



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF INSURANCE

Compliance Examination
 For the Two Years Ended June 30, 2020

Release Date: March 24, 2021

FINDINGS THIS AUDIT: 11				AGING SCHEDULE OF REPEATED FINDINGS			
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	<u>Repeated Since</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>
Category 1:	1	1	2	2018		3, 6, 7, 8	
Category 2:	3	6	9	2014		5	
Category 3:	0	0	0	2012	2	4	
TOTAL	4	7	11				
FINDINGS LAST AUDIT: 11							

SYNOPSIS

- **(20-01)** The Department did not have adequate controls over the reporting and collection of its accounts receivable.
- **(20-02)** The Department’s 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.
- **(20-03)** The Department did not maintain adequate controls over the timeliness of approving and denying insurance and Health Maintenance Organization (HMO) company policy forms.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).

Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.

Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

**DEPARTMENT OF INSURANCE
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2020**

EXPENDITURE STATISTICS	2020	2019	2018
Total Expenditures	\$ 38,414,612	\$ 41,275,374	\$ 39,741,187
OPERATIONS TOTAL.....	\$ 36,421,636	\$ 39,492,440	\$ 36,322,521
% of Total Expenditures.....	94.8%	95.7%	91.4%
Personal Services.....	16,178,700	18,863,519	17,872,509
Other Payroll Costs (FICA, Retirement).....	13,690,671	14,963,649	13,980,682
All Other Operating Expenditures.....	6,552,265	5,665,272	4,469,330
AWARDS AND GRANTS.....	\$ 3,242	\$ 8,223	\$ 565,458
% of Total Expenditures.....	0.0%	0.0%	1.4%
REFUNDS.....	\$ 1,977,067	\$ 1,774,711	\$ 2,853,208
% of Total Expenditures.....	5.1%	4.3%	7.2%
PERMANENT IMPROVEMENTS.....	\$ 12,667	\$ -	\$ -
% of Total Expenditures.....	0.0%	0.0%	0.0%
Total Receipts	\$ 551,633,067	\$ 513,401,111	\$ 539,185,257
Average Number of Employees (Not Examined).....	208	216	235

AGENCY DIRECTOR
During Examination Period: Jennifer Hammer (through 12/12/18), Karin Zosel, Acting (12/13/18-1/25/19), Kevin Fry, Acting (1/26/19-3/10/19), Robert Muriel (3/11/19-12/11/20), Shannon Whalen, Acting (12/12/20-1/10/21)
Currently: Dana Popish Severinghaus (effective 1/11/21)

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**INADEQUATE CONTROLS OVER ACCOUNTS
RECEIVABLES**

The Department of Insurance (Department) did not have adequate controls over the reporting and collection of its accounts receivable. Specifically, we noted the following:

Discrepancies of approximately \$3 million noted in each fiscal years' ending AR balances

- The Department had accounts receivable of \$34,811,873 as of June 30, 2019 and \$29,120,996 as of June 30, 2020 (as reported in the Department's internally generated Aged Unpaid Accounts Receivable Report). During our recalculation of the ending accounts receivable, we noted discrepancies of \$3,457,990 and \$2,546,635 for balances as of June 30, 2019 and 2020, respectively. The Department was unable to provide a reconciliation or an explanation for the discrepancies.

Accountants unable to determine accuracy of June 30th C-97, C-98, and C-99 Forms

- Further, since the Department's June 30th Quarterly Summary of Accounts Receivable Reports (C-97, C-98, and C-99 Forms) filed with the Illinois Office of the Comptroller were based on and agreed with the Aged Unpaid Accounts Receivable Report, we were not able to determine the accuracy of the reported accounts receivable balances as of June 30, 2019 and June 30, 2020.

AR balances not placed into applicable collection systems

- For 6 of 25 (24%) June 30, 2020 accounts receivable balances tested (aged between 187 to 2,247 days), the Department had not placed them in the Comptroller's Offset System or referred them to the Debt Collection Bureau of the Illinois Department of Revenue (Bureau). The six accounts receivable balances totaled \$392,987 at June 30, 2020. (Finding 1, pages 11-12)

We recommended the Department strengthen its controls over accounts receivable by performing thorough reviews and reconciliations of the data it uses to generate the C-97, C-98, and C-99 Forms. Further, we recommended the Department have the staff already allocated to review and monitor past due accounts also refer them to the Comptroller's Offset System or the Bureau as required by State laws, or hire additional staff to perform the required referrals.

Department agreed with the recommendation

The Department agreed with the recommendation and noted it will continue to work with the Department of Innovation and Technology's staff to implement changes to the Department's accounting systems necessary to strengthen the accuracy and controls over the Department's accounts receivable reporting, it will continue to add outstanding receivables to the Comptroller's Offset System, and it has taken the initial steps to communicate with the Bureau at the Illinois Department of

Revenue regarding the process of placing outstanding accounts receivable into their collection system.

FAILURE TO PERFORM REQUIRED EXAMINATIONS OF POLICE AND FIREFIGHTER PENSION FUNDS

Required examinations of police and firefighter pensions not performed as required

The Department's Public Pension Division did not perform required examinations of the 657 police and firefighters pension funds once every three years as required by the Illinois Pension Code (Code). Specifically, we noted the following:

- Seven (1%) pension funds have been examined three times since they were due for examination. Six pension funds were due for examination since 2004 and one pension fund was due for examination between 2007-2010. As a result, the Department did not complete five required examinations for each of the six funds and four required examinations for one fund.
- 255 (39%) pension funds have been examined on two occasions since they were due for examination. 177 pension funds were due for examination since 2004, 76 pension funds were due for examination between 2007-2010, and 2 pension funds were due for examination between 2013-2016. As a result, the Department did not complete five required examinations for each of the 177 funds and four required examinations for 76 funds. The remaining two pension funds were examined twice as required.
- 292 (44%) pension funds have been examined on one occasion since they were due for examination. One pension fund was due for examination since 2004, 119 pension funds were due for examination between 2007-2010, 150 pension funds were due for examination between 2013-2016, and 22 pension funds were due for examination between 2017-2020. As a result, the Department did not complete five required examinations for one fund, four required examinations for 119 funds, and two required examinations for 150 funds. The 22 pension funds were examined once as required.
- 102 (16%) pension funds were currently under examination as of June 30, 2020. One pension fund due for examination since 2004 is currently on its third examination and one pension fund formed since 2004 is on its fourth examination. The 99 pension funds were in the process of their second examination. Out of the 99 pension funds, 1 pension fund was due for examination since 2004, and 98 funds were due for examination between 2007-2010. As a result, the Department did not complete 5 required examinations for 3 funds, and 4 required examination for 98 funds. One new pension fund was due for an examination in 2020. (Finding 2,

pages 13-14) **This finding has been repeated since 2012.**

We recommended the Department perform the pension fund examinations every three years as required by the Code.

Department agreed with the recommendation

The Department agreed with the recommendation and noted it has taken corrective actions to address the finding. Additionally, the Department stated it will work with two super funds to review whether legislative changes related to the examination cycle are appropriate to clarify the role of the Department and the super funds during the now required pension consolidation transition period and beyond.

INADEQUATE CONTROLS OVER THE TIMELINESS OF APPROVING AND DENYING INSURANCE AND HMO COMPANY POLICY FORMS

The 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:

16% of life, accident, and health policy forms tested were approved between 1 to 89 days late.

- Four of 25 (16%) 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 1 to 89 days late.
- Five of 25 (20%) 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 4 to 115 days late. (Finding 3, pages 15-16)

20% of HMO policy forms tested were approved between 4 to 115 days late.

We recommended the Department comply with the statutory requirements of the Illinois Insurance Code and the HMO Act.

Department agreed with the recommendation

The Department agreed with the recommendation and noted it has hired new staff that came aboard during the latter portion of the examination period which has prioritized the need to meet statutory timeline requirements and has worked with analyst staff to ensure that filings are approved/disapproved within these statutory timelines.

OTHER FINDINGS

The remaining findings pertain to the failure to procure and implement a fraud prevention and detection information

system, failure to form a task force on disability income insurance, and inadequate controls over reporting, State property and equipment, voucher processing, personal services, renewal of public adjuster licenses, and state vehicles. We will review the Department's progress towards the implementation of our recommendations in our next compliance examination.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the Department for the two years ended June 30, 2020, as required by the Illinois State Auditing Act. The accountants qualified their report on State compliance for Findings 2020-001 and 2020-002. Except for the noncompliance described in these finding, the accountants stated the Department complied, in all material respects, with the requirements described in the report.

This compliance examination was conducted by Adelfia LLC.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

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