compliance. Division 25, 5(c) of the Illinois Workers' Compensation Act specifically provides that it "shall be the duty of the Division to determine the identity of insurance carriers, employees, or other persons or entities that have violated the fraud and insurance non-compliance provisions of this Division."

Producer Regulatory Section

The Producer Regulatory Section conducts fiduciary financial examinations of licensed insurance producers, limited representatives, business entities, public adjusters, and other licensed entities. This unit also investigates complaints related to marketing activities and methods. Such examinations and investigations may result in the issuance of a Director's Order to the licensed individual or entity. The Director of Insurance may assess civil penalties based on violations of the insurance code or regulations.

Licensing/Education & Testing Section

The Licensing/Education & Testing Section processes licenses and oversees the related examinations.

Associated Organizations

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

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

Office of the Special Deputy

The Office of the Special Deputy (OSD) assists the Director in carrying out her responsibilities as the statutory conservator, rehabilitator, or liquidator of insurance companies that are declared insolvent or are otherwise impaired for managing their own affairs. When a company domiciled or licensed in Illinois is placed into receivership, the claims of Illinois residents are covered by one of the state's three insurance Guaranty funds up to the limits allowed by statute.

Comprehensive Health Insurance Plan (CHIP)

The Comprehensive Health Insurance Plan (CHIP) is a State program which offers health insurance to a limited number of Illinois residents who can afford, but are unable to find adequate health coverage in the private market because of their medical or physical conditions. CHIP is subject to its own enabling law and is covered by a Board of Directors which is chaired by the Director of Insurance or her designee. CHIP has a small staff which works with the Board of Directors. Claims are administered for CHIP by a private insurer.

National Association of Insurance Commissioners (NAIC)

The NAIC is a central organization of the chief insurance regulatory officials of the 50 states, the District of Columbia, and four (4) U.S. territories. The primary objective of this body is to strengthen and improve state regulation through the formulation of common goals and uniform policies. The Department maintains an active presence in the NAIC, and was one of the first four (4) states to become formally accredited according to the financial regulatory standards established by the NAIC.

Planning Program

The Department of Insurance has three strategic goals, namely:

- Embrace efficiency and innovation
- Educate and protect consumers
- Encourage a vital and robust insurance market

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

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**ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
(Not Examined)**

A comparative schedule of net appropriations, expenditures and lapsed balances is presented on pages 50 through 52. We considered fluctuations in excess of \$100,000 and 20% in expenditures to be significant. Explanations of significant expenditures fluctuations are as follows:

FY 2018

Insurance Producer Administration Fund - 0922

Group insurance – The expenditures decreased by \$484,264 or 20% due to transfer of personal services and other related fringe benefits expenditures for 13 IT personnel from personal services budget lines (1100) to electronic data processing budget lines (1600) during Fiscal Year 2018.

Contractual services – The expenditures decreased by \$380,818 or 28% due to lower spending in facilities management payments, postage, contractual payroll costs, and staffing services payments during Fiscal Year 2018.

Electronic data processing – The expenditures increased by \$1,718,768 or 513% due to transfer of personal services and other related fringe benefits expenditures for 13 IT personnel from personal services budget lines (1100) to electronic data processing budget lines (1600) during Fiscal Year 2018.

Lump sums and other purposes, Get Covered Illinois (GCI) – The expenditures increased by \$294,354 or 80% due to higher payroll and marketing expenses paid in relation to the Get Covered Illinois project during Fiscal Year 2018.

Insurance Financial Regulation Fund - 0997

Electronic data processing – The expenditures increased by \$649,702 or 326% due to transfer of personal services and other related fringe benefits expenditures for five IT personnel from personal services budget lines (1100) to electronic data processing budget lines (1600) during Fiscal Year 2018.

Lump sums and other purposes - Operational costs & expenses – The expenditures increased by \$191,482 or 1997% due to payments made for actuarial consulting services and NAIC membership dues during Fiscal Year 2018.

Department of Insurance Federal Trust Fund - 0673

The expenditures decreased by \$4,929,876 or 92% due to the expiration of the Health Insurance Rate Review Grant Cycle II and Cooperative Agreement of the Affordable Care Act's Health Insurance Exchange federal grants within Fiscal Year 2018. No new grants were received during Fiscal Year 2018.

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**ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES (Continued)
(Not Examined)**

Group Workers' Compensation Pool Insolvency Fund - 0739

The expenditures increased by \$504,083 or 821%. This fund is used to pay Workers' Compensation claims unpaid due to the insolvency of a pool. Expenditures will vary year-to-year as the actual payments depend upon the result of court decisions within a given fiscal year.

FY 2017

Insurance Producer Administration Fund - 0922

Contractual services – The expenditures increased by \$257,071 or 23% due to additional costs for contractual payroll and staffing services, and postage for Fiscal Year 2017.

Electronic data processing – The expenditures increased by \$169,444 or 102% due to payments for two IT consulting contracts and renewal of laser fiche licenses in Fiscal Year 2017.

Lump sums and other purposes - Operational costs & expenses – The expenditures decreased by \$356,234 or 97% due to the shared services center ceasing operations in Fiscal Year 2017.

Lump sums and other purposes, Get Covered Illinois (GCI) – The expenditures increased by \$342,082 or 1227% due to funds spent during Fiscal Year 2016 for various operating expenditures associated with payroll, medical consulting services, and other administrative costs.

Insurance Financial Regulation Fund - 0997

Electronic data processing – The expenditures increased by \$140,495 or 238% due to payments for two IT consulting services related to web development during Fiscal Year 2017.

Department of Insurance Federal Trust Fund - 0673

The expenditures decreased by \$7,723,055 or 59% due to the expiration of the Affordable Care Act, Consumer Assistance Program and the Illinois Health Insurance Exchange Project in Fiscal Year 2017.

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**ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS
(Not Examined)**

A comparative schedule of cash receipts and reconciliation of cash receipts to deposits remitted to the state comptroller is presented on pages 55 through 56. We considered fluctuations in total cash receipts per Department by Fund in excess of \$100,000 and 20% to be significant. Explanations of significant receipts fluctuations are as follows:

FY 2018

Federal Trust Fund - 0673

The receipts decreased by \$6,622,237 or 97%. The decrease was due to the expiration of the Health Insurance Rate Review Grant Cycle II and Cooperative Agreement of the Affordable Care Act's Health Insurance Exchange federal grants in Fiscal Year 2018. No new grants received during Fiscal Year 2018.

Insurance Financial Regulation Fund - 0997

The receipts decreased by \$17,177,114 or 43% due to the acceleration of collections in Fiscal Year 2017 as an effect of an efficiency induced to rectify a compliance examination finding in the prior period regarding delinquency in billing and collecting the Illinois Financial Regulation Fee. The collections have normalized in Fiscal Year 2018.

FY 2017

Federal Trust Fund - 0673

The receipts decreased by \$10,244,556 or 60%. The decrease was due to the expiration of the Affordable Care Act, Consumer Assistance Program and the Illinois Health Insurance Exchange Project in Fiscal Year 2017. No new grants received during Fiscal Year 2017.

Insurance Financial Regulation Fund - 0997

The receipts increased by \$16,099,788 or 67% due to the acceleration of receipts in Fiscal Year 2017, for billings pertaining to Fiscal Years 2017 and 2016, as an effect of an efficiency induced to rectify a compliance examination finding in the prior period regarding delinquency in billing and collecting the Illinois Financial Regulation Fee.

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DEPARTMENT OF INSURANCE
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**ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING
(Not Examined)**

The schedule of net appropriations, expenditures and lapsed balances is presented on pages 42 through 49. We considered spending of \$100,000 and 20% or more of total expenditures to be significant. Explanations of significant lapsed period spending are as follows:

FY 2018

Federal Trust Fund - 0673

Enforcement & Consumer Protection Grant – Lapse period expenditures were 167,596 or 43% of total expenditures. This lapse spending occurred due to a late billing of professional consulting services related to review of forms and filings within health benefit plans filed for certification. The billing for services provided for periods within March 15, 2018 to June 30, 2018 was received by the Department on July 19, 2018.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
ANALYSIS OF ACCOUNTS RECEIVABLE
For the Two Years Ended June 30, 2018
(Not Examined)**

Receivables of the Department consist mainly of licenses, fees, taxes, interest, and penalties. The aging schedule of the Department's receivables (expressed in thousands) at June 31, 2018 is presented below:

Aging Schedule	General Revenue Fund 001	Fire Prevention Fund 0047	Public Pension Regulation Trust Fund 0546	Insurance Producers' Administration Fund 0922	Insurance Financial Regulation Fund 0997	Illinois Workers' Compensation Commission Operations Fund 0534	Total
Current	\$ 1,406	\$ 96	\$ -	\$ 19	\$ 6	\$ 25,965	\$ 27,492
31-60	8	-	207	1	2,473	-	2,689
61-120	392	-	-	12	6	-	410
121-180	3	10	-	1	-	-	14
181-365	335	-	-	8	-	-	343
Over 365	1,039	19	-	3,183	74	85	4,400
Accounts Receivable Gross Balance	<u>3,183</u>	<u>125</u>	<u>207</u>	<u>3,224</u>	<u>2,559</u>	<u>26,050</u>	<u>35,348</u>
Less: Estimated Uncollectible	<u>(746)</u>	<u>(16)</u>	<u>-</u>	<u>(1,035)</u>	<u>(24)</u>	<u>-</u>	<u>(1,821)</u>
Accounts Receivable Net Balance	<u>\$ 2,437</u>	<u>\$ 109</u>	<u>\$ 207</u>	<u>\$ 2,189</u>	<u>\$ 2,535</u>	<u>\$ 26,050</u>	<u>\$ 33,527</u>

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
ANALYSIS OF ACCOUNTS RECEIVABLE
For the Two Years Ended June 30, 2018
(Not Examined)**

Receivables of the Department consist mainly of licenses, fees, taxes, interest, and penalties. The aging schedule of the Department's receivables (expressed in thousands) at June 31, 2017 is presented below:

Aging Schedule	General Revenue Fund 001	Fire Prevention Fund 0047	Public Pension Regulation Trust Fund 0546	Insurance Producers' Administration Fund 0922	Insurance Financial Regulation Fund 0997	Illinois Workers' Compensation Commission Operations Fund 0534	Total
Current	\$ 1,185	\$ 82	\$ -	\$ 14	\$ 429	\$ 27,579	\$ 29,289
31-60	38	-	161	6	1,075	-	1,280
61-120	36	-	-	-	2	-	38
121-180	9	-	-	23	2	-	34
181-365	44	-	-	14	1	-	59
Over 365	1,273	19	-	3,198	29	-	4,519
Accounts Receivable Gross Balance	<u>2,585</u>	<u>101</u>	<u>161</u>	<u>3,255</u>	<u>1,538</u>	<u>27,579</u>	<u>35,219</u>
Less: Estimated Uncollectible	<u>(781)</u>	<u>(17)</u>	<u>-</u>	<u>(1,037)</u>	<u>(22)</u>	<u>-</u>	<u>(1,857)</u>
Accounts Receivable Net Balance	<u>\$ 1,804</u>	<u>\$ 84</u>	<u>\$ 161</u>	<u>\$ 2,218</u>	<u>\$ 1,516</u>	<u>\$ 27,579</u>	<u>\$ 33,362</u>

**STATE OF ILLINOIS
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**BUDGET IMPASSE DISCLOSURES
(Not Examined)**

Payment of Prior Year Costs in Future Fiscal Years

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

In addition, Article 998 of Public Act 100-0021 authorized the Department to pay its unpaid Fiscal Year 2016 and Fiscal Year 2017 costs using either the Department's Fiscal Year 2017 or Fiscal Year 2018 appropriations for non-payroll expenditures. The Department did not have any outstanding invoices from Fiscal Year 2017 unpaid after the closure of the Fiscal Year 2017 Lapse Period on September 30, 2017. Therefore, the Department did not use its Fiscal Year 2017 appropriations to pay its Fiscal Year 2016 costs and did not use either its Fiscal Year 2017 or Fiscal Year 2018 appropriations to pay its Fiscal Year 2016 or Fiscal Year 2017 costs.

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

Transactions Involving the Illinois Finance Authority

The Illinois Department of Insurance and its vendors did not participate in alternative financing in lieu of enacted appropriations involving the Illinois Finance Authority during Fiscal Year 2017.

Transactions Involving the Vendor Payment Program and Vendor Support Initiative Program

None of the Illinois Department of Insurance's vendors participated in the Vendor Payment Program (VPP) or the Vendor Support Initiative Program (VSI) during Fiscal Year 2017.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
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**INTEREST COSTS ON FISCAL YEAR 2017 INVOICES
(Not Examined)**

Prompt Payment Interest Costs

The Illinois Department of Insurance (Department) calculated prompt payment interest due to vendors under the State Prompt Payment Act (Act) (30 ILCS 540) using the vendor's proper bill date through the date the State Comptroller issues a warrant to the vendor, regardless of when and if an enacted appropriation existed during Fiscal Year 2017. The Act (30 ILCS 540/3-2) and the Illinois Administrative Code (74 Ill. Admin. Code 900.100) require interest to be paid under a daily simple interest rate of .033% (1% over a 30-day period) for every day elapsed following the 90th day after a vendor submits an eligible proper bill to the Department.

The following chart shows the Department 's prompt payment interest incurred related to Fiscal Year 2017 invoices, calculated on the accrual basis of accounting, through June 30, 2017, by fund:

PROMPT PAYMENT INTEREST INCURRED

Year Ended June 30, 2017

Fund #	Fund Name	Invoices	Vendors	Dollar Value
922	Insurance Producer Administration Fund	1	1	\$ 497
997	Insurance Financial Regulation Fund	1	1	497
		<u>2</u>	<u>2</u>	<u>\$ 994</u>

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
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**AVERAGE NUMBER OF EMPLOYEES
(Not Examined)**

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<u>Division/Unit Based on Funding Sources</u>			
Illinois Workers' Compensation Commission Operations	5	6	3
Public Pension Regulatory	10	8	9
Affordable Care Act Operation	2	2	9
Insurance Producer Administration	120	133	120
Insurance Financial Regulation	<u>106</u>	<u>108</u>	<u>108</u>
TOTAL	<u><u>243</u></u>	<u><u>257</u></u>	<u><u>249</u></u>

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
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**SERVICE EFFORTS AND ACCOMPLISHMENTS
(Not Examined)**

Department of Insurance, Consumer Market Activities

Mission Statement: To protect consumers by providing assistance, information, efficiently regulating the insurance industry's market behavior and financial solvency, and by fostering a competitive insurance marketplace.

Program Goals:

Objectives:

1. Ensure that insurance-related complaints and inquiries are handled in a timely and accurate manner.
 - a. To maintain the average number of days required to investigate and close a life, accident, and health (LA&H) insurance complaint at 60 days.
 - b. To maintain the average number of days required to investigate and close a property and casualty (P&C) insurance complaint at 60 days.
 - c. To handle external review requests within time-frames required by law (i.e. one business day for standard requests and immediately for expedited requests).
2. Ensure that regulated entities comply with applicable laws, regulations, and their policy contracts.
 - a. To protect Illinois insurance consumers by conducting examinations on insurers whose complaint volume suggests possible non-compliance with laws, regulations, and their policy contracts.
 - b. To schedule and complete follow-up market conduct examinations on insurers whose prior exams resulted in orders requiring corrective action to determine if the insurers have complied.
 - c. To schedule and complete targeted exams to determine market practices on issues of interest to the executive or legislative branches.
3. Enforce licensing and continuing education requirements for individuals and other licensed entities, determining, by investigation, that entities are in compliance with laws and regulations.
 - a. To process 100% of all new online license requests within one working day of the date on which the National Insurance Producer Registry (NIPR) receives the information. Depending on volume, licensing needs and other circumstances, process approximately 98% of the new paper applications received within 30 working days.
 - b. To process 100% of all renewed online license requests within one working day of the date on which the NIPR receives the information. Depending on volume, licensing needs and other circumstances, process approximately 98% of the renewal paper applications received within 30 working days.
 - c. To respond to potential licensing violations committed by applicants and licensees through investigations and examinations of selected insurance producers and other entities. Depending on complaint volume, regulatory needs and other circumstances, approximately 200 investigations and examinations will be conducted each year.

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

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

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
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**SERVICE EFFORTS AND ACCOMPLISHMENTS (Continued)
(Not Examined)**

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

	<u>Fiscal Year 2016 Actual</u>	<u>Fiscal Year 2017 Actual</u>	<u>Fiscal Year 2018 Target /Projected</u>	<u>Fiscal Year 2018 Actual</u>	<u>Fiscal Year 2019 Target /Projected</u>
<u>Input Indicators</u>					
• Total expenditures – all sources (in thousands)	\$17,317.8	\$17,105.1	\$22,707.8	\$16,622.8	\$22,382.8
• Total expenditures – State appropriated funds (in thousands)	\$17,317.8	\$17,105.1	\$22,707.8	\$16,622.8	\$22,382.8
• Average monthly full-time equivalents	120.0	112.0	122.0	103.0	122.0
<u>Output Indicators</u>					
• Number of LA&H & P&C consumer complaints closed	9,785	13,111	13,000	13,688	13,500
• Number of written inquiries responded to (oral, written, internet) also includes Chicago	97,740	101,499	103,000	105,562	106,000
• Number of LA&H and P&C market conduct exams completed	48.0	61.0	63.0	61.0	63.0
• Number of market conduct corrective orders issued	26.0	17.0	30.0	19.0	31.0
• Number of new/renewal licenses processed by Producer Licensing Section	107,266	111,273	113,000	118,575	119,000
• Number of LA&H and P&C form and rate filings processed	38,550	33,476	34,000	36,195	36,000
• Cost Containment – Civil penalties collected (in dollars)	-	-	-	-	-
• Utilization Review Applications Processed (URO renewals are based upon a two year cycle)	131.0	120.0	127.0	120.0	127.0
• PPO Annual Renewal Applications processed	170.0	180.0	191.0	128.0	135.0
• HMO policy form filings processed	133.0	168.0	178.0	251.0	250.0
• Number of people reached by Outreach’s radio presentations	-	-	-	-	-
• Number of Fact Sheets available on Department Internet Site	118.0	118.0	120.0	56.0	55.0
• Number of other and senior citizens presentations by Outreach Unit	-	-	-	-	-

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
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**SERVICE EFFORTS AND ACCOMPLISHMENTS (Continued)
(Not Examined)**

	<u>Fiscal Year 2016 Actual</u>	<u>Fiscal Year 2017 Actual</u>	<u>Fiscal Year 2018 Target /Projected</u>	<u>Fiscal Year 2018 Actual</u>	<u>Fiscal Year 2019 Target /Projected</u>
<u>Output Indicators</u> (Continued)					
• Number of External Reviews closed	2,316	2,600	2,756	2,624	2,600
<u>Outcome Indicators</u>					
• Reduction in number of P&C companies with over 5 complaints closed, whose average consumer complaint response time is greater than 21 days	8.0	4.0	4.0	76.0	70.0
• Reduction in number of LA&H companies with over 5 complaints closed, whose average consumer complaint response time is greater than 21 days	28.0	19.0	15.0	73.0	70.0
• Percentage of auto/homeowners insurers complying with prompt payment standards	95%	95%	95%	95%	95%
• Percentage reduction in companies not in compliance with previous market conduct examination orders	0%	0%	0%	0%	0%
• Additional claim dollars paid to consumers (in dollars) (a)	N/A	\$5,585,199	\$75,000	\$8,701,507	\$9,000,000
• Premium overcharges returned to consumers (in dollars)	\$55,391	\$1,282	\$350,000	\$2,526	\$3,000

Note:

(a) Dollars for Fiscal Year 2016 not tracked correctly, data unavailable. Fiscal Year 2018 estimated number for this indicator is incorrect as well, as dollars are not estimated correctly.

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
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**SERVICE EFFORTS AND ACCOMPLISHMENTS (Continued)
(Not Examined)**

	<u>Fiscal Year 2016 Actual</u>	<u>Fiscal Year 2017 Actual</u>	<u>Fiscal Year 2018 Target /Projected</u>	<u>Fiscal Year 2018 Actual</u>	<u>Fiscal Year 2019 Target /Projected</u>
<u>Efficiency/Cost-Effectiveness</u>					
• Percentage of new license applications processed electronically, within one working day	100%	100%	100%	100%	100%
• Percentage of renewal license applications processed electronically, within one working day	100%	100%	100%	100%	100%
• Percentage of new paper license applications processed electronically, within one working day	98%	98%	98%	98%	98%
• Percentage of renewal paper license applications processed electronically, within one working day	98%	98%	98%	98%	98%

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
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**SERVICE EFFORTS AND ACCOMPLISHMENTS (Continued)
(Not Examined)**

Department of Insurance, Financial/Corporate Regulatory Division

Mission Statement: To protect consumers by providing assistance, information, efficiently regulating the insurance industry's market behavior and financial solvency, and by fostering a competitive insurance marketplace.

Program Goals:

Objectives:

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

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2018**

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

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

	<u>Fiscal Year 2016 Actual</u>	<u>Fiscal Year 2017 Actual</u>	<u>Fiscal Year 2018 Target /Projected</u>	<u>Fiscal Year 2018 Actual</u>	<u>Fiscal Year 2019 Target /Projected</u>
<u>Input Indicators</u>					
• Total expenditures - all sources (in thousands)	\$20,107.7	\$19,053.5	\$24,764.3	\$18,887.2	\$25,739.1
• Total expenditures – State appropriated funds (in thousands)	\$20,107.7	\$19,053.5	\$24,764.3	\$18,887.2	\$25,739.1
• Average monthly full-time equivalents	120.0	110.0	134.0	106.0	134.0
<u>Output Indicators</u>					
• LA&H and P&C financial exams started	59.0	84.0	68.0	77.0	90.0
• LA&H, P&C & HMO annual financial statements reviewed	349.0	349.0	350.0	340.0	346.0
• LA&H, P&C & HMO quarterly financial statements reviewed	933.0	909.0	907.0	763.0	868.0
• Corrective orders, stipulation and consent orders, and notices of impairment issued	4.0	1.0	2.0	9.0	5.0
• Certificates of authority renewed	1,401	1,406	1,411	1,423	1,425
• Cease and desist and consent orders issued	1.0	0.0	2.0	0.0	0.0
• Pension fund exams started	53.0	16.0	6.0	27.0	15.0
• Pension fund exams completed	81.0	37.0	37.0	23.0	34.0
• Pension fund annual statements reviewed	1,018	960.0	960.0	1,052	655.0
• LA&H/HMO/P&C limited exams started	7.0	10.0	8.0	7.0	12.0
• Service contract provider registrations - new & renewal	234.0	232.0	245.0	245.0	250.0
• Risk retention groups registered	111.0	112.0	113.0	113.0	114.0
• LA&H/HMO/P&C exams scheduled	77.0	77.0	68.0	68.0	90.0
• LA&H/HMO/P&C limited exams scheduled	7.0	7.0	8.0	8.0	12.0
• LA&H/P&C annual financial statements received	362.0	356.0	363.0	346.0	355.0

**STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2018**

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

	<u>Fiscal Year 2016 Actual</u>	<u>Fiscal Year 2017 Actual</u>	<u>Fiscal Year 2018 Target /Projected</u>	<u>Fiscal Year 2018 Actual</u>	<u>Fiscal Year 2019 Target /Projected</u>
<u>Output Indicators</u> (Continued)					
• LA&H/P&C/HMO quarterly financial statements received	897.0	900.0	899.0	902.0	900.0
• Pension Fund annual statements received	975.0	960.0	960.0	1,052.0	655.0
• Number of company transaction requests reviewed	912.0	929.0	927.0	953.0	931.0
• Number of certification transactions processed annually	7,313	6,946	7,000	6,843	6,850
• Number of corporate change transactions processed annually	394.0	485.0	500.0	386.0	400.0
• Number of surplus lines producers - licensing - new and renewal	3,009	2,396	2,400	2,377	2,390
• Number of summons issued - for service of process on foreign and alien insurers	2,063	1,855	1,875	1,947	1,950
• Number of purchasing group registrations	18.0	13.0	15.0	15.0	18.0
<u>Outcome Indicators</u>					
• Percentage of financial analysis issues resolved	100%	100%	100%	100%	100%
• Ten (10) year rolling average of LA&H companies in receivership	1%	1%	1%	1%	1%
• Ten (10) year rolling average of P&C companies in receivership	1.5%	1.5%	1.5%	1.5%	1.5%
• Ten (10) year rolling average HMOs in receivership	0%	0%	0%	0%	0%
• Percentage of LA&H companies operating compared to previous year	99.0%	100.0%	99.0%	99.3%	99.0%
• Percentage of P&C companies operating compared to previous year	99.0%	100.0%	100.0%	101.1%	100.0%
• Percentage of HMOs operating compared to previous year	108.0%	109.0%	107.0%	102.1%	106.0%
<u>External Benchmarks</u>					
• National Association of Insurance Commissioners Accreditation Awarded	Yes	Yes	Yes	Yes	Yes